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## **Targeted Consultation Key Messages from Forum and Community + Secretariat Response on Supporting Guides on disclosure C7 (Severe Negative Human Rights Incidents – (paragraph 62(c))**

### **About this report**

1. EFRAG has conducted a targeted consultation to collect feedback from the SME Forum and VSME Community on the draft targeted consultation version of the Supporting Guide to disclosure C7 (Severe negative human rights incidents).
2. This targeted consultation was composed of 30 questions. A total of 33 out of 47 SME Forum members responded to the Survey. 175 VSME Community members also responded to this survey. This document analyses the responses differentiating between SME Forum and VSME Community members' comments.
3. SME forum feedback is marked in black, while VSME Community feedback is marked in red.
4. This report uses the following terms to describe the extent to which particular feedback was shared by respondents (both when referring to total respondents or a subset of respondents).

All: 100% of respondents
Most: 80% to 99% of respondents
A majority: 50% to 79% of the respondents
Some: 20% to 49% of the respondents
A few: 1% to 19% of respondents
None: 0% of respondents

Supporting Guide on disclosure C7 – Key messages

Topic	Targeted Consultation Input (Forum + Community)	EFRAG SECRETARIAT RESPONSE
Clarity and conciseness of introductory paragraphs and definitions	<p><b>Main suggestions/ comments:</b></p> <ol style="list-style-type: none"><li>1. Provide a clear definition of “confirmed incidents” (SMEs) (Accountants/Auditors (proxy preparers), Other - Consultants)) and for threshold for what constitutes 'severe' in “severe negative human rights” ( European association , Other - Consultants) and “incidents” (aligning the definition) (Banks and investment organisation users, SMEs, Observer/Standard Setter) and value chain” (Platform) and “Established procedures” term (Platform), and clarify if positive incidents can exist. (SMEs)</li><li>2. Suggestion to clarify and provide help to understand the following terminology: “ILO core convention”, "value chain") (Accountants/Auditors (proxy preparers)) specifying which ILO conventions they are and which one (European association, National association of large undertakings) and whether an ILO list of sectors/countries without ILO conventions exists and could be consulted (Observer/Institution)</li><li>3. Suggestion to clarify the definition of “high risk sectors” paragraph 5 (National bank representative, Large companies – users, Observer/Institution, Observer/Standard Setter, Platform, European Association , SMEs) and provide tool that can be used to identify risks (European Association)</li><li>4. Suggestion to clarify the requirements to disclose severe negative human rights incidents (reference period and severity criteria for incident reporting) (National bank representative)</li><li>5. Improve clarity: clarify the definitions of “incidents”, “confirmed incidents” and “relevant authorities” aligning with the VSME Standard and ESRS glossary and adding capital letters (Observer/Standard Setter, Platform).</li><li>6. Suggestion to highlight how SME should consider the value chain issues (European Association)</li><li>7. Request to make the examples more aligned with SMEs’ activities and targets and add timeline (Banks and investment organisation users, Academics) and to align the terminology with VSME reporting and ESRS 1 (Observer/Standard Setter) and respondents request to align the title of C7 with the text in paragraph 62 (SMEs).</li><li>8. Request to make the instruction more realistic and clearer, too many technical terminologies (Platform , Accountants/Auditors (proxy preparers) and to clarify whether the goal is absolute or intensity-based, and how activity growth is addressed. (Academics)</li></ol>	<p><b>POINT 1</b></p> <ul style="list-style-type: none"><li>- Not implemented, ‘Confirmed Incidents’ Not further defined. The VSME already defines this very specifically, and there cannot be a deviation of the VSME.</li><li>- Threshold – thresholds are not pertinent for this datapoint, if the confirmed incident has happened, then there’s no threshold to it.</li><li>- Value chain: this aspect is already defined in the glossary of the VSME.</li><li>- Established procedures: the VSME is already clear about the formality needed – no action required.</li></ul> <p><b>POINT 2 + 3</b></p> <ul style="list-style-type: none"><li>- Partially implemented. The definition of high-risk sectors and regions is clear enough, as it clarifies where labour and community rights violations are more likely. – no change However, additionally, the has been added to further clarify the content: ‘sectors and regions considered high-risk are not static. Their risk profiles can evolve due to changes in political conditions, regulatory environments, social dynamics, or industry practices’.</li></ul> <p><b>POINT 4</b></p> <ul style="list-style-type: none"><li>- Partially implemented: <b>Reference period:</b> we can add ‘in the reporting period’ <b>Severe:</b> if the incident is confirmed, then it is severe (as the complaint is formal. No change needed</li></ul> <p><b>POINT 5</b></p> <ul style="list-style-type: none"><li>- Implemented: Add ‘Relevant/competent authorities are official bodies or individuals (within the organisation/SME) that have the legal, regulatory, or institutional mandate to oversee, enforce, or make decisions on a specific issue/incident.</li></ul> <p><b>POINT 6</b></p> <ul style="list-style-type: none"><li>- Not implemented: Value chain is defined in the VSME- no need for further clarifications.</li><li>- Additionally, the disclosure (paragraph 62(c)), does not request to explain actions or remedies linked to incidents. It simply requires specifying them. As such there are no considerations to be made. This would go beyond this disclosure.</li></ul> <p><b>POINT 7</b></p> <ul style="list-style-type: none"><li>- Not implemented: The current 3 examples of this guide are ideally already specific. Further specificities would become a sector specific example, and this would go beyond the VSME. Additionally, timelines are not required, as SMEs are required to disclose specific events of confirmed incidents without including information on remediation actions and related timelines.</li><li>- Furthermoe, the title of the disclosure C7 cannot be altered.</li></ul> <p><b>POINT 8</b></p> <ul style="list-style-type: none"><li>- Partially implemented: This supporting guide only refers to the value chain confirmed incidents (workers in the value chain, affected communities, consumers and end-users). This will be made more explicit in the text of the supporting guide.  Topics related to intensity and growth of business aspects are unrelated to this disclosure.</li></ul> <p><b>POINT 9</b></p> <ul style="list-style-type: none"><li>- Implemented: External competent authorities: labour inspectorate, environmental protection authority, occupational health and safety administration, police or judicial authorities, national human rights institutions.</li><li>- The redrafted version of the supporting guide will clarify what is meant by “how to adequately identify non-compliance through</li></ul>

Targeted Consultation Key Messages from Forum and Community + Secretariat Response on Supporting Guides on disclosure C7 (paragraph 62(c))

Topic	Targeted Consultation Input (Forum + Community)	EFRAG SECRETARIAT RESPONSE
	<div>9. Request to provide more examples for “Competent authorities” (Platform and Other - Consultants), and about of how to adequately identify non-compliance through established procedures. Suggest adding examples on contractual clauses or ILO links that could help SMEs integrate this dimension in management systems / audit / monitoring / grievance mechanisms - paragraph 7 (Observer/Institution) and for paragraph (62(a)v) and 61(b) (European association). Request to provide a more exhaustive list of examples for “confirmed incidents” (Accountants/Auditors (proxy preparers)) or publicly available "monitoring programs" including weblinks (Other - Consultants)</div> <div>10. Suggest removing point 174 (confirmed incident) and paragraph 3 (The request for this Supporting Guide stems from EFRAG's VSME ED Public Consultation), in “it is important to emphasise that this guide focuses on paragraph 62(c) of Disclosure C7 – Severe negative human rights incidents” remove “it is important to emphasise that” (European association). And to eliminate this part since that it is considered not realistic (difficulties for SMEs to influence human rights outside Europe) (Non-listed SMEs (preparers)). And to remove Suggestion to remove “non-employee” words in order to be aligned with TEG definition of “own workforce” (SMEs).</div> <div>11. Request to add "aggression by consumers (verbal, physical)", "traffic aggression" in paragraph 4 (European association) and “management system audits, formal monitoring programs, or grievance mechanisms” as procedures for paragraph 7 (European Association)</div> <div>12. Suggest clarifying the extent of an SME’s responsibility in data collection on incidents - paragraph 4 (European Association)</div> <div>13. Request to consider that paragraph 8 is requiring high expectative and efforts for SMEs (European Association)</div> <div>14. Suggest clarifying whether incidents apply exclusively to workers or to the entire value chain (across all categories) (Public sector - users)</div> <div>15. Request to consider that not all SMEs are aware about the entire value chain (Accountants/Auditors (proxy preparers)) and to consider the limited resources available for SMEs (Accountants/Auditors (proxy preparers))</div> <div>16. Comment on the fact that the definition of “confirmed incident” is not administrative feasible for SMEs in the agricultural and food industry when purchasing raw materials (Association of enterprises of preparers).</div> <div>17. Consider that the probability of “severe negative incidents” is low in the case of small or micro enterprises. Suggest adapting the guidelines to the scale and risk profile of all enterprises (Association of enterprises of preparers).</div> <div>18. Request to add the scope of the value chain and clarify the affected communities (Banks and investment organisation users) (Public sector - users). Suggest merging paragraph 2 and 4 (Large companies - users) Suggest making paragraph 5 more simple, and split the paragraph in two sentences, and to exchange paragraph 5 and 6 (Large companies - users).</div> <div>19. Suggest to modify the format and make it more readable (bullet-pointed, simple flowchart) (Academics) (Other - Consultants) and to clarify whether incidents that were identified, but subsequently discounted after investigation or audit – paragraph 7 (Public sector - users)</div>	<div>established procedures; examples on contractual clauses”: there has to be a formal process (external) or instances of non-compliance. The undertaking shall report on them only if they have been notified about it by a competent authority (internal or external). No additional monitoring, and therefore no additional links to additional ILO material is required.</div> <div>POINT 10</div> <div>Not implemented: removing and changing. SMEs are not requested to influence human rights outside EU.</div> <div>POINT 11</div> <div>- Not implemented, Aggressions by consumers does not fall into the category of human rights violations. – no change.</div> <div>POINT 12</div> <div>- Implemented: 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.</div> <div>POINT 13</div> <div>- Not implemented: refer to point 6.</div> <div>POINT 14</div> <div>- Not implemented, The supporting guide will better clarify the value chain nature of this supporting guide (which excludes own workforce). Value chain is specified in par. 62 c).</div> <div>POINT 15 + 16</div> <div>- Not implemented, This remains a comment – no action. If the SME is notified (made aware through the competent authority or a formal process, then it shall disclose. It is not required to disclose in other instances. This should significantly reduce the burden.</div> <div>POINT 17</div> <div>- Not implemented. The Disclosure requirement is not about probability and/or risk profile.</div> <div>POINT 18</div> <div>- Implemented, Value chain is already defined in the VSME – the value chain aspect of this disclosure is already explained in the supporting guide and will be further highlighted.</div> <div>- Paragraphs 2 and 4 will be merged.</div> <div>- Split paragraph 5 into two sentences.</div> <div>POINT 19</div> <div>- Not implemented, could add confusion and complexity.</div>

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Topic	Targeted Consultation Input (Forum + Community)	EFRAG SECRETARIAT RESPONSE
Clarity of “ <u>Workers in the Value Chain</u> ” example	<p><b>Main suggestions/ comments:</b></p> <ol style="list-style-type: none"><li>1. Make the example shorter and more realistic (Association of enterprises of users, Platform), including the involvement of local entities (Banks and investment organisation users) and adding more sector specific variations (Consultants) and potential consequences of poor supply chain (contractual, legal, or reputational risks) ( Large undertakings and Association of enterprises of preparers) and without acronyms like NGOs and provide more examples ( Platform).</li><li>2. Rephrase the existing sentence from “The issue gained further attention when a local journalist reported on the factory’s conditions, increasing pressure on the SME to respond. Given the lack of an internal compliance responsible or team, the SME engaged a trusted local expert to visit the supplier and verify the claims” by eliminating “increasing pressure on the SME to respond” and “lack of an internal compliance responsible or team” because it is representing the SME negatively (European association).</li><li>3. Change “local expert” in “independent, capable (or accredited) third-party” (Banks and investment organisation users) and remove “protective equipment” (Observer/Standard Setter)</li><li>4. Suggest to consider that this example is not suitable or realistic for SMEs (Accountants/Auditors (proxy preparers, non-listed SMEs (preparers))</li><li>5. Suggest explaining how SMEs should disclose in this example (Consultants) and how they can learn (which channels) and responds to these incidents (Observer/Standard Setter, Accountants/Auditors (proxy preparers)</li><li>6. Suggest developing examples for both small and medium undertakings like in other indicators (Observer/Institution)</li><li>7. Suggest to modify the example because local farmers shouldn’t be penalised by NGO reports or complaints (Association of enterprises of preparers)</li><li>8. Suggest to clarify how the age of young workers is verified (through policies or regulations) (Non-listed SMEs (preparers))</li></ol>	<p><b>POINT 1</b></p> <ul style="list-style-type: none"><li>- Partially implemented, acronyms removed, but not implemented additional sector specific variations as the standard is sector agnostic and should not become a sector specific/ focused guidance.</li><li>- Involvement of local entities: this already exists, as the example references and mentions local experts.</li><li>- Potential consequences of poor/ riskier supply chains:</li></ul> <p><b>POINT 2</b></p> <ul style="list-style-type: none"><li>- Partially implemented: Agree with eliminating ‘increasing pressure on the SME to respond’</li><li>- Keep ‘lack of internal compliance team’.</li></ul> <p><b>POINT 3</b></p> <ul style="list-style-type: none"><li>- Agree with eliminating ‘local expert’ and replace it with ‘third-party’</li><li>- Implemented: “protective equipment”. The example already showcases a child labour issue, as such there’s no need to have add additional equipment related issue to make the example more complicated.</li></ul> <p><b>POINT 4</b></p> <ul style="list-style-type: none"><li>- Not implemented, This is a standalone comment, over 90% of respondents agreed with this example being useful. Therefore, ignore the comment.</li></ul> <p><b>POINT 5</b></p> <ul style="list-style-type: none"><li>- Implemented, The example showcases how the confirmed accident should be disclosed as. However, the standard does not set a clear path to take action. It is logical that if a confirmed accident has happened, the SME will have responded, and this response can be written within this disclosure. This aspect will be remarked in the instructions of the supporting guide.</li></ul> <p><b>POINT 6</b></p> <ul style="list-style-type: none"><li>- Not implemented – all the examples already address if the undertaking is small or medium. The intention is to create separate case studies for small and medium SMEs.</li></ul> <p><b>POINT 7</b></p> <ul style="list-style-type: none"><li>- Not implemented – too specific for the example</li></ul> <p><b>POINT 8</b></p> <ul style="list-style-type: none"><li>- Not implemented – it is already verified by the investigation that confirmed the human right incident.</li></ul>
Clarity of “ <u>Affected communities</u> ” example	<p><b>Most respondents found this content clear.</b></p> <p><b>Recurring Suggestions/ comments:</b></p> <ol style="list-style-type: none"><li>1. Clarify, shorten and rephrase the example (European association, Platform)</li><li>2. Example not pertinent to the title “Affected Communities” (National association of SMEs). Conclude the examples with a concluded investigation that confirmed the human rights violation (Association of enterprises of preparers).</li><li>3. Rephrase the sentence “An SME is operating several fruits and vegetable plantations” with chain: "An SME has purchase contracts with several fruits and vegetable plantations” for clarity (European association)</li><li>4. Clarify that the example is intended to illustrate an SME that operates directly in the agricultural sector (National association of SMEs)</li><li>5. Clarify which sources SMEs should use to identify the category of "other" severe other human rights incidents (Observer/Standard Setter)</li><li>6. Replace experts with an independent, capable (or accredited) third party (Banks and investment organisation).</li><li>7. Lack of details (Consultants)</li><li>8. Suggestion to add a follow-up or indicative action step taken by the SME and implications from lawsuits, reputational and pecuniary damage (Consultants)</li><li>9. Suggestion to mention pesticides instead of fertilizers (Academics)</li></ol>	<p><b>POINT 1</b></p> <ul style="list-style-type: none"><li>- Implemented, Example seems already short and clear already, it can be rephrased, see points 3 &amp; 4.</li></ul> <p><b>POINT 2</b></p> <ul style="list-style-type: none"><li>- Implemented, concluded with “Investigations have been conducted, in collaboration with relevant authorities and third-party experts, to assess the situation and confirmed the risk of a severe human right incident affecting health and lives of the communities.”.</li></ul> <p><b>POINT 3 + 4</b></p> <ul style="list-style-type: none"><li>- Implemented, ok to rephrase as suggested in point 3.</li></ul> <p><b>POINT 5</b></p> <ul style="list-style-type: none"><li>- Not implemented: point not related to the content of paragraph 62(c).</li></ul> <p><b>POINT 6</b></p> <ul style="list-style-type: none"><li>- Implemented, add ‘third party’ to ‘experts’.</li></ul> <p><b>POINT 7</b></p> <ul style="list-style-type: none"><li>- Not implemented, The intention of this guide is to not add further details other than what has already been written in the case study.</li></ul>

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Topic	Targeted Consultation Input (Forum + Community)	EFRAG SECRETARIAT RESPONSE
		<p><b>POINT 8</b></p> <ul style="list-style-type: none"><li>- Implemented, The example showcases how the confirmed accident should be disclosed as. However, the standard does not set a clear path to take action. It is logical that if a confirmed accident has happened, the SME will have responded and this response can be written within this disclosure. This aspect will be remarked in the instructions of the supporting guide.</li></ul> <p><b>POINT 9</b></p> <ul style="list-style-type: none"><li>- Not implemented: only suggested by one comment</li></ul>
<p><b>Clarity of “<u>Consumers and End-Users</u>” example</b></p>	<p><b>Most respondents found this content clear.</b></p> <p><b>Main suggestions/ comments:</b></p> <ol style="list-style-type: none"><li>1. Clarify which sources SMEs should use to identify the category of "other" severe other human rights incidents (Observer/Standard Setter)</li><li>2. Suggestion to highlight how SME should consider the value chain issues (European Association)</li><li>3. Suggestion to shorten the example, focusing on whether there is a “confirmed incident” and a short description of the incident (Platform).</li><li>4. Suggestion to link any confirmed incidents with remediation actions (non-listed SMEs)</li><li>5. Suggestion to include information on remediation measures and follow-up actions taken by the SME after the incident (Accountants/Auditors (proxy preparers).</li><li>6. Clarify if the incident falls under the responsibility of the SME (Association of enterprises of preparers).</li><li>7. Suggestion to avoid usage of too much leaked information; only a leakage of usernames (Large companies – users).</li><li>8. Suggestion to refer to certain regulations or laws that were not complied (Banks and investment organisation).</li><li>9. Improve clarity with the usage of capital letters (Consultants)</li><li>10. Clarify if the medium undertaking should report this on its VSME report (Consultants)</li><li>11. Suggestion to add explanations and sector-specific detail and information (Consultants)</li></ol>	<p><b>POINT 1</b></p> <ul style="list-style-type: none"><li>- Not implemented: point not related to the content of paragraph 62(c).</li></ul> <p><b>POINT 2</b></p> <ul style="list-style-type: none"><li>- Partially implemented, Value chain is defined in the VSME. Issues are to be considered only if confirmed. This will be reiterated in the instructions of the supporting guide.</li></ul> <p><b>POINT 3</b></p> <ul style="list-style-type: none"><li>- Not implemented, The brief description currently includes the description of the incident; the point is redundant.</li></ul> <p><b>POINT 4 + 5:</b></p> <ul style="list-style-type: none"><li>- Implemented, The example showcases how the confirmed accident should be disclosed as. However, the standard does not set a clear path to take action. It is logical that if a confirmed accident has happened, the SME will have responded and this response can be written within this disclosure. This aspect will be remarked in the instructions of the supporting guide.</li></ul> <p><b>POINT 6:</b></p> <ul style="list-style-type: none"><li>- Not implemented: The incident may be the responsibility of the undertaking.</li></ul> <p><b>POINT 7</b></p> <ul style="list-style-type: none"><li>- Implemented, will be amended to “addresses and financial details”.</li></ul> <p><b>POINT 8</b></p> <ul style="list-style-type: none"><li>- Not implemented, the source of the confirmed incident will be clearly defined. For this reason. The specific laws will vary on a case by case basis that will be determined through the notification of the confirmed incident.</li></ul> <p><b>POINT 9</b></p> <ul style="list-style-type: none"><li>- Editorial</li></ul> <p><b>POINT 10</b></p> <ul style="list-style-type: none"><li>- Not implemented. This is already specific and clear given that the supporting guide only refers to those doing disclosure C7.</li></ul> <p><b>POINT 11</b></p> <ul style="list-style-type: none"><li>- Not implemented, additional sector specific variations as the standard is sector agnostic and should not become a sector specific/ focused guidance.</li></ul>



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Additional comments	<p><b>Main suggestions/ comments:</b></p> <ol style="list-style-type: none"><li>1. Suggestion to provide more guidance on what constitutes an appropriate response to these types of human rights incidents (European Bank representative).</li><li>2. Suggestion to require the disclosure of actions and /or other follow up remediation/prevention initiatives (National bank representative) (Consultants)</li><li>3. Suggestion to include examples for more high-risk sectors (Observer/Standard Setter)</li><li>4. Suggestion to provide resources and databases within the guide, such as geographic databases and sector-specific resources (Observer/Standard Setter)</li><li>5. Suggestion to shorten the examples (platform)</li><li>6. Suggestion to add an example on that mentions end users (National association of SMEs)</li><li>7. Suggestion to add examples for the discrimination incidents (Accountants/Auditors (proxy preparers)</li><li>8. Suggestion to include examples with cases of incidents identified through the internal control system of the company (Accountants/Auditors (proxy preparers)</li><li>9. Suggestion to clarify whether a confirmed human rights incident can be omitted (Accountants/Auditors (proxy preparers)</li><li>10. Suggestion to add more examples also referring to existing regulations (Banks and investment organisation users)</li><li>11. Suggestion to provide more detailed information and examples (Consultants)</li><li>12. Suggestion to clarify and provide a more explicit, albeit simplified, definition or criteria for what makes an incident "severe" (Consultants)</li><li>13. Suggestion to address the aspect of secrecy (Consultants)</li></ol>	<p>1, 2 - Not implemented, No changes required The example showcases how the confirmed accident should be disclosed as. However, the standard does not set a clear path to take action. It is logical that if a confirmed accident has happened, the SME will have responded and this response can be written within this disclosure, as specified in this example. This aspect will be remarked in the instructions of the supporting guide.</p> <p>3 Not implemented, additional sector specific variations as the standard is sector agnostic and should not become a sector specific/ focused guidance.</p> <p>4 Not implemented – adding external links and tools is confusing</p> <p>5 Not implemented – already short</p> <p>6 Not implemented, this was only requested by one respondent while most respondents agreed with the current example. For this reason, this cannot be changed.</p> <p>7 Not implemented, this was only requested by one respondent while most respondents agreed with the current example. For this reason, this cannot be changed.</p> <p>8 Not implemented, it would complicate the example.</p> <p>9 Not implemented – it cannot, there is no level of ambiguity.</p> <p>10 Not implemented – this is not to become a list of laws, rather the SME shall only provide details in the event of a confirmed incident.</p> <p>11 Not implemented – to avoid complexity</p> <p>12 Not implemented - if the incident is confirmed, then it is severe (as the complaint is formal). No change needed</p> <p>13 Not implemented – secrecy it is already part of the examples as it addresses the right of privacy</p>