

 DRAFT

# ESRS S2

WORKERS IN THE  
VALUE CHAIN

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## Objective

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1. The **sustainability statement** shall include information in relation to ESRS S2 *Workers in the Value Chain* if this **topic** relates to material **impacts, risks** and **opportunities** to cover all the reporting areas listed in paragraph 5 of ESRS 1 *General Requirements*. If not all the sub-topics prescribed by this Standard are to be reported following the **materiality** assessment, paragraph 30 of ESRS 1 *General Requirements* applies.
2. The objective of this Standard is to set out DRs providing information in relation to the reporting areas referred above that implement and complement the cross-cutting provisions of ESRS 1 *General Requirements* and ESRS 2 *General Disclosures*.
3. In this Standard, each DR is introduced by a disclosure objective except for **policies, actions** and **targets**, for which the provisions in ESRS 2 GDR-P, GDR-A and GDR-T provide the necessary framing for the relevant DRs.
4. The objective of this Standard is also to enable an understanding of the extent to which the undertaking aligns or complies with the international and European human rights instruments and conventions, including the International Bill of Human Rights; the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises; the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and ILO fundamental conventions; the UN Convention on Persons with Disabilities; the European Convention on Human Rights and the revised European Social Charter; and the Charter of Fundamental Rights of the European Union.
5. This Standard sets out the DRs related to **workers in the value chain**, in particular with respect to the following sub-topics:
  - (a) working conditions (including **adequate wages, work-life balance**, working time, secure employment, **social protection**);
  - (b) **social dialogue**, freedom of association, works councils, participation rights of workers and **collective bargaining**;
  - (c) health and safety;
  - (d) **training** and skills development;
  - (e) diversity and **equal treatment** (including gender equality, equal **pay** for work of equal value, employment and inclusion of **people with disabilities**, non-discrimination, anti-harassment); and
  - (f) other labour-related human rights (including **child labour, forced labour**, privacy, adequate housing and water and sanitation).
6. This Standard covers all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted by the undertaking. Such **impacts** may be connected with the undertaking's own operations or its upstream and downstream value chain. They include impacts connected to the undertaking's products and services, as well as through its **business relationships**. This standard covers workers who are not included in the scope of '**own workforce**' as set out in ESRS S1 *Own Workforce* (people who are in an employment relationship with the undertaking ('**employees**') and people who, for the purposes of ESRS reporting, are called '**non-employees**' in the undertaking's own workforce).
7. Examples of workers who could fall within the scope of this Standard are:
  - (a) workers of outsourced services working in the workplace of the undertaking (for example, 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 or workers of a 'downstream' entity which purchases goods or services from the undertaking;
  - (c) workers of an equipment supplier to the undertaking who, at a workplace controlled by the undertaking, perform regular maintenance on the supplier's equipment (for example, photocopier) as stipulated in the contract between the equipment supplier and the undertaking; and

- (d) (AR 3 amended) workers deeper in the **supply chain** who are extracting commodities that are then processed into components that go in the undertaking's products.

## Interaction with other topical ESRS

8. Social and environmental **topics** interact with each other. The points of interaction between ESRS S2 *Workers in the Value Chain* and the other topical standards are the following:
  - (a) all the social standards, i.e. ESRS S1 *Own Workforce*, ESRS S2 *Workers in the Value Chain*, ESRS S3 *Affected Communities* and ESRS S4 *Consumers and End-users*, are aligned in terms of content and structure and are related to each other. ESRS S2 *Workers in the Value Chain* covers the same sub-topics as ESRS S1 *Own Workforce* for those workers in the upstream and downstream value chain who are not in the undertaking's **own workforce**. The disclosures in the social standards address material information needed for reporting on **impacts** on people, **risks** and **opportunities** related to each **stakeholder** group, including in relation to sustainability due diligence;
  - (b) this Standard interacts with ESRS E1 *Climate Change* to the extent that the transition to a low-carbon and climate-resilient economy is a source of **impacts**, **risks** and **opportunities** for ESRS S2 *Workers in the Value Chain*; and
  - (c) this Standard interacts with ESRS E2 *Pollution* to the extent that **pollution** can cause material negative **impacts** with regard to health and safety at the workplace.

## Disclosure Requirements

### Impacts, risks and opportunities management

#### Disclosure Requirement S2-1 – *Policies related to workers in the value chain*

9. (16 amended) The undertaking shall describe its **policies** for managing material **impacts**, **risks** and **opportunities** related to **workers in the value chain** in accordance with ESRS 2 GDR-P. It shall state whether these policies cover specific groups of workers in the value chain (for example, particular age groups or workers in a particular factory or country) or all workers in the value chain.
10. (18 amended) The undertaking shall state whether its **policies** in relation to **workers in the value chain** address trafficking in human beings<sup>1</sup>, **forced labour** or compulsory labour, and **child labour**.
11. (18 amended) The undertaking shall also state whether it has a **supplier** code of conduct.<sup>2</sup>

#### APPLICATION REQUIREMENTS

<b>AR 1 for para. 9</b> <b>(Policies related to workers in the value chain)</b>	(AR 16 amended) Examples of <b>policy</b> aspects to disclose are the means of communication the undertaking uses to communicate its policies to the individuals, groups of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's <b>employees</b> , contractors and <b>suppliers</b> ), or because they have a direct interest in their implementation (for example, <b>workers in the value chain</b> , investors).
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<sup>1</sup> 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').

<sup>2</sup> 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').

**Disclosure Requirement S2-2 – Engagement with workers in the value chain, existence of channels for workers in the value chain to raise concerns or needs and approaches to remedy**

12. (21 amended) The objective of this DR is to enable an understanding of the undertaking's general approach to engagement with **workers in the value chain**, including the availability of **channels to raise concerns or needs** such as **grievance mechanisms**, and its approach to **remedy**.
13. (22 amended) The undertaking shall disclose how it engages directly with **workers in the value chain**, their **legitimate representatives** or with **credible proxies**, and how the perspectives of its workers in the value chain inform its decisions or activities aimed at managing the **actual** and **potential impacts** on workers in the value chain during the reporting year. This shall include:
  - (a) (23 amended) how the undertaking gains insight into the perspectives of workers in the value chain who may be particularly vulnerable to impacts and/or who are marginalised (for example, women workers, migrant workers, workers with disabilities) if the undertaking takes action to understand those perspectives; and
  - (b) (22(d) amended), the **Global Framework Agreements ('GFA')** or other outcomes that the undertaking has reached with workers in the value chain representatives related to the respect of human rights of workers in the value chain if there are any such agreements or outcomes.
14. (27(b)(d) amended) The undertaking shall describe the channels available to **workers in the value chain** to bring their concerns or needs directly to its attention and have them addressed. In particular, it shall state whether it has a **grievance mechanism** in place.<sup>3</sup> It shall also explain how it assesses the effectiveness of these channels.
15. (27(a) amended) The undertaking shall describe its general approach to and **processes to provide or cooperate in remediation** where it has caused or contributed to a material negative **impact** on **workers in the value chain**.

**APPLICATION REQUIREMENTS**

<b>AR 2 for para. 13 (Engagement)</b>	(AR 18 amended) Engagement with <b>workers in the value chain</b> can take different forms, such as information sessions, consultation or participation, and take place at different intervals.
<b>AR 3 for para. 14 (Grievance mechanism)</b>	<p>(AR 27 amended) The 'effectiveness criteria for non-judicial <b>grievance mechanisms</b>', as laid out in the UN Guiding Principles on Business and Human Rights, in particular Principle 31, can be used for assessing the effectiveness of the channels.</p> <p>(28 amended) If the undertaking has <b>policies</b> for protecting individuals that use these channels against retaliation, and they are disclosed under ESRS G1-1, the undertaking may refer to that disclosure.</p>

**Disclosure Requirement S2-3 – Actions and resources related to workers in the value chain**

16. (31 amended) The undertaking shall describe the key **actions** and resources used to manage its material positive and negative **impacts, risks** and **opportunities** related to **workers in the value chain** in accordance with ESRS 2 GDR-A.
17. (32(a)(b)(d) amended) In relation to material negative **impacts** on **workers in the value chain**, the undertaking shall describe:
  - (a) its key **actions** taken, planned or underway to prevent, mitigate and **remediate** material negative impacts on workers in the value chain, including its approach in situations where tensions arise between such actions and other business pressures (for example, in procurement or sales); and

<sup>3</sup> 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 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 the UNGPs and the OECD Guidelines for Multinational Enterprises').

- (b) how it tracks and assesses the effectiveness of these actions in delivering outcomes for workers in the value chain. This disclosure can be omitted if the undertaking discloses how it tracks the effectiveness of its actions in accordance with ESRS 2 GDR-T or GDR-M. In that case, a reference to that disclosure is sufficient.

18. (36 amended) For the sub-topics assessed as material for this Standard, subject to the relevant privacy regulation, the undertaking shall disclose **human rights incidents** connected to **workers in the value chain** identified in the reporting period.<sup>4</sup>

#### APPLICATION REQUIREMENTS

<p><b>AR 4 for para. 17</b> <b>(Key actions)</b></p>	<p>(AR 29 and AR 30 amended) The <b>actions</b> taken by the undertaking differ depending on its connection to the <b>impact</b> (causation, contribution, direct linkage) and how it has identified the actions as appropriate for addressing material impacts.</p> <p>This DR also applies to key actions to provide, cooperate in, or enable <b>remediation</b> in cases of actual negative impacts. Key actions to prevent, mitigate or remediate impacts include the use of different types of <b>leverage</b> or collective actions taken through multi-stakeholder or industry initiatives.</p>
<p><b>AR 5 for para. 17</b> <b>(Climate transition)</b></p>	<p>(11(c) amended) The undertaking shall present its <b>actions</b> in a way that allows an understanding of the connections that exist between different <b>topics</b>, in accordance with Chapters 3.3 and 9.1 of ESRS 1 <i>General Requirements</i>. This applies to measures taken to mitigate negative <b>impacts</b> on its <b>workers in the value chain</b> that arise from the transition to a low-carbon and climate-resilient economy. For example, innovation and restructuring can lead to mine closures or increased mining of minerals needed for the transition to a sustainable economy. Conversely, positive impacts may arise from initiatives such as updating purchasing practices or training <b>supply chain</b> workers. Other examples include current and/or expected external developments that influence <b>dependencies</b> that are sources of just transition risks.</p>
<p><b>AR 6 for para 18</b> <b>(Human rights incidents)</b></p>	<p>(New) The <b>human rights incidents</b> in scope for this disclosure are those that relate to not respecting internationally recognised human rights as defined in CSRD Art. 29b (2) (b) (iii). These incidents are understood as the substantiated instances of:</p> <ul style="list-style-type: none"> <li>(a) judicial and non-judicial proceedings that have been initiated (such as cases before domestic courts and tribunals, mediation, complaints filed with the National Contact Points for OECD Multinational Enterprises); and/or</li> <li>(b) incidents registered by the undertaking, including those it identified through its internal processes.</li> </ul>
<p><b>AR 7 for para. 18</b> <b>(Human rights incidents)</b></p>	<p>(New) When applying the filter of information materiality (paragraph 23 of ESRS 1 <i>General Requirements</i>) to the information about incidents referred to under paragraph 18, the undertaking's assessment is primarily based on the severity of the <b>impacts</b> on its <b>workers in the value chain</b>.</p>

<sup>4</sup> This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory and additional indicator related to principal adverse impacts, as set out by indicator #10 in Table I of Annex I, by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Violations of the UNGPs and the OECD Guidelines for Multinational Enterprises" and "Number of identified cases of severe human rights issues and incidents"), and the information needs of 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>AR 8 for para. 18</b> <b>(Human rights incidents)</b>	<p>(New) The undertaking is not expected to disclose a list of each <b>human rights incident</b>, and may aggregate the information provided, such as by relevant types of incidents and/or <b>workers in the value chain</b> affected.</p>
<b>AR 9 for para. 18</b> <b>(Cross-referencing)</b>	<p>(New) If the undertaking considers that changes in <b>human rights incidents</b> are relevant for understanding the effectiveness and availability of <b>channels to raise concerns or needs</b>, including <b>grievance mechanisms</b>, it may cross-reference paragraph 18 and paragraph 14.</p> <p>(New) The way the undertaking has addressed or is addressing human rights incidents may be cross-referenced to information disclosed in accordance with paragraph 17.</p>

## Metrics and Targets

### Disclosure Requirement S2-4 – *Targets related to workers in the value chain*

19. (41 amended) The undertaking shall disclose qualitative or quantitative **targets** related to **workers in the value chain** in accordance with ESRS 2 GDR-T.

#### APPLICATION REQUIREMENTS

<b>AR 10 for para. 19</b> <b>(Tracking performance)</b>	<p>(42(b)(c) amended) Engagement with <b>workers in the value chain</b>, their <b>legitimate representatives</b>, or with <b>credible proxies</b> can inform the undertaking's tracking and assessment of the effectiveness of its <b>actions</b> disclosed under paragraph 17(b), including the development of <b>metrics</b>, target-setting or tracking of performance against those metrics and <b>targets</b>.</p> <p>In particular, in relation to the tracking of performance, such engagement can inform the understanding of the effectiveness of the undertaking's management of material negative <b>impacts</b> and the identification of lessons learnt or improvements.</p>
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