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ESRS S2 – *Workers in the Value Chain* - V1

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UNAPPROVED DRAFT

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Objective

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** and cover the reporting areas listed in paragraph 5 of ESRS 1. When only one particular sub-topic prescribed by this Standard is material, paragraph 30 of ESRS 1 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*. The objective of this standard is also to enable **users** to understand the extent to which the undertaking aligns or complies with 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, the Charter of Fundamental Rights of the European Union.
3. In this Standard, each DR is introduced by a disclosure objective, with the exception of **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 disclosures.
4. 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** and diversity (including gender equality, equal **pay** for equal work, employment and inclusion of people with disabilities, non-discrimination, anti-harassment); and
 - (f) other labour related to human rights (including **child labour**, **forced labour**, privacy, adequate housing and water and sanitation).
5. 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 (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).
6. 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 (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 or workers for 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 (e.g. 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

7. Social and environmental **topics** closely interact with each other. The main points of interaction between ESRS S2 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, ESRS S4 Consumers and End-Users, are aligned in terms of content and structure and are closely 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 that 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 climate-neutral economy is a source of impacts, risks and opportunities for ESRS S2 *Workers in the Value Chain*.

Disclosure Requirements

Impact, risk and opportunity management

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

8. (16 amended) The undertaking shall describe its **policies** for managing the 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 (e.g. particular age groups or workers in a particular factory or country) or all workers in the value chain.
9. (18 amended) The undertaking shall state whether its **policies** in relation to **workers in the value chain** address trafficking in human beings¹, **forced labour** or compulsory labour and **child labour**.
10. (18 amended) The undertaking shall also state whether it has a **supplier** code of conduct.²

APPLICATION REQUIREMENTS

AR 1 for para. 8 (Policies related to workers in the value chain)	(AR 16 amended) 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 (e.g. the undertaking's employees , contractors and suppliers), or because they have a direct interest in their implementation, are examples of policy aspects to disclose.
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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

11. (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 approach to **remedy**.

¹ 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').

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 #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').

12. (22 amended) The undertaking shall disclose how it engages, as part of its ongoing due diligence process, 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 are marginalised (for example, women workers, migrant workers, workers with disabilities), if the undertaking takes action to understand those perspectives; and
 - (b) (22d 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.
13. (27b and 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.³ It shall also explain how it assesses the effectiveness of these channels.
14. (27a 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

AR 2 for para. 12 (Engagement)	(AR 18 amended) Engagement with workers in the value chain can take different forms, such as information, consultation or participation, and occur at different frequencies.
AR 3 for para. 13 (Grievance mechanism)	<p>(AR 27 amended) 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, can be used for assessing the effectiveness of the channels.</p> <p>(28 amended) If the undertaking has policies for protecting individuals that use these channels against retaliation, and they are disclosed under DR 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

15. (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.
16. (32a, b and d amended) In relation to material negative **impacts** on **workers in the value chain**, the undertaking shall describe:
- (a) key **actions** to provide **remediation** in relation to actual material negative impacts or taken, planned or underway, to prevent and mitigate potential 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
 - (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

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 #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').

effectiveness of its actions in accordance with ESRS 2 GDR-T or GDR-M. In that case, a reference to that disclosure is sufficient.

17. (36 amended) Subject to the relevant privacy regulation, the undertaking shall disclose the **human rights incidents** connected to **workers in the value chain** identified in the reporting period.⁴

APPLICATION REQUIREMENTS

AR 4 for para. 16 (Key actions)	(AR 29 and AR 30 amended) The actions taken by the undertaking differ depending on its connection to the impact (causation, contribution, direct linkage), and how it has identified the actions as appropriate for addressing material impacts. Key actions to prevent, mitigate or remediate impacts include the use of different types of leverage and/or collective actions taken through multi-stakeholder and/or industry initiatives.
AR 5 for para. 16 (Climate transition)	(11c amended) The undertaking shall present its actions in a way that allows an understanding of the connections that exist between different topics , in accordance with Chapters 3.2 and 9.1 of ESRS 1. This applies to measures taken to mitigate negative impacts on its workers in the value chain that arise from the transition to a greener, climate-neutral 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 supply chain workers. Other examples include current and/or expected external developments that influence dependencies that are sources of just transition risks .
AR 6 for para 17 (Human rights incidents)	(NEW) The human rights incidents 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 number of substantiated instances of: (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 (b) incidents registered by the undertaking, including those it identified through its internal processes.
AR 7 for para. 17 (Human rights incidents)	(NEW) When applying the filter of information materiality (paragraph 23 of ESRS 1) to the information about incidents referred to under paragraph 17, the undertaking's assessment is primarily based on the severity of the impacts on its workers in the value chain .
AR 8 for para. 17 (Contextual information)	(NEW) In accordance with GDR-M paragraph 49(c), to allow a proper understanding of the significant changes in performance, whether an increase in incidents being reported by or to the undertaking may reflect improvements in the effectiveness and availability of channels to raise

⁴ 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.

	<p>concerns, including <i>grievance mechanisms</i>, can be provided as contextual information.</p> <p>In addition, it shall disclose the methodology it has used to compile the data on the incidents referred to in paragraph 17.</p>
<p>AR 9 for para. 17 (Remedy or actions related to incidents disclosed)</p>	<p>(NEW) The way the undertaking has addressed or is addressing incidents referred to in paragraph 17 may be cross-referenced to paragraph 16.</p>

Metrics and Targets

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

18. (41 amended) The undertaking shall disclose qualitative and/or quantitative ***targets*** related to ***workers in the value chain*** in accordance with ESRS 2 GDR-T.

.APPLICATION REQUIREMENTS

<p>AR 10 for para. 18 (Tracking performance against targets)</p>	<p>(42b and c amended) Engagement with <i>workers in the value chain</i>, their <i>legitimate representatives</i>, or with <i>credible proxies</i> can inform the undertaking's tracking and assessment of the effectiveness of its <i>actions</i> disclosed under paragraph 16(b), including the development of target-setting, <i>metrics</i> and/or tracking of performance against those <i>targets</i>.</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 <i>impacts</i> and the identification of lessons learnt or improvements.</p>
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