

ESRS S2 WORKERS IN THE VALUE CHAIN

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable **users** of the **sustainability statement** to understand material **impacts** on **value chain workers** 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 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 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 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 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 Standard covers all workers in the undertaking's upstream and downstream **value chain** who are or can be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations 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 Standard.

Interaction with other ESRS

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

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*, 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 of its **value chain workers** could be materially impacted by the undertaking, including respect for their human rights, inform its strategy and business model. 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

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; 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.
11. When fulfilling the requirements of paragraph ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose whether all **value chain workers** who are likely to be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations and value chain, including through its products or services, 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 who could be materially impacted by the undertaking, including impacts that connected with the undertaking's own operations and value chain, including through its products or services, as well as through its 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 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 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 chain¹;
 - (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 (ii) related to individual **incidents** (e.g., an industrial accident or an oil spill) or to specific business relationships. This includes consideration of impacts on **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 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; 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.
12. In describing the main types of **value chain workers** who are or could be negatively affected, based 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.
13. The undertaking shall disclose which, if any, of its material **risks** and **opportunities** arising from **impacts** and **dependencies** on its **value chain workers** relate to specific groups of value chain workers (for example, particular age groups, workers in a particular factory or country) rather than to all of the value chain workers.

Impact, risk and opportunity management

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

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- 14. **The undertaking shall describe its policies adopted to manage its material impacts on value chain workers, as well as associated material risks and opportunities.**
 - 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

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from additional indicators related to principal adverse impacts as set out by indicators number 12 and number 13 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("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").

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.

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 whether such policies cover specific groups of **value chain workers** or all value chain workers.
17. The undertaking shall describe its human rights **policy** commitments² that are relevant to **value chain workers**, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises¹¹³. In its disclosure, it shall focus on those matters that are material in relation to, as well as the general approach to:
 - (a) respect for the human rights, including labour rights, of workers;
 - (b) engagement with value chain workers; and
 - (c) measures to provide and/or enable **remedy** for human rights impacts.
18. The undertaking shall state whether its policies in relation to **value chain workers** explicitly address trafficking in human beings¹¹⁴, **forced labour** or compulsory labour and **child labour**. It shall also state whether the undertaking has a **supplier** code of conduct¹¹⁵.
19. 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 Rights¹¹⁶. 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 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, an indication of the nature of such cases¹¹⁷.

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

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

Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

¹¹³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 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').

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 #9 in Table III of

¹¹⁴ 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 #11 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments (“Lack of processes and measures for preventing trafficking in human beings”).

¹¹⁵ 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 #4 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments (“Lack of a supplier code of conduct”).

¹¹⁶ 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 II. ¹¹⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments; 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 Labour Organisation Conventions 1 to 8” in section 1 and 2 of Annex II.

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; 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.
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).
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

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25. **The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on value chain workers that the undertaking is connected with, as well as channels available to value chain workers to raise concerns and have them addressed.**
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 carried out with these workers regarding the issues raised, and the effectiveness of these channels.

27. The undertaking shall describe:
- (a) its general approach to and processes for providing or contributing to **remedy** where it has caused or contributed to a material negative impact on **value chain workers**, including whether and how the undertaking assesses that the 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 whether they are third-party mechanisms;
 - (c) the processes through which it supports or requires the availability of such channels 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**.
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.
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 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 managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions

30. **The undertaking shall disclose how it takes action to address material impacts on value chain workers, and to manage material risks and pursue material opportunities related to value chain workers and the effectiveness of those actions.**
31. The objective of this Disclosure Requirement is twofold. Firstly, it is to enable an understanding of any actions or initiatives through which the undertaking seeks to:
- (a) prevent, mitigate and **remediate** the negative material **impacts** on **value chain workers**; and/or
 - (b) achieve positive material impacts for value chain workers.
- Secondly, it is to 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 related to **value chain workers** as per ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.
32. In relation to material **impacts**, the undertaking shall describe:
- (a) actions taken, planned or underway to prevent or mitigate 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;

- (c) any additional **actions** or initiatives 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 such **actions** and initiatives in delivering intended outcomes for value chain workers.
33. In relation to paragraph 30, the undertaking shall describe:
- (a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential 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) 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.
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.
35. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on **value chain** workers through its own practices, including, where relevant, 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.
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 these³.
37. When disclosing the information required under paragraph 32 (c), the undertaking shall consider ESRS 2 (see ESRS 2 MDR-T Tracking effectiveness of policies and **actions** through **targets**) if it evaluates the effectiveness of an action by setting a target.
38. The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that enables **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

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

³ 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”).

- (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.**
40. 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.
41. The summarised description of the **targets** to manage its material impacts, risks and opportunities related to **value chain workers** shall contain the information requirements defined in ESRS 2 MDR-T.
42. 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 any lessons or improvements as a result of the undertaking's performance.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S2 *Workers in the value chain*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of ESRS S2.

Objective

- AR 1. In addition to the issues listed in paragraph 2, the undertaking may 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 **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 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 **value chain workers** and, as appropriate, disclose as material impacts, risks and opportunities within the scope of this Standard.
- AR 3. Examples of workers that fall within the scope of this 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 whether and how it considers the role that its strategy and **business model** may play in creating, exacerbating or mitigating significant material **impacts** on **value chain** workers, and whether and how the business model 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, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of the value chain workers and value chain workers' representatives.

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

- AR 6. **Impacts** on **value chain** workers can originate in the undertaking's strategy or **business model** in a number of different ways. For example, impacts may relate to the undertaking's value proposition (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** (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** 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 **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, 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 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 chain workers

- 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 ESRS S1 and not in relation to this requirement.
- AR 11. If the disclosures under ESRS S1 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 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 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 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. When disclosing 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 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, 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 provide an illustration of the types of communication of its policies 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, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, 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. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, 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 that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 18. When preparing the disclosures described in paragraph 22 b) and c), the following illustrations may be considered:

- (a) examples of stages at which engagement occurs are i) determining the approach to mitigation 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, or whether it provides **training** or capacity building to relevant staff to undertake engagement.

AR 19. 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 20. 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 21. 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 22. 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, 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 23. To provide greater insight into the information covered in Disclosure Requirement ESRS S2-3, the undertaking may 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 24. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. 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.
- AR 25. 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 and data protection; and whether the mechanisms allow for workers to use them anonymously (for example, through representation by a third party).
- AR 26. 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 27. 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, rather than seeking to unilaterally determine the outcome?

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

AR 28. 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 29. 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 30. Given that material negative impacts affecting **value chain** workers that have occurred during the reporting period 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 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 an **adequate wage**).
- AR 31. 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 ESRS S2-5 the relevant **targets** set by the initiative and progress towards them.
- AR 32. 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 33. 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 34. 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 35. 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 36. With regard to initiatives or processes the undertaking has in place that are based on affected workers' needs and 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 37. 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 38. 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 39. 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 40. 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:
- (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) risks related to the undertaking's dependencies on value chain workers may include disruption of business operations where a pandemic closes significant parts of its **supply chain** or distribution network;
 - (c) 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 non-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 a commodity by ensuring smallholder farmers earn enough to persuade future generations to keep farming that crop.
- AR 41. When disclosing whether **dependencies** turn into risks, the undertaking shall consider external developments.
- AR 42. 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 43. The undertaking shall consider whether and how its process(es) to manage material risks related to **value chain** workers are integrated into its existing risk management process(es).
- AR 44. 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 45. When disclosing information about **targets** in accordance with paragraph 39, the undertaking may disclose:
- (a) the intended outcomes to be achieved in the lives of **value chain** workers, being as specific as possible;
 - (b) the stability of the targets over time in terms of definitions and methodologies to enable comparability over time;

- (c) the standards or commitments on which the targets are based (for instance codes of conduct, sourcing policies, global frameworks or industry codes).
- AR 46. **Targets** related to material **risks** and **opportunities** may be the same as or distinct from targets related to material **impacts**. For example, a target to reach living **wages** for **supply chain** workers could both reduce impacts on those workers and reduce associated risks in terms of the quality and reliability of supply.
- AR 47. The undertaking may also distinguish between short-, medium- and long-term **targets** covering the same **policy** commitment. For example, the undertaking may have a longterm target to achieve an 80% reduction in health and safety **incidents** affecting the workers of a given **supplier** by 2030 and a near-term target to reduce their **overtime** hours of delivery drivers by x% while maintaining their income by 2024.
- AR 48. 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** 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*.

ESRS S3 AFFECTED COMMUNITIES

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Objective

1. The objective of this Standard is to specify disclosure requirements which will enable **users** of the **sustainability statement** to understand material impacts on **affected communities** 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 communities, in areas where impacts are most likely to be present and severe, 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 related to its impacts and **dependencies** on **affected communities**, and how the undertaking manages them; and
 - (d) the **financial effects** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on affected communities.
2. In order to meet the objective, this Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on **affected communities** in relation to:
 - (a) communities' economic, social and cultural rights (for example, adequate housing, adequate food, water and sanitation, land-related and security-related impacts);
 - (b) communities' civil and political rights (for example, freedom of expression, freedom of assembly, impacts on human rights defenders); and
 - (c) particular rights of **indigenous peoples** (for example, free, prior and informed consent, self-determination, cultural rights).
3. This Standard also requires an explanation of how such impacts, as well as the undertaking's **dependencies** on affected communities, can create material risks or opportunities for the undertaking. For example, negative relationships with **affected communities** may disrupt the undertaking's own operations or harm its reputation, while constructive relationships can bring business benefits, such as stable and conflict-free operations and a greater ease of recruiting locally.

Interaction with other ESRS

4. This standard applies when material impacts on and/or material risks and opportunities related to **affected communities** have been identified through the **materiality** assessment process laid out in ESRS 2 *General disclosures*.
5. This Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2, as well as the ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain* and ESRS S4 *Consumers and end-users*.

Disclosure Requirements

ESRS 2 General disclosures

6. 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*, 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

7. When responding to ESRS 2 SBM-2, paragraph 43, the undertaking shall disclose how the views, interests, and rights of **affected communities**, including respect for their human rights (and their rights as **indigenous peoples**, where applicable), inform its strategy and business model. **Affected communities** 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

8. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:
- (a) whether and how actual and potential impacts on **affected communities** 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; and
 - (b) the relationship between its material risks and opportunities arising from impacts and **dependencies** on affected communities and its strategy and business model.
9. When fulfilling the requirements of paragraph 48, the undertaking shall disclose whether all **affected communities** who are likely to be materially impacted by the undertaking, including impacts that are connected with the undertaking's own operations and **value chain**, including through its products or services, 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 communities subject to material impacts by its own operations or through its upstream and downstream value chain, and specify whether they are:
 - i. communities living or working around the undertaking's operating **sites**, factories, facilities or other physical operations, or more remote communities affected by activities at those sites (for example by downstream water **pollution**);
 - ii. communities along the undertaking's value chain (for example, those affected by the operations of **suppliers'** facilities or by the activities of logistics or distribution providers);

- iii. communities at one or both endpoints of the value chain (for example, at the point of extraction of metals or minerals or harvesting of commodities, or communities around **waste** or **recycling** sites);
 - iv. communities of **indigenous peoples**.
- (b) 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 (for example, marginalised populations suffering impacts on their health and quality of life in a highly industrialised area), or (ii) related to individual **incidents** in the undertaking's own operations (e.g., a toxic **waste** spill affecting a community's access to clean drinking water) or in a specific business relationship (e.g., a peaceful protest by communities against business operations that was met with a violent response from the undertaking's security services). This includes consideration of impacts on affected communities 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 to a sustainable economy and solar panel production;
 - (c) in the case of material positive impacts, a brief description of the activities that result in the positive impacts (for example, capacity-building to support more and new forms of local livelihoods) and the types of communities that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions; and
 - (d) any material risks and opportunities for the business arising from impacts and **dependencies** on affected communities.
10. In describing the main types of communities who are or could be negatively affected, based on the **materiality** assessment set out in Disclosure Requirement ESRS 2 IRO-1, the undertaking shall disclose whether and how it has developed an understanding of how **affected communities** with particular characteristics or those living in particular contexts, or those undertaking particular activities may be at greater risk of harm.
11. The undertaking shall disclose which, if any, of its material risks and opportunities arising from impacts and **dependencies** on affected communities relate to specific groups of **affected communities** rather than to all affected communities.

Impact, risk and opportunity management

Disclosure Requirement S3-1 – Policies related to affected communities

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- 12. **The undertaking shall describe its policies adopted to manage its material impacts on affected communities, as well as associated material risks and opportunities.**
 - 13. 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 **affected communities** specifically, as well as policies that cover material risks or opportunities related to affected communities.
 - 14. The disclosure required by paragraph 12 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to **affected communities** in accordance with ESRS 2 MDR-P *Policies adopted to manage material sustainability matters*. In addition, the undertaking shall specify if such policies cover specific affected communities or all affected communities.
 - 15. The undertaking shall disclose any particular **policy** provisions for preventing and addressing impacts on **indigenous peoples**.

16. The undertaking shall describe its human rights **policy** commitments⁴ that are relevant to affected communities, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. In its disclosure it shall focus on those matters that are material in relation to⁵, as well as its general approach to:
- (a) respect for the human rights of communities, and **indigenous peoples** specifically;
 - (b) engagement with affected communities; and
 - (c) measures to provide and/or enable **remedy** for human rights impacts.
17. The undertaking shall disclose whether and how its policies with regard to **affected communities** are aligned with internationally recognised standards relevant to communities and **indigenous peoples** specifically, 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 Work or OECD Guidelines for Multinational Enterprises that involve affected communities have been reported in its own operations or in its upstream and downstream **value chain** and, if applicable, an indication of the nature of such cases^{6,7}.
18. The **policy** may take the form of a stand-alone policy regarding communities 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 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.

Disclosure Requirement S3-2 – Processes for engaging with affected communities about impacts

19. **The undertaking shall disclose its general processes for engaging with affected communities and their representatives about actual and potential impacts on them.**
20. 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 affected communities, 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 **affected communities** are taken into account in the decision-making processes of the undertaking.

⁴ 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 #9 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments (“Lack of a human rights policy”).

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 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”).

⁶ This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 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)

⁷ /1816 as set out by indicator “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” in section 1 and 2 of Annex II.

21. The undertaking shall disclose whether and how the perspectives of **affected communities** inform its decisions or activities aimed at managing actual and potential impacts on communities. This shall include, where relevant, an explanation of:
 - (a) whether engagement occurs with affected communities 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 this engagement happens, and that the results inform the undertaking's approach;
 - (d) where applicable, how the undertaking assesses the effectiveness of its engagement with affected communities, including, where relevant, any agreements or outcomes that result.
22. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of **affected communities** that may be particularly vulnerable to impacts and/or marginalised, and into the perspective of specific groups within the affected communities, such as women and girls.
23. 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** 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).
24. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with affected communities, 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 S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns

25. **The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on affected communities that the undertaking is connected with, as well as channels available to affected communities to raise concerns and have them addressed.**
26. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which **affected communities** 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**) by its business relationships, how follow up is performed with these communities regarding the issues raised, and the effectiveness of these channels.
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 a material negative **impact** on affected communities, including whether and how the undertaking assesses that the remedy provided is effective;

- (b) any specific channels it has in place for **affected communities** 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 third-party mechanisms;
 - (c) its processes through which the undertaking supports the availability of such channels by its business relationships; 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** of those channels.
28. The undertaking shall disclose whether and how it assesses that **affected communities** 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.
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 such a channel by its business relationships, 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 S3-4 – Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

30. **The undertaking shall disclose how it takes action to address material impacts on affected communities, and to manage material risks and pursue material opportunities related to affected communities and the effectiveness of those actions.**
31. The objective of this Disclosure Requirement is twofold. Firstly, it is to provide an understanding of any **actions** and initiatives through which the undertaking seeks to:
- (a) prevent, mitigate and remediate the negative material **impacts** on affected communities; and/or
 - (b) achieve positive material impacts for affected communities.
- Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material **risks** and pursuing the material opportunities related to affected communities.
- The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities related to affected communities as per *ESRS 2 MDR-A Actions and resources in relation to material sustainability matters*.
32. In relation to material impacts, the undertaking shall describe:
- (a) actions taken, planned or underway to prevent or mitigate material negative impacts on affected communities;
 - (b) whether and how it has taken action to provide or enable **remedy** in relation to an actual material impact;
 - (c) any additional **actions** or initiatives it has in place with the primary purpose of delivering positive impacts for affected communities; and
 - (d) how it tracks and assesses the effectiveness of these **actions** and initiatives in delivering intended outcomes for affected communities.
33. In relation to paragraph 29, the undertaking shall describe:

- (a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on affected communities;
 - (b) its approach to taking action in relation to specific material negative impacts on communities, including any action in relation to its own practices regarding land acquisition, planning and construction, operation or closure practices, as well as whether wider industry or collaborative action with other relevant parties will be required; and
 - (c) 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.
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 **affected communities** 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 affected communities.
35. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on **affected communities** through its own practices, including, where relevant, in relation to planning, land acquisition and exploitation, finance, extraction or production of raw materials, use of natural resources, and management of environmental impacts. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.
36. The undertaking shall also disclose whether severe human rights issues and **incidents** connected to **affected communities** have been reported and, if applicable, disclose these⁸.
37. When disclosing the information required under paragraph 31 (c), the undertaking shall consider ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets* if it evaluates the effectiveness of an action by setting a target.
38. The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that enables **users** to gain an understanding of how the material impacts are managed.

Metrics and targets

Disclosure Requirement S3-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

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39. **The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:**
- (a) **reducing negative impacts on affected communities; and/or**
 - (b) **advancing positive impacts on affected communities; and/or**
 - (c) **managing material risks and opportunities related to affected communities.**
40. 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 affected

⁸ 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”).

communities, and/or in managing material risks and opportunities related to affected communities.

41. The summarised description of the **targets** to manage its material impacts, risks and opportunities related to **affected communities** shall contain the information requirements defined in ESRS 2 MDR-T.
42. The undertaking shall disclose the process for setting the **targets**, including whether and how the undertaking engaged directly with affected communities, 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, any, lessons or improvements as a result of the undertaking's performance.

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S3 *Affected communities*. It supports the application of the disclosure requirements set out in this standard and has the same authority as the other parts of the standard.

Objective

- AR 1. 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 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 **affected communities** and, as appropriate, disclose as material impacts, risks and opportunities within the scope of this Standard.
- AR 2. In addition to the issues listed in paragraph 2, the undertaking may also consider disclosing information about other issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the impacts on communities related to the undertaking's operations due to extreme and sudden weather conditions.

ESRS 2 General Disclosures

Strategy

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

- AR 3. Disclosure Requirement ESRS 2 SBM-2 requires the undertaking to provide an understanding of if and how it considers the role that its strategy and **business model** may play in creating, exacerbating or mitigating significant material **impacts** on **affected communities**, and whether and how the business model and strategy are adapted to address such material impacts.
- AR 4. While **affected communities** may not be engaging with the undertaking at the level of its strategy or **business model**, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of affected communities and affected communities' representatives.

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

- AR 5. **Impacts on affected communities** can originate in the undertaking's strategy or **business model** in a number of different ways. For example, impacts may relate to the undertaking's value proposition (such as, construction or commencement of projects with timelines that do not allow sufficient time for consultation with groups affected by the projects), its **value chain** (for example, **land-use** in countries in which ownership is often contested or records are unreliable or in which land-users such as **indigenous peoples** are unrecognised), or its cost structure and the revenue model (such as, aggressive strategies to minimise taxation, particularly with respect to operations in developing countries).
- AR 6. Impacts on **affected communities** that originate in the strategy or business model can also bring material risks to the undertaking. For example, where the undertaking's strategy involves moving into higher risk geographies in pursuit of certain commodities, and if affected communities resist its presence or object to its local practices, this may create extensive and costly delays, and affect the undertaking's ability to secure future land concessions or permits. Similarly, if the undertaking's business model relies on intensive water extraction at its plants, to the extent that it affects access to water for communities' consumption, hygiene and livelihoods, this may result in reputationally-damaging boycotts, complaints and lawsuits.
- AR 7. Examples of particular characteristics of **affected communities** that may be considered by the undertaking when responding to paragraph 10 may be an affected community that is physically or economically isolated and is particularly susceptible to introduced diseases or has limited access to social services and therefore relies on infrastructure set up by the undertaking. It may be because where land worked by women is purchased by the undertaking and payments go to male heads of households, women become further disenfranchised in the community. It may also be because the community is indigenous, and its members seek to exercise cultural or economic rights to the land owned or used by the undertaking – or by one of the entities with which it has a business relationship – in a context where their rights are not protected by the state. In addition, the undertaking shall consider whether different characteristics overlap. For example, characteristics such as ethnicity, socioeconomic status, migrant status and gender may create overlapping risks of harm for certain affected communities, or for distinct parts of those affected communities, since affected communities are often heterogeneous in nature.
- AR 8. With regard to paragraph 11, material risks could also arise because of the undertaking's dependency on **affected communities** where low likelihood but high impact events may trigger **financial effects**; for example, where a natural disaster leads to a catastrophic industrial accident involving the undertaking's operations, resulting in severe harm to affected communities.

Impact, risk and opportunity management

Disclosure Requirement S3-1 – Policies related to affected communities

- AR 9. The description shall include the key information necessary to ensure a faithful representation of the policies in relation to **affected communities** and, therefore, the undertaking shall consider explanations of significant changes to the policies adopted during the reporting year (for example, new or additional approaches to engagement, due diligence and remedy).
- AR 10. When disclosing 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 consists of the Universal Declaration of Human Rights and the two Covenants that implement it, as well as the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organisation's Convention concerning Indigenous and Tribal Peoples (ILO No. 169) and the core conventions that underpin it, and may disclose its alignment with these instruments.
- AR 11. The undertaking may provide an illustration of the types of communication of its policies 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, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, 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.

AR 12. When disclosing severe human rights issues and **incidents** connected to affected communities, the undertaking shall consider any legal disputes related to land rights and to the **free, prior and informed consent** of **indigenous peoples**.

Disclosure Requirement S3-2 – Processes for engaging with affected communities about impacts

AR 13. Explanations of how the undertaking takes into account and ensures respect of the right of indigenous peoples to **free, prior and informed consent** may include information about processes to consult with indigenous peoples to obtain such consent. The undertaking shall consider how the consultation includes a good faith negotiation with affected **indigenous peoples** to obtain their free, prior and informed consent where the undertaking affects the lands, territories or resources that indigenous peoples customarily own, occupy or otherwise use; or relocates them from land or territories subject to traditional ownership or under customary use or occupation; or affects or exploits their cultural, intellectual, religious and spiritual property.

AR 14. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, 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 that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.

AR 15. When preparing the disclosures described in paragraph 20 b) and c), the following illustrations may be considered:

- (a) examples of stages at which engagement occurs are i) determining the approach to mitigation and ii) evaluating 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; and
- (d) for the role with operational responsibility, whether the undertaking requires relevant staff to have certain skills, or whether it provides **training** or capacity building to relevant staff to undertake engagement. In the case of material impacts, risks and opportunities related to **indigenous peoples**, this includes training on indigenous people's rights, including on free, prior and informed consent.

AR 16. To illustrate how the perspectives of communities have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns

- AR 17. In fulfilling the requirements set out by Disclosure Requirement ESRS S3-3, 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 18. Channels for raising concerns or needs, include **grievance mechanisms**, hotlines, dialogue processes or other means through which **affected communities** or their **legitimate representatives** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly, in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on communities, 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 19. To provide greater insight into the information covered in ESRS S3-3, the undertaking may explain whether and how communities that may be affected are able to access channels at the level of the undertaking they are affected by, in relation to each material impact. Relevant insights include information on whether **affected communities** can access channels in a language they understand, and whether they have been consulted in the design of such channels.
- AR 20. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. The undertaking may disclose whether these are accessible to all **affected communities** 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.
- AR 21. In relation to the protection of individuals that use the mechanisms against retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights of privacy and data protection; and whether to the mechanisms can be used anonymously (for example, through representation by a third party).
- AR 22. When disclosing processes related to providing and enabling **remedy** for **indigenous peoples**, relevant information includes whether and how the undertaking has considered their customs, traditions, rules and legal systems.
- AR 23. In disclosing whether and how the undertaking knows that **affected communities** 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 affected communities themselves. Examples of sources of information are surveys of community members that have used such channels and their levels of satisfaction with the process and outcomes.
- AR 24. In describing the effectiveness of channels for **affected communities** 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 on an individual channel basis or for the 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, set timeframes and clarity on the processes?
 - (d) do the channels ensure reasonable access 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 at stake?
- (f) do the 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, rather than seeking to unilaterally determine the outcome?

Disclosure Requirement S3-4 – Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

AR 25. 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 social investment or other **development** programmes 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 26. 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 27. Given that material negative impacts affecting communities that have occurred during the reporting period 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 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 the rights of indigenous peoples to entities with which the undertaking has a business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at minimising security-related impacts on communities or participating in company-community partnerships).

AR 28. Impacts on communities may stem from environmental matters which are disclosed by the undertaking under the ESRS E1 to E5. Examples include:

- (a) ESRS E1 *Climate Change*: The implementation of **climate change mitigation** plans may require the undertaking to invest in **renewable energy** projects that may affect the lands, territories and **natural resources** of **indigenous peoples**. If the undertaking does not consult with the affected indigenous peoples, it could negatively impact the affected communities' right to **free, prior and informed consent**;
- (b) ESRS E2 *Pollution*: The undertaking may negatively impact **affected communities** by failing to protect them from **pollution** from a particular production facility that causes them health-related issues;
- (c) ESRS E3 *Water and marine sources*: The undertaking may negatively impact the access to clean drinking water of communities when withdrawing water in water stressed areas;

- (d) ESRS E4 *Biodiversity and ecosystems*: The undertaking may negatively affect the livelihood of local farmers through operations that contaminate **soil**. Additional examples include the sealing of land through building new infrastructure, which can eradicate plant species that are critical for, for example, local **biodiversity** or to filter water for communities; or the introduction of **invasive species** (whether plants or animals) that can impact **ecosystems** and cause subsequent harm;
- (e) ESRS E5 *Resource use and circular economy*: The undertaking may negatively impact the lives of communities by affecting their health through the mismanagement of **hazardous waste**.

Where the connection between environmental impacts and local communities is addressed in the disclosures within the Disclosure Requirements ESRS E1-E5, the undertaking may cross-reference to those and clearly identify such disclosures.

- AR 29. 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 ESRS S3-5 the relevant **targets** set by the initiative and progress towards them.
- AR 30. When disclosing whether and how the undertaking considers actual and potential impacts on **affected communities** 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 31. In disclosing how it tracks the effectiveness of **actions** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.
- AR 32. 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 33. Reporting on effectiveness is aimed at enabling the understanding of the links between **actions** taken by an undertaking and the effective management of impacts.
- AR 34. With regard to initiatives or processes whose primary aim is to deliver positive impacts for affected communities that are based on affected communities' needs, and with regard to progress in the implementation of such initiatives or processes, the undertaking may disclose:
 - (a) information about whether and how **affected communities** and **legitimate representatives** or their **credible proxies** play a role in decisions regarding the design and implementation of these investments or programmes; and
 - (b) information about the intended or achieved positive outcomes for **affected communities** of these investments or programmes.
 - (c) an explanation of the approximate scope of **affected communities** covered by the described social investment or **development** programmes, and, where applicable, the rationale for why selected communities were chosen for a given social investment or development programme's implementation.
- AR 35. The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for **affected communities** 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 5 to "achieve gender equality and empower all women and girls" the undertaking may be taking thoughtful measures to include women in the consultation process with an affected community to meet standards of effective **stakeholder engagement**, which can help empower the women in the process itself, but potentially also in their daily lives.
- AR 36. When disclosing the intended or achieved positive outcomes of its **actions** for **affected communities** a distinction is to be made between evidence of certain activities having occurred (for example, that x number of women community members have been provided with

training on how to become local **suppliers** to the undertaking) from evidence of actual outcomes for affected communities (for example, that x women community members have set up small businesses and have had their contracts with the undertaking renewed year-on-year).

AR 37. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may for example consider programmes that aim to improve local infrastructure surrounding an undertaking's operations, such as improvements in roads leading to a reduction in the number of severe traffic accidents involving community members.

AR 38. When disclosing the material risks and opportunities related to the undertaking's impacts or **dependencies** on affected communities, the undertaking may consider the following:

- (a) risks related to the undertaking's impacts on **affected communities** may include the reputational or legal exposure, as well as operational risks, where affected communities protest against resettlements or the loss of access to lands, leading to costly delays, boycotts, or lawsuits;
- (b) risks related to the undertaking's dependencies on **affected communities** may include disruption of business operations where **indigenous peoples** decide to withdraw their consent to a project on their lands, forcing the undertaking to significantly modify or abandon the project;
- (c) business opportunities related to the undertaking's impacts on **affected communities** may include more easily financing projects and being a partner of choice for communities, governments and other businesses; and
- (d) opportunities related to the undertaking's dependencies on **affected communities** may include the development of positive relationships between the undertaking and indigenous peoples that enable existing projects to expand with strong support.

AR 39. In disclosing the information in AR 41, the undertaking may consider explanations of risks and opportunities stemming from environmental impacts or **dependencies** (please refer to AR 31 for further details), including related human rights (or social) impacts. Examples include reputational risks stemming from the impact on the health of communities of unmanaged polluting **discharges**; or the **financial effects** of protests that may disrupt or interrupt an undertaking's activities, for example, in response to operations in water stressed areas that may impact the lives of affected communities.

AR 40. When disclosing whether **dependencies** turn into risks, the undertaking shall consider external developments.

AR 41. When disclosing policies, action 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, actions and resources and targets in relation to that impact.

AR 42. The undertaking shall consider whether and how its processes to manage material risks related to **affected communities** are integrated into its existing risk management processes.

AR 43. 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 S3-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

AR 44. When disclosing information about **targets** in accordance with paragraph 38, the undertaking may disclose:

- (a) the intended outcomes to be achieved in the lives of affected communities, being as specific as possible;
- (b) the stability of the **targets** over time in terms of definitions and methodologies to enable comparability over time;
- (c) the standards or commitments which the targets are based on (for instance codes of conduct, sourcing policies, global frameworks or industry codes).

AR 45. **Targets** related to material **risks** and **opportunities** may be the same as or distinct from targets related to material impacts. For example, a target to fully restore livelihoods of **affected communities** following resettlement could both reduce impacts on those communities and reduce associated risks such as community protests.

AR 46. The undertaking may also distinguish between short-, medium- and long-term **targets** covering the same **policy** commitment. For example, the undertaking may have as a main objective to employ community members at a local mining **site**, with the long-term goal of staffing 100% locally by 2025, and with the short-term objective of adding x percent of local **employees** every year up and until 2025.

AR 47. When modifying or replacing a target in the reporting period, the undertaking may explain the change by linking it to significant changes in the business model 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*.

ESRS S4 CONSUMERS AND END-USERS

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Objective

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1. The objective of this Standard is to specify disclosure requirements which will enable **users** of the **sustainability statement** to understand material **impacts** on **consumers** and **endusers** 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 the consumers and/or end-users of its products and/or services (referred to in this Standard as "consumers and end-users"), 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 related to its impacts and **dependencies** on consumers and end-users, and how the undertaking manages such risks and opportunities; and
 - (d) the **financial effects** on the undertaking over the short-, medium- and long-term of material risks and opportunities arising from the undertaking's impacts and dependencies on consumers and/or end-users.
 2. In order to meet the objective, this Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential **impacts** on the **consumers** and/or **end-users** related to its products and/or services in relation to:
 - (a) information-related impacts on consumers and/or end-users (for example, privacy, freedom of expression and access to (quality) information);
 - (b) personal safety of consumers and/or end-users (for example, health and safety, security of a person and protection of children);
 - (c) social inclusion of consumers and/or end-users (for example, non-**discrimination**, access to products and services and responsible marketing practices).
 3. This Standard also requires an explanation of how such impacts, as well as the undertaking's **dependencies** on **consumers** and/or **end-users**, can create material **risks** or **opportunities** for the undertaking. For example, negative impacts on the reputation of the undertaking's products and/or services can be detrimental to its business performance, while trust in products and/or services can bring business benefits, such as increased sales or widening of the future consumer base.
 4. The unlawful use or misuse of the undertaking's products and services by **consumers** and **end-users** fall outside the scope of this standard.

Interaction with other ESRS

5. This standard applies when material **impacts** on and/or material **risks** and **opportunities** related to **consumers** and/or **end-users** have been identified through the **materiality** assessment process laid out in ESRS 2 *General disclosures*.
6. This Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2, as well as ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain* and ESRS S3 *Affected communities*.

Disclosure Requirements

ESRS 2 General Disclosures

7. 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*, 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

8. When responding to ESRS 2 SBM-2, paragraph 43, the undertaking shall disclose how the interests, views and rights of its **consumers** and/or **end-users**, including respect for their human rights, inform its strategy and business model. Consumers and/or end-users 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

9. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:
 - (a) whether and how actual and potential **impacts** on **consumers** and/or **end-users** as identified in Disclosure Requirements 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 model**, and (ii) inform and contribute to adapting the undertaking's strategy and business model, and
 - (b) the relationship between its material risks and opportunities arising from impacts and **dependencies** on consumers and/or end-users and its strategy and business model.
10. When fulfilling the requirements of paragraph 48, the undertaking shall disclose whether all **consumers** and/or **end-users** who are likely to be materially impacted by the undertaking, including **impacts** connected with the undertaking's own operations and **value chain**, including through its products or services, as well as through its **business relationships**, are included in the scope of its disclosure under ESRS 2. In addition, the undertaking shall disclose the following information:

- (a) a brief description of the types of consumers and/or end-users subject to material impacts by its own operations or through its value chain, and specify whether they are:
 - i. consumers and/or end-users of products that are inherently harmful to people and/or increase risks for chronic disease;
 - ii. consumers and/or end-users of services that potentially negatively impact their rights to privacy, to have their personal data protected, to freedom of expression and to non- **discrimination**;
 - iii. consumers and/or end-users who are dependent on accurate and accessible product- or service- related information, such as manuals and product labels, to avoid potentially damaging use of a product or service;
 - iv. consumers and/or end-users who are particularly vulnerable to health or privacy impacts or impacts from marketing and sales strategies, such as children or financially vulnerable individuals;
 - (b) in the case of material negative impacts, whether they are either (i) widespread or systemic in contexts where the undertaking sells or provides its products or services (for example, state surveillance that affects the privacy of service users), or (ii) related to individual **incidents** (for example, a defect linked to a particular product) or to specific business relationships (for example, a business partner uses marketing that inappropriately targets young **consumers**);
 - (c) in the case of material positive impacts, a brief description of the activities that result in the positive impacts (for example, product design that improves its accessibility for persons with disabilities) and the types of consumers and/or end-users that are positively affected or could be positively affected; the undertaking may also disclose whether the positive impacts occur in specific countries or regions; and
 - (d) any material risks and opportunities for the business arising from impacts and dependencies on consumers and/or end-users.
11. In describing the main types of **consumers** and/or **end-users** who are or could be negatively affected, based 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 consumers and/or end-users with particular characteristics, or those using particular products or services, may be at greater risk of harm.
12. The undertaking shall disclose which, if any, of its material risks and opportunities arising from impacts and **dependencies** on **consumers** and/or **end-users**, relate to specific groups of consumers and/or end-users (for example, particular age groups) rather than to all consumers and/or end-users.

Impact, risk and opportunity management

Disclosure Requirement S4-1 – Policies related to consumers and end-users

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- 13. **The undertaking shall describe its policies adopted to manage its material impacts of its products and/or services on consumers and end-users, as well as associated material risks and opportunities.**
 - 14. 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 **consumers** and/or **end-users** specifically, as well as policies that cover material risks or opportunities related to consumers and/or end-users.
 - 15. The disclosure required by paragraph 13 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to **consumers** and/or **end-users** in accordance with *ESRS 2 MDR-P Policies adopted to manage material*

sustainability matters. In addition, the undertaking shall specify if such policies cover specific groups or all consumers and/or end-users.

16. The undertaking shall describe its human rights **policy** commitments⁹ that are relevant to **consumers** and/or **end-users**, including those processes and mechanisms to monitor compliance with the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. In its disclosure it shall focus on those matters that are material, as well as the general approach in relation to¹⁰:
 - (a) respect for the human rights of consumers and/or end-users;
 - (b) engagement with consumers and/or end-users; and
 - (c) measures to provide and/or enable **remedy** for human rights impacts.
17. The undertaking shall disclose whether and how its policies with regard to **consumers** and/or **end-users** are aligned with internationally recognised instruments relevant to consumers and/or end-users, including 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 Work or OECD Guidelines for Multinational Enterprises that involve consumers and/or end-users have been reported in its downstream **value chain** and, if applicable, an indication of the nature of such cases¹¹.

Disclosure Requirement S4-2 – Processes for engaging with consumers and end-users about impacts

18. **The undertaking shall disclose its general processes for engaging with consumers and end-users and their representatives about actual and potential impacts on them.**
19. 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 **consumers** and/or **end-users**, 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 consumers and/or end-users are taken into account in the decision-making processes of the undertaking.
20. The undertaking shall disclose whether and how the perspectives of **consumers** and/or **endusers** inform its decisions or activities aimed at managing actual and potential impacts on consumers and/or end-users. This shall include, where relevant, an explanation of:
 - (a) whether engagement occurs with affected consumers and/or end-users or their **legitimate representatives** directly, or with **credible proxies** that have insight into their situation;

⁹ 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 #9 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments (“Lack of a human rights policy”).

¹⁰ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments.

¹¹ This information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 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 indicator “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” in section 1 and 2 of Annex II.

- (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 this engagement happens and that the results inform the undertaking's approach; and
 - (d) where applicable, how the undertaking assesses the effectiveness of its engagement with consumers and/or end-users, and, where relevant, any agreements or outcomes that result from such engagement.
21. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of **consumers** and/or **end-users** that may be particularly vulnerable to impacts and/or marginalised (for example, people with disabilities, children, etc.).
22. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with **consumers** and/or **end-users**, 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 S4-3 – Processes to remediate negative impacts and channels for consumers and end-users to raise concerns

23. **The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on consumers and end-users that the undertaking is connected with, as well as channels available to consumers and end-users to raise concerns and have them addressed.**
24. The objective of this Disclosure Requirement is to enable an understanding of the formal means by which **consumers** and/or **end-users** 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**) by its business relationships, how follow up is performed with these consumers and/or end-users regarding the issues raised, and the effectiveness of these channels.
25. 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 a material negative impact on **consumers** and/or **end-users**, including whether and how the undertaking assesses that the remedy provided is effective;
 - (b) any specific channels it has in place for consumers and/or end-users 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 third-party mechanisms;
 - (c) the processes through which the undertaking supports or requires the availability of such channels by its business relationships; 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.
26. The undertaking shall disclose whether and how it assesses that **consumers** and/or **endusers** 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 to protect individuals from retaliation when they use such structures or processes. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

27. 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 by its business relationships, 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 S4-4 – Taking action on material impacts on consumers and end- users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions

28. **The undertaking shall disclose how it takes action to address material impacts on consumers and end-users, and to manage material risks and pursue material opportunities related to consumers and end-users, and effectiveness of those actions.**
29. The objective of this Disclosure Requirement is twofold. Firstly, it is to provide an understanding of any **actions** and initiatives through which the undertaking seeks to:
- (a) prevent, mitigate and remediate the negative material impacts on **consumers** and/or **end-users**, and/or
 - (b) achieve positive material impacts for consumers and/or end-users.
- Secondly, it is to enable an understanding of the ways in which the undertaking is addressing the material risks and pursuing the material opportunities related to consumers and/or end-users.
30. The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities related to **consumers** and **end-users** as per ESRS 2 MDR-A *Actions and resources in relation to material sustainability matters*.
31. In relation to material impacts, the undertaking shall describe:
- (a) **actions** taken, planned or underway to prevent, mitigate or remediate material negative impacts on **consumers** and/or **end-users**;
 - (b) whether and how it has taken action to provide or enable **remedy** in relation to an actual material impact;
 - (c) any additional actions or initiatives it has in place with the primary purpose of positively contributing to improved social outcomes for consumers and/or end-users; and
 - (d) how it tracks and assesses the effectiveness of these **actions** and initiatives in delivering intended outcomes for consumers and/or end-users.
32. In relation to paragraph 28, the undertaking shall describe:
- (a) the processes through which it identifies what action is needed and appropriate in response to a particular actual or potential negative impact on **consumers** and/or **end-users**;
 - (b) its approaches to taking action in relation to specific material negative impacts on consumers and/or end-users, including any action in relation to its own practices regarding product design, marketing or sales, as well as whether wider industry or collaborative action with other relevant parties will be required; and
 - (c) 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. 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 **consumers** and/or **end-users** 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 consumers and/or end-users.
34. The undertaking shall disclose whether and how it takes action to avoid causing or contributing to material negative impacts on **consumers** and/or **end-users through** its own practices, including, where relevant, in relation to marketing, 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. When preparing this disclosure, the undertaking shall consider whether severe human rights issues and **incidents** connected to its **consumers** and/or **end-users** have been reported and, if applicable, disclose these¹².
36. Where the undertaking evaluates the effectiveness of an action by setting a target, in disclosing the information required under paragraph 32 (c), the undertaking shall consider ESRS 2 MDR-T *Tracking effectiveness of policies and actions through targets*.
37. The undertaking shall disclose what resources are allocated to the management of its material impacts with information that enables **users** to gain an understanding of how the material impacts are managed.

Metrics and targets

Disclosure Requirement S4-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

38. The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:
- (a) **reducing negative impacts on consumers and/or end-users; and/or**
 - (b) **advancing positive impacts on consumers and/or end-users; and/or**
 - (c) **managing material risks and opportunities related to consumers and/or end-users.**
39. 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 progress in addressing material negative impacts, and/or advancing positive impacts on **consumers** and/or **end-users**, and/or in managing material risks and opportunities related to consumers and/or **end-users**.
40. The summarised description of the **targets** to manage its material **impacts, risks** and **opportunities** related to **consumers** and/or **end-users** shall contain the information requirements defined in ESRS 2 MDR-T.
41. The undertaking shall disclose the process for setting the **targets**, including whether and how the undertaking engaged directly with **consumers** and/or **end-users**, 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.

¹² 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").

Appendix A: Application Requirements

This appendix is an integral part of the ESRS S4 *Consumers and end-users*. It supports the application of the requirements set out in this standard and has the same authority as the other parts of the standard.

Objective

- AR 1. The undertaking may highlight special issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of **consumers** and/or **end-users** in relation to contamination of a product or severe breach of privacy due to a massive data leak.
- 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 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 **consumers** and/or **end-users** and, subsequently, disclose as material impacts, risks and opportunities within the scope of this Standard.

ESRS 2 General disclosures **Strategy**

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

- AR 3. ESRS 2 SBM-2 requires the undertaking to provide an understanding of if and how it considers whether its strategy and business model play a role in creating, exacerbating or (conversely) mitigating significant material impacts on **consumers** and/or **end-users**, and whether and how the business model and strategy are adapted to address such material impacts.
- AR 4. While **consumers** and/or **end-users** may not be engaging with the undertaking at the level of its strategy or business model, their views can inform the undertaking's assessment of its strategy and business model. The undertaking may disclose the views of the (actual or potential) materially affected consumers and/or end-users' **legitimate representatives** 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

- AR 5. Impacts on **consumers** and/or **end-users** can originate in the undertaking's business model or strategy in a number of different ways. For example, impacts may relate to the undertaking's value proposition (for example, providing online platforms with potential for online and offline harm), its **value chain** (for example, speed in developing products or services, or delivering projects, with risks to health and safety), or its cost structure and the revenue model (for example, sales-maximising incentives that put consumers at risk).
- AR 6. Impacts on **consumers** and/or **end-users** that originate in the strategy or business model can also bring material risks to the undertaking. For example, if the undertaking's business model is premised on incentivising its sales force to sell high volumes of a product or service (for example, credit cards or pain medicine) at speed, and this results in large-scale harm to consumers, the undertaking may face lawsuits and reputational damage affecting its future business and credibility.

- AR 7. Examples of particular characteristics of **consumers** and/or **end-users** that may be considered by the undertaking when responding to paragraph 11 include young consumers and/or end-users who may be more susceptible to impacts on their physical and mental development, or who lack financial literacy and may be more susceptible to exploitative sales or marketing practices. They may also include women in a context where women are routinely discriminated against in their access to particular services or in the marketing of particular products.
- AR 8. With regard to paragraph 12, the **risks** could arise because of the undertaking's dependency on **consumers** and/or **end-users** where low likelihood but high impact events may trigger **financial effects**, for example, where a global pandemic leads to severe impacts on certain consumers' livelihoods resulting in major changes in patterns of consumption.

Impact, risk and opportunity management

Disclosure Requirement S4-1 – Policies related to consumers and end-users

- AR 9. The description shall include the key information necessary to ensure a faithful representation of the policies in relation to **consumers** and **end-users**, and therefore, the undertaking shall consider explanations of significant changes to the policies adopted during the reporting year (for example, new expectations for business customers, new or additional approaches to due diligence and remedy).
- AR 10. The **policy** may take the form of a stand-alone policy regarding **consumers** and/or **end users** 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 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 11. In disclosing its 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 Human Rights, which consists of the Universal Declaration of Human Rights and the two Covenants that implement it, and may disclose its alignment with these instruments.
- AR 12. When disclosing how external facing policies are embedded, the undertaking may, for example, consider internal-facing sales and distribution policies and alignment with other policies relevant to **consumers** and/or **end-users**. The undertaking shall also consider its policies for safeguarding the veracity and usefulness of information provided to potential and actual consumers and/or end-users, both before and after sale.
- AR 13. The undertaking may provide an illustration of the types of communication of its policies 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, own workers, investors). It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, 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 S4-2 – Processes for engaging with consumers and end-users about impacts

- AR 14. **Credible proxies** who have knowledge of the interests, experiences or perspectives of **consumers** and **end-users** could include national consumer protection bodies for some consumers.
- AR 15. When describing which function or role has operational responsibility for such engagement and/or ultimate accountability, 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 that this is the case. This disclosure could also be fulfilled by making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies*.
- AR 16. When preparing the disclosures described in paragraph 20 b) and c), the following illustrations may be considered:
- (a) for stage(s) at which engagement occurs, examples could be in determining mitigation approaches or in evaluating their effectiveness;
 - (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, 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, or whether it provides **training** or capacity building to relevant staff to undertake engagement.
- AR 17. To illustrate how the perspectives of **consumers** and/or **end-users** have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S4-3 – Processes to remediate negative impacts and channels for consumers and end-users to raise concerns

- AR 18. In fulfilling the requirements set out by the disclosure criteria of ESRS S4-3, 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 19. Channels for raising concerns or needs, include **grievance mechanisms**, hotlines, dialogue processes or other means through which **consumers** and/or **end-users** or their **legitimate representatives** can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly and is to be disclosed in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on consumers and/or end-users, 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 20. To provide greater insight into the information covered in ESRS S4-3, the undertaking may provide insight into whether and how **consumers** and/or **end-users** that may be affected are able to access channels at the level of the undertaking they are affected by, in relation to each material impact.

- AR 21. 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 undertaking may disclose whether these are accessible to all **consumers** and/or **end-users** 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 consumers and/or end-users (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 22. 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 and data protection; and whether they allow for **consumer** and/or **endusers** to use them anonymously (for example, through representation by a third party).
- AR 23. In disclosing whether and how the undertaking knows that **consumers** and/or **end-users** 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 consumers and/or end-users themselves. Examples of sources of information are surveys of consumers and/or end-users that have used such channels and their levels of satisfaction with the process and outcomes. To illustrate the usage level of such channels, the undertaking may disclose the number of complaints received from consumers and/or endusers during the reporting period.
- AR 24. In describing the effectiveness of channels for **consumers** and/or **end-users** to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for nonjudicial ***grievance mechanisms***", as laid out in the UN Guiding Principles on Business and Human Rights. The below considerations may be applied on an individual channel basis or for the 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 known procedures, set timeframes and clarity on the processes?
 - (d) do the channels ensure reasonable access 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 at stake?
 - (f) do the outcomes achieved from 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, rather than seeking to unilaterally determine the outcome?

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

Disclosure Requirement S4-4 – Taking action on material impacts on consumers and end- users, and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions

- AR 25. It may take time to understand negative impacts and how the undertaking may be involved with them through its downstream 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 26. 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 27. Given that material negative impacts affecting **consumers** and/or **end-users** that have occurred during the reporting period may also be linked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use leverage with relevant **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 proper product use or sale practices to business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible marketing or product safety).
- AR 28. 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 ESRS S4-5 the relevant **targets** set by the initiative and progress towards them.
- AR 29. When disclosing whether and how it considers actual and potential impacts on **consumers** and/or **end-users** 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 30. In disclosing how it tracks the effectiveness of **actions** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.
- AR 31. 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 32. Reporting on effectiveness is aimed at enabling the understanding of the links between **actions** taken by the undertaking and the effective management of impacts.
- AR 33. With regard to initiatives or processes the undertaking has in place that are based on affected **consumers** and/or **end-users'** needs and their level of implementation, the undertaking may disclose:
- (a) information about whether and how consumers and/or end-users 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 consumers and/or end-users of these programmes or processes.
- AR 34. The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for **consumers** and/or **end-users** are designed to also support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 3 to “ensure healthy lives and promote well-being for all at all ages” the undertaking may be actively working to make its products less addictive and harmful to physical and psychological health.
- AR 35. When disclosing the intended positive outcomes of its **actions** for **consumers** and/or **end-users** a distinction is to be made between evidence of certain activities having occurred (for example, that x number of consumers have received information about healthy eating habits) from evidence of actual outcomes for consumers and/or end-users (for example, that x number of consumers have adopted healthier eating habits).
- AR 36. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may, for example, consider programmes that aim to support heightened awareness of the risk of online scams, leading to a reduction in the number of cases of **end-users** experiencing breaches of data privacy.
- AR 37. When disclosing the material risks and opportunities related to the undertaking’s impacts or **dependencies** on **consumers** and/or **end-users**, the undertaking may consider the following:
- (a) risks related to the undertaking’s impacts on consumers and/or end-users may include reputational or legal exposure where poorly designed or defective products result in injuries or deaths;
 - (b) risks related to the undertaking’s dependencies on consumers and/or end-users may include the loss of business continuity where an economic crisis makes consumers unable to afford certain products or services;
 - (c) business opportunities related to the undertaking’s impacts on consumers and/or end-users may include market differentiation and greater customer appeal from offering safe products or privacy-respecting services; and
 - (d) business opportunities related to the undertaking’s dependencies on consumers and/or end-users may include the achievement of a loyal future consumer base by ensuring, for example, that LGBTQI people are respected and that the undertaking’s selling practices do not exclude such people from the products or services it offers.
- AR 38. When disclosing whether **dependencies** turn into risks, the undertaking shall consider external developments.
- AR 39. When disclosing policies, action 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 40. The undertaking shall consider the extent to which its processes to manage material risks related to **consumers** and/or **end-users** are integrated into its existing risk management processes and how.
- AR 41. 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 S4-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

AR 42. When disclosing **targets** in relation to **consumers** and/or **end-users**, the undertaking may disclose:

- (a) the intended outcomes to be achieved in the lives of consumers and/or end-users, being as specific as possible;
- (b) their stability over time in terms of definitions and methodologies to enable comparability; and/or
- (c) references standards or commitments on which the **targets** are based are to be clearly defined in the reporting (for instance codes of conduct, sourcing policies, global frameworks or industry codes).

AR 43. **Targets** related to material **risks** and **opportunities** may be the same as or distinct from targets tied to material **impacts**. For example, a target to ensure equal access to finance for underserved **consumers** could both reduce **discrimination** impacts on those consumers and enlarge the undertaking's pool of customers.

AR 44. The undertaking may also distinguish between short, medium and long-term **targets** covering the same **policy** commitment. For example, the undertaking may have as a main objective to make its online services accessible to people with disabilities, with the longterm goal of having adapted 100% of its online services by 2025, and with the short-term objective of adding x number of accessible features every year up and until 2025.

AR 45. 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 or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information as per ERS 2 BP-2 *Disclosures in relation to specific circumstances*.