

Making ESRS Disclosures on Adequate Wages (S1-9) Fair and Workable

Disclosure Requirement S1-9 of the revised draft European Sustainability Reporting Standards (ESRS) provides for companies to report on the extent to which their employees are earning an adequate wage.

However, the methodology to be applied under the revised ESRS retains the same problems as the original methodology in the ESRS that was issued in December 2023: it requires companies to use a discriminatory approach for employees outside the EU. It adds further problems by requiring companies themselves to assess whether legal minimum wages or living wage estimates align with ILO principles. This is neither fair for employees nor workable for companies.

There is an opportunity to press for changes to this disclosure during the consultation period on the draft ESRS, which runs until 29 September.

Why "Adequate Wages" Matter

"Adequate wages" are about providing workers with *"fair remuneration sufficient for a decent standard of living for themselves and their families."*¹ This idea is backed by:

- European Union law: The EU Directive on Adequate Minimum Wages in the EU specifies that *"Minimum wages are considered to be adequate if they are fair in relation to the wage distribution in the relevant Member State and if they provide a decent standard of living for workers based on a full-time employment relationship."*²
- International Human Rights Law: The Universal Declaration of Human Rights specifies that *"everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity."*³

Outside of the EU, "adequate wage" are typically called a "living wage" or "fair wage." The concepts are defined in essentially the same way. In February 2024, the International Labour Organization (ILO) issued an agreed, tripartite position on living wages, including the principles for estimating a living wage. It articulated the living wage as, *"the wage level that is necessary to afford a decent standard of living for workers and their families, taking into account the country circumstances and calculated for the work performed during the normal hours of work."*

¹ Article 4 of the European Social Charter (revised). See also European Pillar of Social Rights (EPSR) Principle 6: "[...] workers have the right to fair wages that provide for a decent standard of living"

² Directive 2022/2041 of 19 October 2022 on adequate minimum wages in the European Union

³ Article 23(3) of the Universal Declaration of Human Rights. See also Article 7 of the International Covenant on Economic, Social and Cultural Rights.

The Distinction from Minimum Wages

Most countries have statutory (legal) minimum wages, but often these wages aren't high enough to cover basic needs. In many cases, minimum wages are far below what's considered an adequate/living wage. The [WageIndicator](#) Foundation, which tracks minimum wages and calculates living wages around the world, estimates that only 29 of 178 countries tracked have a statutory minimum wage above the living wage level.⁴

How Companies Report Wages Now (and Why It's Confusing)

The existing ESRS, as applied by many companies already in their 2024-25 reports, ask companies to report the extent to which they pay their employees adequate wages.

- **Inside the EU:** Companies must compare the lowest wage paid to the **adequate** minimum wage set in line with EU law.
- **Outside the EU:** Companies are directed to compare the lowest wage paid to the legal minimum wage, with no requirement that this equates with an adequate/living wage. Only if there is no legal minimum wage would the undertaking apply a recognized living wage benchmark.

Why the Rules Need to Change

The existing ESRS have significant problems:

1. **Using minimum wages below the adequate/living wage:** A disclosure about adequate wages should not include an option to apply legal minimum wages instead.
2. **Discrimination against non-EU employees:** The method discriminates against employees outside the EU, measuring their wages against a lower – often much lower – standard.
3. **Confusing Data:** Using different methods for different employees makes it hard for investors to compare companies' disclosures, since the proportions of companies' employees inside and outside the EU vary considerably.
4. **Misleading Reports:** Many companies that applied the ESRS in 2025 reported that they pay adequate wages outside the EU just because they pay the (low) local minimum wage, demonstrating that the current methodology is not fit-for-purpose.

What's Different in the Revised ESRS?

As drafted (see Annex below), the language in the revised ESRS repeats and adds to the problems with the previous methodology:

- **Continued discrimination:** The proposed disclosure still directs companies to prioritize the use of local legal minimum wages when calculating the gap between lowest wages and

⁴ WageIndicator 2025 - WageIndicator.org - [Minimum Wages higher than Living Wages?](#)

‘adequate’ wages for employees outside the EU, despite the fact that the local legal minimum wage is typically much lower both than a local adequate/living wage as defined under the EU directive, and than a living wage estimate established in line with ILO principles. Internationally-recognized living wage estimates are only to be applied if there is no legal minimum wage in the non-EU country concerned.

- **Wrong reference points:** The disclosure states that the local legal minimum wages used for employees outside of the EU should be set in line with the ILO’s *wage-setting principles*. The ILO’s position states that: “the living wage is...calculated in accordance with the ILO’s principles of estimating the living wage”, while it is “achieved through the wage-setting process in line with ILO principles on wage setting.” This disclosure is concerned with the estimation of living wages and their relationship to actual wages and does not address the wage-setting process. The ILO’s wage-setting principles are therefore not a relevant reference point.
- **Reporting burden:** Companies would themselves be required to determine if legal minimum wages or living wage benchmarks take into account ILO principles. They lack the capability to do so.

What Needs to Happen Now?

During the consultation period of the revised draft ESRS, it will be important that companies, investors, trade unions, civil society and living wage experts call for clear, consistent and viable rules for this disclosure. These rules should focus on measuring actual wages against an adequate/living wage for *every* employee, not only for those who work within the EU. In particular, stakeholders should call for the following:

- For employees outside the EU, allow actual wages to be measured:
 - (A) against the legal minimum wage *only* where this is set in line with the definition of an adequate minimum wage under EU law, or the ILO *principles on estimating living wages*; or
 - (B) against living wage estimates that are set in line with ILO *principles on estimating living wages*.
- Be clear that companies should apply option A if the authorities that set the minimum wage provide public evidence that it is in line with the EU definition of an adequate minimum wage or the ILO principles on estimating living wages; and that absent such evidence companies may apply estimates in line with option B where the organisations responsible for those estimates provide public evidence that they are in line with the ILO principles on estimating living wages.

Annex: language of draft ESRS S1-9, as revised:

The adequate wage benchmark used for comparison with the lowest wage shall not be lower than:

(a) in the EU: the wage level established through collective bargaining or the statutory minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the Council on adequate minimum wages in the EU;

(b) outside of the EU:

i. the wage level established through collective bargaining or the statutory minimum wage established by legislation or collective bargaining agreement, which is periodically reviewed/adjusted every two years and takes into account the ILO wage setting principles;

ii. if an adequate minimum wage does not exist, any living wage estimate produced by an institution mandated by the public authorities of the country where the workers are based and which takes into account the ILO principles on estimating a living wage;

iii. if none of the instruments identified in (i) or (ii) exist, any existing living wage estimate, which takes into account the ILO principles on estimating a living wage.

(AR 73 amended) The adequate wage benchmark used under points (i), (ii) or (iii) should take into account both needs of workers and their families, as well as economic factors, as stated in the ILO Minimum Wage Fixing Convention No.131.