

VSME Supporting Guide to Disclosure C7 – Severe negative human rights incidents (paragraph 62(c))

DRAFT FOR EFRAG SRB AND EFRAG SR TEG AFTER TARGETED CONSULTATION

The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.



EFRAG is co-funded by the European Union through the Single Market Programme in which the EEA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are however those of the presenter only and do

VSME Supporting Guide to Disclosure C7 – Severe negative human rights incidents – (paragraph 62(c))

not necessarily reflect those of the European Union, the European Commission or of countries that participate in the Single Market Programme. Neither the European Union, the European Commission nor countries participating in the Single market Programme can be held responsible for them.

Disclaimer

The European Commission in the Omnibus proposal released on 26 February 2025 proposes, to use the VSME Standard as the basis of a future voluntary standard for undertakings up to 1000 employees. The VSME Standard has been developed for use by non-listed SMEs including micro-enterprises and has not been tested for use by other larger and more complex companies. It is important to note that on 30 July 2025 the European Commission officially adopted EFRAG's VSME as a Recommendation. With regard to the endorsement of the VSME as a Delegated Act, at the moment, no information is available on the proposed Delegated Act of a voluntary standard to be used by companies with 250 to 1000 employees, besides the European Commission's 26 February Omnibus proposal. The VSME supporting guides currently being developed are to be understood as supporting the application of the VSME Standard for undertakings with less than 250 employees. The content of the VSME supporting guides under discussion has been developed in line with the scope of the VSME. Should the VSME be destined to a different group of undertakings, their current content could be different and less simplified.

Background on the VSME Ecosystem Supporting Guides

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

Introduction and aim of this supporting guide to disclosure C7 (severe negative human rights incidents - beyond own workforce (paragraph 62(c)))

— The Supporting Guide C7 aims to provide hands-on guidance to support SMEs in disclosing only eventual confirmed -severe negative human rights incidents in the reporting period that arise in the **value chain**, in relation to **workers, affected communities and consumers/end-users**, while excluding own workforce (paragraph 62(c)). ~~The request for this Supporting Guide stems from EFRAG's VSME ED Public Consultation.~~

2 —

3 — The request for this Supporting Guide stems from EFRAG's VSME ED Public Consultation.

4 — ~~It is important to emphasise that this guide focuses on paragraph 62(c) of Disclosure C7— Severe negative human rights incidents related to workers in the in the value chain, affected communities and consumers and end/users.~~

C7 – Severe negative human rights incidents

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

- (a) Does the undertaking have confirmed incidents in its **own workforce** related to:
 - i. child labour (YES/ NO);
 - ii. forced labour (YES/ NO);
 - iii. human trafficking (YES/ NO);
 - iv. discrimination (YES/ NO); or
 - v. other? (YES/NO – if yes, specify).
- (b) If yes, the undertaking may describe the **actions** being taken to address the **incidents** described above.
- (c) Is the undertaking aware of any confirmed **incidents** involving **workers in the value chain, affected communities, consumers and end-users**? If yes, specify.

- 2 ~~For Some~~ SMEs operating in ~~high-risk~~ sectors and regions, where labour and community rights violations are more likely due to factors such as low levels of social dialogue, or no ratification of the core ILO core conventions could face greater exposure to severe negative human rights incidents in the value chain. ~~there could be higher exposure to these severe negative impacts through its own operations or value chain.~~
- 53 ~~However, sectorial and regional exposure is not static. This exposure can evolve due to changes in political conditions, regulatory landscape, environments, social dynamics, or industry practices.~~
- 64 The undertaking may refer to the contextual information outlined in B2/C2, which links the severe incidents to the relevant policies and practices that have already been disclosed in relation to reported incidents.

Definition of 'Confirmed Incidents'

- 5 In paragraph ~~238–174~~ (VSME Guidance), a “confirmed incident” refers to a legal action or complaint registered with the SME or competent authorities through a formal process, or an instance of non-compliance identified by the undertaking through established procedures. Established procedures to identify instances of non-compliance can include management system audits, formal monitoring programs, or grievance mechanisms.
- 6 “Competent authorities” are external official bodies of the SME that are designated to enforce and monitor laws and regulations in a specific area, ensuring compliance and public safety. have the legal regulatory, or institutional mandate to oversee, enforce, or make decisions on a specific issue/ incident. These tend to be government agencies or organisations within the countries that are des ~~External competent authorities may be official bodies with the following roles labour inspectorate, environmental protection authority, occupational health and safety administration, police or judicial authorities.~~
- 7 This implies that an SME could be aware of such incidents ~~via-through~~ a variety of channels and tools that may provide context on specific sectors, specific countries as well as specific groups of value chain workers, affected communities and consumers and end-users.
- 8 The following 3 examples of confirmed incidents have been developed to provide a better idea of the context and approach that an undertaking could take to disclose information regarding confirmed incidents.
- 7
- 8 ~~To support preparers, the following subsections may provide examples of confirmed incidents.~~

Examples of severe negative human rights incidents

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

A small construction company received a formal complaint through a letter from ~~an~~ Non-governmental organisation ~~GO~~ raising concerns about child labour at one of its suppliers in Southeast Asia. The complaint, submitted by a local labour rights group, included photos and testimonies indicating that children under 14 were involved in physically demanding work, such as carrying heavy bricks and operating kilns without protective equipment. The issue gained further attention when a local journalist reported on the factory's conditions, increasing pressure on the SME to respond. Given the lack of an internal compliance ~~responsible or~~ team, the SME engaged a ~~trusted local expert~~ local trusted third-party to visit the supplier and verify the claims. The investigation confirmed that several children were working in unsafe conditions and often as part of a family debt repayment system. [additional information not required by the disclosure but that may help the SME to provide useful information to the business –With counterparts] With limited leverage over the supplier, the SME sought support from an industry association and a local NGO to address the issue.

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

A SME is operating several fruits and vegetable plantations. Local communities have initiated a campaign, alleging that the fertilisers used on the plantations contain harmful components that pose risks to human health. They further allege that some forms of illness suffered by members of the communities are caused by the fertilisers. These communities claim that the use of such fertilisers is compromising their right to health and their right to live in a clean and healthy environment. ~~Investigations into these allegations are underway,~~ Investigations were done ~~have been conducted,~~ in collaboration with relevant authorities and ~~third party~~ local third-party experts, to assess the situation and ~~address any identified issues~~ confirmed the risk of a severe human right incident affecting health and lives of the communities.

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

A medium-sized tech SME launched a cloud-based service to store and to manage sensitive customer data. Despite efforts to ensure data security and data privacy protection, a breach occurred, leading to unauthorised access to customer data. The breach exposed personal information (names, addresses, and financial details) impacting thousands of customers. This breach also significantly increased the risk of identity theft. Concerned customers filed formal complaints with data protection authorities, alleging that their right to privacy has been impacted with the SME failing to implement adequate security measures. The authorities launched an investigation into the company data privacy practices and confirmed the incident whereby security protocols were not followed.