

[Draft] ESRS for listed SMEs

Section 3

STATUS OF THIS DRAFT

Editorial review in progress. Still pending:

- Inclusion of a hyperlink after each requirement referencing to the AR that cover that specific requirement
- Check drafting conventions (italics)
- Final check of internal references to paragraph numbers including references to other sections

Text highlighted in **turquoise** illustrates the changes made after the discussion held at SR TEG on 24 of October.

DISCLAIMER

Section 3 *Policies, actions and targets* is set out in paragraphs 1–30. The following appendices of Section 3 have the same authority as the main body of the [draft] Standard:

- *Appendix A: Application Requirements.*

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Section 3- Policies, Actions and Targets

Objective

1. This [draft] Section sets disclosure requirements for companies that have in place policies, actions, targets, processes for engaging or processes to remediate impacts, to enable an understanding of the undertaking's:
 - (a) policies, actions and targets to prevent, mitigate and remediate actual and potential material negative **impacts** and to address **material risks** (collectively, to 'manage material **sustainability matters**') for a material matter. This includes minimum disclosures to be included when reporting on policies, actions and targets;
 - (b) processes for engaging with **own workers**, workers in the **value chain**, **affected communities**, **consumers** and **end-users**, and their representatives on impacts if the undertaking has those processes in place;
 - (c) processes to remediate negative impacts and channels for **own workforce**, value chain workers, affected communities, consumers and end-users and to raise concerns if the undertaking has those processes in place; and
 - (d) policies, targets, actions in relation to positive impacts and opportunities, when they are reported on a voluntary basis.
2. The undertaking shall apply the requirements in this Section when it concludes that the corresponding topic is material (according to chapter 3.3 *Double materiality*, 3.4 *Impact materiality* and 3.5 *Financial materiality* of Section 1). **In determining which information in this section should be included, the undertaking shall apply:**
 - (a) the provisions in paragraph 41 of Section 1 for policies, actions and targets; and**
 - (b) the provisions in paragraph 38 of Section 1, which support also the determination of the details of narrative disclosure to be reported.**
3. This [draft] Section covers policies, actions and targets as defined in Section 1 *General requirements* of this [draft] Standard, and it is applicable in conjunction with Section 2 *General disclosures* and the topical Sections of this [draft] Standard.
4. Disclosures related to an undertaking's own workforce, workers in the value chain, affected communities and consumers and end-users are located in Section 2, Disclosure Requirement SBM-3 and corresponding Application Requirements and in the Disclosure Requirements IR-3 and IR-4 and their corresponding Application Requirements in this Section. They concern policies, actions and targets with regard to impacts or risks connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Sustainability matters that relate to an undertaking's workers in the value chain, affected communities and consumers and end-users are listed in Section 1 General Requirements, Appendix A, AR 23 of this standard.

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

5. **If the undertaking has set *policies* or *actions* in relation to a material sustainability matter, the objective of this Disclosure Requirement is to set the information that shall be provided when disclosing this information.**

Requirement to disclose policies or actions on material sustainability matters

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6. When the undertaking has policies or actions in place, for each material sustainability matter (i.e. topic, sub-topic and/or sub-sub-topic), it shall disclose:
- (a) policies that it has in place to prevent, mitigate and remediate actual and potential impacts and to address risks; and
 - (b) key **actions** taken or planned to address material impacts and risks and, where applicable, to achieve the objectives of related **policies**. Key **actions** are those actions that materially contribute to achieving the undertaking's objectives in addressing material **impacts** and **risks**. For reasons of understandability, key actions may be aggregated where appropriate.

The disclosure should reflect the content of the relevant policies and actions.

7. Where the implementation of an action plan requires significant operational expenditures (Opex) and/or capital expenditures (Capex), the undertaking shall:
- (c) describe the type of current and future financial and other resources allocated to the action plan, including, if the action plan has been financed with sustainable finance instruments such as green bonds, social bonds and green loans, the relevant terms of those instruments
 - (d) provide the amount of current financial resources; and
 - (e) provide the amount of future financial resources.

Required information when reporting on policies and actions

8. When providing disclosures on **policies**, including on an entity-specific basis, the undertaking shall include the following minimum set of information:
- (a) a description of the key contents of the **policy**, including its general objectives, and of which material **impacts** or **risks** the policy relates to;
 - (b) a description of the scope of the policy (in terms of activities, **value chain**, including relevant subsidiaries, geographies and, if relevant, affected **stakeholder groups**);
 - (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;
 - (d) a reference to any third-party standards or initiatives to which the undertaking may have committed itself through the implementation of the policy;
 - (e) if the undertaking in defining a policy has considered stakeholders' views and interests, a description of the consideration given to the interest of these key **stakeholders** in setting this policy; and
 - (f) if the policy is made available to potentially affected stakeholders and to stakeholders who need to help implement it how the undertaking makes this policy available to those groups of stakeholders.
9. When providing disclosures on **actions**, including on an entity-specific basis, the undertaking shall disclose the following minimum set of information:
- (a) the list of key actions taken in the reporting year and planned for the future as well as their expected outcomes;
 - (b) the scope of the key actions (i.e., coverage in terms of activities, **value chain**, geographies and, if applicable, affected **stakeholder** groups);
 - (c) the time horizons under which the undertaking intends to complete each key action;

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- (d) if the undertaking has implemented them, a description of the key actions taken (along with results) to provide for, cooperate in or support the provision of **remedy** for those harmed by actual material impacts; and,
 - (e) if the undertaking has a process in place to monitor progress of its actions or action plans disclosed in prior periods , quantitative and qualitative information regarding the progress of those actions or action plans.
10. If the undertaking cannot disclose the information on policies and actions, because it has not adopted **policies** and/or **actions** with reference to a material **sustainability matter**, it shall state this to be the case. It may also disclose the timeline for implementing them if it has such plans.

Required disclosures on policies and actions at topical level

11. The undertaking shall disclose the information illustrated in the table below, when the corresponding topic is material. These are disclosure requirements stemming from other EU Regulations. The corresponding disclosure shall be prepared following paragraphs 9 to 11 of this Section.

Environment				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
1	<p>a) The undertaking shall disclose its transition plan for climate change mitigation, if there is one in place.</p> <p>If the undertaking has adopted a transition plan for climate change mitigation, it shall provide information about it, including an explanation of how its GHG emission reduction targets are compatible with the limiting of global warming to 1.5°C. In disclosing this information, the undertaking shall consider ESRS Set 1 E1-1 AR 1.</p> <p>b) If the undertaking has significant CapEx amounts invested during the reporting period related to coal, oil and gas-related economic activities¹, it shall disclose the amounts of those investments.</p>	Climate change	A	Climate Law Benchmark Reg.

¹ The CapEx amounts considered are related to the following NACE codes:
 (a) B.05 Mining of coal and lignite, B.06 Extraction of crude petroleum and natural gas (limited to crude petroleum), B.09.1 Support activities for petroleum and natural gas extraction (limited to crude petroleum),
 (b) C.19 Manufacture of coke and refined petroleum products,
 (c) D.35.1 - Electric power generation, transmission and distribution,
 (d) D.35.3 - Steam and air conditioning supply (limited to coal-fired and oil-fired power and/or heat generation),
 (e) G.46.71 Wholesale of solid, liquid and gaseous fuels and related products (limited to solid and liquid fuels).

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Environment				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
2	Additionally, if the undertaking has set a transition plan, it shall disclose whether or not the undertaking is excluded from the EU Paris-aligned Benchmarks.	Climate change	A	EBA Pillar 3 Benchmark Reg.
3	<p>If the undertaking has in place policies to manage this topic, it shall disclose those policies, including if it has a site(s) located in an area of high-water stress.</p> <p>In disclosing this information, the undertaking shall consider ESRS Set 1 E3 par. 9, 12, 13, 14 and AR 17.</p>	Water and marine resources	P	SFDR Tab. 2 KPI 7, KPI 8 and KPI 12
4	<p>If the undertaking has policies to manage this topic in place, it shall disclose such policies or practices, including whether they are related to sustainable land/agriculture practices or policies, sustainable oceans and seas practices or policies, and policies to address deforestation.</p> <p>In disclosing this information, the undertaking shall consider ESRS Set 1 E4 23, 24 and AR 4.</p>	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 11, KPI 12 and KPI 15
5	<p>If the undertaking has policies to manage this topic in place, shall disclose whether it has adopted a biodiversity and ecosystem protection policy covering operational sites owned, leased, or managed in or near a biodiversity sensitive area.</p> <p>In disclosing this information, the undertaking shall consider ESRS Set 1 E4 par. 23, 24 and AR 4.</p>	Biodiversity and ecosystems	P	SFDR Tab. 2 KPI 14.2

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
8	The undertaking shall disclose: a) whether or not it has a grievance/complaints handling mechanism related to employee matters. ² b) whether it has a workplace accident prevention policy or management system.	Own workforce	P	SFDR Tab. 3 KPI 5 SFDR Tab. 3 KPI 1
9	The undertaking shall disclose whether and how its policies with regard to its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights.	Own workforce	P	Benchmark Reg. section 1 and 2 of Annex 2
10	The undertaking shall disclose whether and how its policies with regard to value chain workers are aligned with internationally recognised instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights. The undertaking shall also disclose the extent to which cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at	Workers in the value chain	P	SFDR Tab. 1 KPI 10 Benchmark Reg. section 1 and 2 of Annex 2

² The information regarding Processes to remediate negative impacts and channels for own workforce to raise concerns has to be reported only once by the undertaking.

Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	Work or OECD Guidelines for Multinational Enterprises that involve value chain workers have been reported in its upstream and downstream value chain and, if applicable, describe the nature of these cases.			
11	The undertaking shall also state whether it has a supplier code of conduct.	Workers in the value chain	P	SFDR Tab. 3 KPI 4
12	The undertaking shall state whether its policies in relation to those topics explicitly address trafficking in human beings, forced labour or compulsory labour and child labour .	Own workforce Workers in the value chain	P	SFDR Tab. 3 KPI 11
13	The undertaking shall describe its human rights policy commitments. In disclosing this information, the undertaking shall consider ESRS Set 1 in S1 par. 20 and AR 12, in S2 par. 17 and AR 14, in S3 par. 16 and AR 10, in S4 par. 16 and AR 11.	Own workforce Workers in the value chain Affected communities Consumers and end-users	P	SFDR Tab. 3 KPI 9
14	The undertaking shall disclose whether severe human rights issues and incidents connected to its upstream and downstream value chain have been reported and, if applicable, disclose these.	Workers in the value chain Affected communities		SFDR Tab. 3, KPI 14

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Social				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
	In disclosing this information, the undertaking shall consider ESRS Set 1 in S2 par. 36, in S3 par. 36, and in S4 par. 35.	Consumers and end-users		

Business conduct				
ID	Disclosure requirement	Sustainability topic	Policies – P Actions – A	EU-related data points
15	If the undertaking has no policies on the protection of whistle-blowers, it shall state that it does not have such policies.	Business conduct	P	SFDR Tab. 3 KPI 6
16	If the undertaking has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption, it shall state this.	Business conduct	P	SFDR Tab. 3 KPI 15
17	The undertaking shall disclose any actions taken to address breaches in procedures and standards of anti- corruption and anti- bribery .	Business conduct	A	SFDR Tab. 3 KPI 16

12. In addition to the information above, depending on the specific circumstances of the undertaking, one or more of the following aspects could be relevant.

Policies and actions for climate change

13. In disclosing its climate change policies related to climate change mitigation, the undertaking shall specify the aspects of those policies that address the management of the undertaking's GHG emissions, GHG removals and transition risks over different time horizons in its own operations and/or in the upstream and downstream value chain (including relevant subsidiaries).
14. In disclosing its climate change policies related to climate change adaptation, the undertaking shall explain how the policies address the management of the undertaking's physical climate risks and climate change adaptation-related transition risks.
15. In disclosing its key actions taken in the reporting year and planned for the future, the undertaking shall present the climate change mitigation actions by decarbonisation lever including the nature-based solutions (i.e., energy efficiency, electrification, fuel switching, use of renewable energy, products change, and supply-chain decarbonisation).
16. When describing the outcome of the actions for climate change mitigation, the undertaking shall include the achieved and expected GHG emission reductions.

Policies and actions for pollution

17. In disclosing its pollution-related **policies**, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:
 - (f) mitigating negative impacts related to pollution of air, water and soil, including prevention and control;
 - (g) substituting and minimising the use of substances of concern and phasing out substances of very high concern, in particular for non-essential societal use and in consumer products; and
 - (h) avoiding incidents and emergency situations and, if and when they occur, controlling and limiting their impact on people and the environment.

Policies and actions for water and marine resources

18. In disclosing its **policies** related to water and **marine resources**, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:
 - (i) water management, including:
 - i. the use and sourcing of water and marine resources in its own operations;
 - ii. water treatment as a step towards more sustainable sourcing of water; and
 - iii. the prevention and abatement of water pollution resulting from its activities;
 - (j) product and service design in view of addressing water-related issues and the preservation of marine resources; and
 - (k) the commitment to reduce material **water consumption** in **areas at water risk** in its own operations along the upstream and downstream **value chain**.

Policies and actions for biodiversity and ecosystems

19. In disclosing its **policies** related to **biodiversity** and **ecosystems**, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:
 - (a) avoid its negative impacts on biodiversity and ecosystems in its own operations and related upstream and downstream value chain;

- (b) reduce and minimise its negative impacts that cannot be avoided on biodiversity and ecosystems in its operations and throughout the upstream and downstream value chain;
- (c) restore and rehabilitate degraded ecosystems or restore cleared ecosystems following exposure to impacts that cannot be completely avoided and/or minimised;
- (d) mitigate its material biodiversity loss drivers; and
- (e) adapt its strategy and business model in line with relevant aspects of the EU Biodiversity Strategy for 2030, the Kunming Montreal Global Biodiversity Framework, Directive 2009/147/EC of the European Parliament and of the Council and Council Directive 92/43/EEC (EU Birds and Habitats Directives) and/or Directive 2008/56/EC of the European Parliament and of the Council (Marine Strategy Framework Directive).

Policies and actions for resource use and circular economy

20. In disclosing its **policies** related to resource use and **circular economy**, and depending on the undertaking's sector, it shall specify whether and how the content of the policy relates the following areas where material:
- (a) transitioning away from use of virgin resources, including relative increases in use of secondary (recycled) resources; and
 - (b) sustainable sourcing and use of renewable resources.
 - (c) the waste hierarchy: (i) prevention; (ii) preparation for re-use; (iii) recycling; (iv) other recovery, e.g., energy recovery; and (v) disposal. In this context, waste treatment cannot be considered as recovery; and
 - (d) the prioritisation of the avoidance or minimisation of waste (be it through re-using, repairing, refurbishing, remanufacturing and repurposing) over waste treatment strategies (recycling). The concepts of eco-design,³ waste as a resource and post-consumer waste (at the end of a consumer-product lifecycle) should also be taken in consideration.

Policies and actions for business conduct

21. If the undertaking has adopted policies with respect to supplier relationships, it shall specify:
- (e) whether this includes a practice/procedure to monitor late payments; and
 - (f) whether this includes purchasing practice / procedure and whether this purchasing practice/procedure also considers ESG criteria.
22. If "Corruption and bribery" is material and if the undertaking has implemented policies / actions to manage this topic, it shall include details about the risk assessments and/or mapping as well as monitoring programmes and/or internal control procedures performed by the

³ As established by the Directive 2009/125/EC.

undertaking to detect corruption and bribery. This may include training or refer to whistleblowing systems.

Disclosure Requirement 12 (IR-4) – Targets in relation to sustainability matters

23. If the undertaking has set measurable, time-bound and outcome-oriented **targets** to monitor progresses overtime and track effectiveness of its **actions** in relation to material sustainability **impacts** and **risks** (and **opportunities**), the objective of this Disclosure Requirement is to provide an understanding of how the undertaking has implemented such targets.
24. If the undertaking has implemented targets, with regard to each material sustainability matter, including on an entity-specific basis, it shall disclose the following information:
 - (c) the relationship of the target to the relevant **policy** objectives;
 - (d) the defined level of ambition (quantitative and/or qualitative, depending on the nature of the target) to be achieved, including, if applicable, whether the target is absolute or relative and in which unit it is measured;
 - (e) the scope of the target (operations, upstream and/or downstream value chain, subsidiaries, geographical boundaries or activities);
 - (f) if the undertaking has set, the baseline value and base year from which progress is measured, the related information;
 - (g) the timeframe to achieve the target;
 - (h) the methodologies and significant assumptions used to define targets, including, if the undertaking has used them, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;
 - (i) the overall progress towards the defined target.
25. When disclosing information according to paragraph 16, the undertaking shall consider publicly claimed **targets** or targets communicated to investors or lenders.
26. The **targets** may cover the undertaking’s own operations and/or **value chain** (including relevant subsidiaries).

Required disclosures on targets at topical level

27. The undertaking shall disclose the information illustrated in the table below, when the corresponding topic is material. These are disclosure requirements stemming from other EU Regulations. The corresponding disclosure shall be prepared following paragraphs 14/17 of this Section.

ID	Application requirement	Sustainability topic	Targets – T	EU data points
1	If Climate change is material and the undertaking has targets on GHG emission reduction , it shall disclose its GHG emission reduction targets for scope 1, 2 and 3.	Climate change	T	SFDR Tab. 2 KPI 4 benchmark regulation, Art. 6 Pillar 3

28. In addition to the information above, depending on the specific circumstances of the undertaking, one or more of the following aspects could be relevant.

Targets for climate change

29. If the undertaking has set GHG emission reduction targets for Scope 1, 2, and 3, it shall disclose:

- (g) GHG emission reduction targets in absolute value (either in tonnes of CO₂eq or as a percentage of the emissions of a base year) and, where relevant, in intensity value;
- (h) GHG emission reduction targets for Scope 1, 2, and 3 GHG emissions, either separately or combined. The undertaking shall specify, in case of combined GHG emission reduction targets, which GHG emission Scopes (1, 2 and/or 3) are covered by the target;
- (i) the current base year and baseline value of the target, and from 2030 onwards, an update of the base year for its GHG emission reduction targets after every five-year period thereafter; and
- (j) whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C, including information on which framework or methodology has been used to determine these targets – such as whether they are derived using a sectoral decarbonisation pathway – what the underlying climate and policy scenarios are and whether they have been externally assured.

30. Additional information and guidance on targets implemented in relation to a material sustainability matter are provided in the Application Requirements IR-4.

Appendix A: Application Requirements – Section 3 Policies, Actions and Targets

Disclosure Requirement 11 (IR-3) – Policies and actions in relation to sustainability matters

This section provides clarification on how to report on non-formalised policies, actions and targets.

AR 1. If the undertaking has not formalised a policy but has implemented actions or defined targets through which the undertaking seeks to address material impacts and risks, it may disclose them as actions and/or targets, despite the fact that they are not formalised.

AR 2. As an illustration, consider the following:

a) if the undertaking has implemented actions in relation to its employees (i.e., to ensure **equal treatment** or a health and safety management system) but has not formalised a policy, it describes the actions undertaken to address the related material impacts and risks. Furthermore, the undertaking, if applicable, discloses which organisational level has been assigned responsibility for implementing these actions or action plans (i.e., department, management, top management, etc.), and

b) if the undertaking has defined targets in relation to material impacts or risks (i.e., to reduce emissions, **water consumption**, etc.) but has not formalised a policy, it describes these targets and, if applicable, the department or person in charge of measuring and reporting on the progress achieved towards these targets.

This section provides guidance on how the disclosure on policies and actions could be structured in order to reflect the specificities of the undertaking.

AR 3. When disclosing policies and actions at topical level, the undertaking may cover more than one sub-topic in the policy/action it discloses. For instance, if the undertaking has a policy at topical level, the disclosure may cover more than one sub-topic in the same policy.

AR 4. In disclosing information on policies and actions, the undertaking may include such a disclosure in a centralised section or in one topical section of its sustainability statement and cross-referencing to the other topical sections (specially if a single policy or the same actions address several interconnected sustainability matters) or divide and present the relevant disclosure in each sustainability topical section of the sustainability statement

AR 5. A single policy may apply to several material sustainability matters, including matters addressed by more than one topical section of this [draft] Standard. For example, if a single policy covers both an environmental matter and a social matter, the undertaking may report on the policy in the environmental section of its sustainability statement. In this case, in the social section it may cross-reference the environmental section where the policy is reported. Equally, a policy may be reported in the social section by cross-referencing the environmental section.

AR 6. SMEs and undertakings with less resources may have few (or no) policies formalised in written documents, but this does not necessarily mean they do not have policies to report on.

AR 7. Information on resource allocation to implement actions may be presented in the form of a table and broken down, across the relevant time horizons, by capital expenditure and operating expenditure, by resources applied in the current reporting year, and by the planned allocation of resources over specific time horizons.

AR 8. With reference to paragraph 13 of this Section, additional information on policies and actions implemented in relation to a material sustainability matter are provided in the following Application Requirements.

ENVIRONMENT

Policies and actions for climate change

AR 9. When disclosing its climate change adaptation and mitigation actions and if the undertaking is subject to the disclosures pursuant to Article 8 of Regulation (EU) 2020/852, it shall connect significant monetary amounts of CapEx and OpEx that are required to implement the actions to:

- (a) the key performance indicators required under Commission Delegated Regulation (EU) 2020/852; and,
- (b) if applicable, to the CapEx plan required by Commission Delegated regulation (EU) 2021/2178.

In doing so, the undertaking shall consider ESRS E1 AR 20 and AR 22.

AR 10. In case the undertaking does not have a transition plan for climate change mitigation in place, it may indicate whether and, if so, when it will adopt such a transition plan.

AR 11. When disclosing the information required under paragraph 12 ID2 and if the undertaking has set a transition plan, it shall state whether or not it is excluded from the EU Paris-aligned Benchmarks in accordance with the exclusion criteria stated in Articles 12.1 (d) to (g) and 12.2 of Commission Delegated Regulation (EU) 2020/1818 (Climate Benchmark Standards Regulation).

Policies and actions for pollution

AR 12. When describing its **policies on pollution**, the undertaking may include information on the **pollutant(s)** or **substance(s)** covered.

AR 13. When disclosing information on policies related to **pollution**, the undertaking may include contextual information on the relation between its implemented policies and how they may contribute to the EU Action Plan 'Towards a Zero Pollution for Air, Water and Soil' with, for instance, elements on:

- (a) how it is or may be affected by the targets and measures of the EU Action Plan and the revision of existing directives (e.g., the Industrial Emissions Directive); and
- (b) how it intends to reduce its pollution footprint to contribute to these targets.

Policies and actions for water and marine resources

AR 14. When disclosing information on **actions** related to water and **marine resources**, the undertaking may specify actions and resources in relation to **areas at water risk**, including **areas of high-water stress**.

AR 15. In the case of collective action or action plans involving other **stakeholders**, the undertaking may provide information on those specific collective **actions** and the related involved parties.

Policies and actions for biodiversity and ecosystems

AR 16. When disclosing **policies** related to social consequences of **biodiversity** and **ecosystems**, the undertaking may notably refer to the Nagoya Protocol on Access and Benefit-sharing and to the Convention for Biological Diversity (CBD).

AR 17. When disclosing the information on **actions** related to **biodiversity** and **ecosystems**, the undertaking:

- (c) may disclose whether it used biodiversity offsets in its action plans and, if so, provide a description of the offsets used, including area, type, the quality criteria applied and the standards that the biodiversity offsets comply with; and
- (d) may describe whether and how it has incorporated nature-based solutions into biodiversity and ecosystems-related actions.

AR 18. In addition, when disclosing the information on **actions** related to biodiversity and **ecosystems**, the undertaking may disclose how it has applied the mitigation hierarchy with regard to its actions (avoidance, minimisation, restoration/rehabilitation, and compensation or offsets).

AR 19. The undertaking may disclose whether it considers an “avoidance” action plan. An avoidance action plan prevents damages before they take place. An example of avoidance is altering the **biodiversity** and ecosystem footprint of a project to avoid destruction of natural **habitat** on the **site** and/or establishing set-asides where priority biodiversity values are present and will be conserved.

Policies and actions for resource use and circular economy

AR 20. When disclosing the information on **actions** related to **resource use** and **circular economy**, the undertaking may specify whether and how the actions and resources cover specific circular design and business practices, as well as the use of recyclates and the prevention and optimisation of waste.

SOCIAL

Policies related to an undertaking’s own workforce, value chain workers, affected communities or consumers and end-users

AR 21. When it describes its **policies** concerning either its **own workforce, value chain workers, affected communities or consumers and end-users** the undertaking shall disclose whether it engages with them. It shall further apply the following Application Requirements:

- (a) AR 32 to AR 34 for its own workforce;
- (b) AR 34 to AR 36 for value chain workers;
- (c) AR 37 to AR 41 for affected communities;
- (d) AR 42 to AR 44 for consumers and end-users.

AR 22. If the undertaking has adopted an anti-**discrimination** policy for its own workforce, it shall disclose this. It may also disclose which forms of discrimination are covered (racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin or other forms of discrimination covered by EU or national laws).

Processes for engaging on impacts with an undertaking’s own workforce and workers’ representatives, value chain workers, affected communities or consumers and end-users

- (e) If the undertaking engages with its **own workforce, value chain workers, affected communities or consumers and end-users** it shall disclose its general processes for engaging, where relevant, with the stakeholder group in question and/or their representatives on actual and potential material **impacts** on them; and

(f) whether it engages directly with the stakeholder(s) in question or **their representatives**.

(g) .

AR 23. If the undertaking does not have general processes for engaging with **the above-mentioned stakeholders**, it may disclose by when it intends to introduce **them**.

(h) .

AR 24.

AR 25. Where **affected communities** are **indigenous peoples**, the undertaking shall disclose how it takes into account and ensures respect of their rights in its **stakeholder engagement** approach, including their right to **free, prior and informed consent** with regard to their cultural, intellectual, religious and spiritual property, activities affecting the lands, territories and resources they customarily own, occupy or otherwise use, and legislative or administrative measures that affect them.

AR 26.

Processes for remediating negative impacts and channels for an undertaking's own workforce, value chain workers, affected communities or consumers and end-users to raise concerns

- (i) If the undertaking has processes for remediating negative impacts on either its own workforce, value chain workers, affected communities or consumers and end-users it shall disclose its processes for providing or contributing to remedy for material negative impacts on any of the aforementioned stakeholders it has caused or contributed to, including whether and how it assesses the effectiveness of remedial measures, **and**.
- (j) any channels it has in place for any of the aforementioned stakeholders to raise their concerns or needs and have them addressed.

AR 27. If the undertaking does not have such processes **or channels**, it may disclose whether and by when it intends to introduce them.

BUSINESS CONDUCT

AR 28. The content of the EU Law Table stemming from other EU Regulations, particularly the one related to Social disclosures and ID 11 in Section 3 IR 3 may be relevant for business conduct as the undertaking has to state whether it has a supplier code of conduct.

Disclosure Requirement 12 IR-4) – Targets in relation to sustainability matters

- AR 29. When disclosing **targets** related to the prevention or mitigation of environmental **impacts**, the undertaking may prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of their effects on human rights, welfare or positive outcomes for affected **stakeholders**.
- AR 30.** The information on progress made towards achieving the **targets** may be presented in a comprehensive table, including information on the baseline and target value, milestones and achieved performance over the prior periods.
- AR 31.** When disclosing **targets** related to environmental matters, the undertaking shall identify those that are science-based.
- AR 32.** If the undertaking has **targets**, it may disclose additional topic specific information defined in the following paragraphs.

ENVIRONMENT

Guidance / Additional information for Targets on Climate change

- AR 33. Regarding **GHG emission reduction targets** for Scope 1, 2, and 3, the undertaking may also disclose the expected decarbonisation levers and their overall quantitative contributions towards achieving the GHG emission reduction targets (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy, phase out or substitution of product and process).
- AR 34. When setting climate change science-based **targets** or disclosing them, the undertaking may consider indications contained in resources like the Science Based Targets initiative (SBTi) for Small and Medium-Sized Enterprises (SMEs) by CDP, the United Nations Global Compact, the World Resources Institute, the WWF's publications issued by the WWF and BCG (2020) and Beyond Science-Based Targets: A Blueprint for Corporate Action on Climate and Nature.
- AR 35. When disclosing information related to **GHG emission reduction targets**, the undertaking may specify the share of the target related to each respective **GHG emission Scope (1, 2 or 3)**. The undertaking may specify the method used to calculate **Scope 2 GHG emissions** included in the target (i.e., either the location-based or market-based method). If the boundary of the **GHG emission reduction target** diverges from that of the **GHG emissions**, the undertaking may disclose the respective percentages of Scope 1, 2, 3 and total GHG emissions covered by the target.
- AR 36. When disclosing the information related to expected **decarbonisation levers**, the undertaking may explain:
- (a) by reference to its climate change mitigation actions, the decarbonisation levers and their estimated quantitative contributions to the achievement of its GHG emission reduction targets broken down by each Scope (1, 2 and 3);
 - (b) whether it plans to adopt new technologies and the role of these in achieving its GHG emission reduction targets; and
 - (c) whether and how it has considered a diverse range of climate scenarios, including at least a climate scenario compatible with limiting global warming to 1.5°C, to detect relevant environmental-, societal-, technology-, market- and policy-related developments and determine its decarbonisation levers.

Guidance / Additional information for Targets on Pollution

AR 37. The undertaking may specify whether the **target** addresses shortcomings related to the Substantial Contribution criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 14(2) of Regulation (EU) 2020/852. Where the Do No Significant Harm (DNSH) criteria for Pollution Prevention and Control as defined in delegated acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), and Article 15(2) of Regulation (EU) 2020/852 are not met, the undertaking may specify whether the target addresses shortcomings related those DNSH criteria.

SOCIAL

Guidance for disclosing targets related to own workforce, value chain workers, affected communities and consumers or end-users

AR 38. The description of the targets related to its **own workforce**, value chain workers, affected communities or consumers and end-users may include an explanation of whether they are intended to:

- (d) reduce negative impacts on any one of the aforementioned groups of stakeholders,
- (e) advance positive impacts on any one of the aforementioned groups of stakeholders, and/or
- (f) manage material risks related to any one of the aforementioned groups of stakeholders.

Appendix B: Application Requirements for IR-3 on Policies related to own workforce.

This appendix is an integral part of the [draft] Section 3 – Policies, Actions and Targets related to S1 *Own workforce* and has the same authority as the other parts of this [draft] Standard. It supports the application of Disclosure Requirement IR-3 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of policies:
Secure employment	No-layoff policy, limits on renewing temporary contracts, employer provision of social protection where state provision is lacking
Working time	Limitations on overtime, long and split shifts, and night and weekend work, adequate lead time for scheduling
Adequate wages	Policy to ensure all people in own workforce receive an adequate wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Policy to encourage institutions for social dialogue, regular information and consultation with worker representatives, consultation before final decisions on employment-related issues are reached
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Non-interference in trade union formation and recruitment (including trade union access to undertakings), bargaining in good faith, recognition of, adequate time off for duties, facilities and dismissal protection for workers' representatives, no discrimination of trade union members and workers' representatives
Work-life balance	Provision of family leave, flexible working time, access to day care facilities for all workers
Health and safety	Coverage of all own workforce in H&S management system
Gender equality and equal pay for work of equal value	Policy for gender equality and equal pay for equal work
Training and skills development	Policy for enhancing skills and career prospects for employees
The employment and inclusion of people with disabilities	Policy for making workplaces accessible to persons with disabilities
Measures against violence and harassment in the workplace	Zero tolerance policy for violence and harassment at workplace
Diversity	Policy for inclusiveness (i.e. ethnic diversity or minority groups) and positive action.
Child labour	Policy for identifying where child labour occurs, identifying where exposure of young workers to hazardous work occurs and preventing risk of exposure
Forced labour	Policy for identifying where forced labour occurs and reducing risk of forced labour

[Draft] ESRS for listed SMEs Section 3

Appendix C: Application Requirements for IR–3 Actions and resources to manage material impacts on own workforce, and approaches to mitigating material risks related to own workforce, and effectiveness of those actions

This appendix is an integral part of the [draft] Section 3 – Policies, Actions and Targets related to S1 *Own workforce* and has the same authority as the other parts of this [draft] Standard. It supports the application of Disclosure Requirement IR-3 for social and human rights matters with examples of disclosures:

Social and human rights matters	Examples of actions:
Secure employment	Offer permanent contracts to employees with temporary contracts, implement plans for social protection where state provision is lacking
Working time	Shift work rotation, extend advance notice of scheduling, reduction of excessive overtime
Adequate wages	Negotiation of fair wages in collective bargaining agreements, verification that employment agencies pay a fair wage
Social dialogue / existence of work councils / information, consultation and participation rights of workers	Expansion of sustainability issues dealt with in social dialogue, increase in number of meetings, increase in resources for works councils
Freedom of association/Collective bargaining including the rate of workers covered by collective agreements	Expansion of sustainability issues dealt with in collective bargaining, increase in resources for workers' representatives
Work-life balance	Expand family leave eligibility and flexible working time arrangements, increasing provision of day care
Health and safety	Increase health & safety training, investment in safer equipment
Gender equality and equal pay for work of equal value	Targeted recruitment and promotion of women, reduction in pay gap through negotiation of collective bargaining agreements
Training and skills development	Skills audits, training to fill skills gaps
The employment and inclusion of people with disabilities	Increasing accessibility measures
Measures against violence and harassment in the workplace	Improving complaint mechanisms, increasing sanctions against violence and harassment, providing training for prevention to management
Diversity	Training on diversity and inclusion (including ethnicity considerations), targeted recruitment of underrepresented groups
Child labour	Age verification measures, partnerships with organizations to eliminate child labour, measures against worst forms of child labour

[Draft] ESRs for listed SMEs Section 3

Social and human rights matters	Examples of actions:
Forced labour	Measures ensuring free consent to employment without threat of penalty, contracts in understandable language, freedom to terminate employment without penalty, disciplinary measures should not obligate labour, free consent to overtime, freedom of movement (including to exit workplace), fair treatment for migrant workers, monitoring employment agencies