

Technical Note on Adequate Wages in the 2025 ESRS Advice to the European Commission

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Introduction

In March 2025 the European Commission requested EFRAG to deliver technical advice for new, simplified European Sustainability Reporting Standards (ESRS). The advice was [published](#) on 3 December 2025. Ruben Zandvliet, Director for Standards at Shift, is a member of the EFRAG Sustainability Reporting Board. This note explains the background and rationale for the changes made to the disclosure requirement on adequate wages in the *S1 – Own Workforce* standard.

Terminology and definitions

The Corporate Sustainability Reporting Directive (CSRD) and the ESRS use the term ‘adequate wage’. This term stems from the 2022 EU Directive on Adequate Minimum Wages. This latter Directive is grounded in the European Social Charter (ESC) and the European Pillar of Social Rights, which hold that workers have the right to ‘fair remuneration’ and ‘fair wages’, respectively. The ESC, the Pillar and the Directive all refer to the notion that fairness or adequacy is subject to whether the wage provides ‘a decent standard of living’.

At the international level, typically the term ‘living wage’ is used. The 2024 ILO definition of the term holds that a living wage is “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.” The International Covenant on Economic, Social and Cultural Rights (ICESCR) refers to ‘fair wage’ but in the context of supervising compliance with the ICESCR the term ‘living wages’ is used as well.

It can therefore be concluded that the terms ‘fair wage’, ‘adequate wage’ and ‘(adequate) living wage’ are substantially aligned, if not synonymous. This conclusion is also supported by EFRAG, which in its 2023 Basis for Conclusions noted that: “The term ‘adequate wages’ can be seen as synonymous with the terms ‘fair wage’ and ‘living wage’ insofar as all three make reference to the level of income needed to support a minimum standard of living. The right for workers to receive such a fair/adequate/living wage is specified in key human rights instruments.”

This is further attested to in the Corporate Sustainability Due Diligence Directive (CSDDD), which lists “a fair wage and an adequate living wage” as one of rights covered by the Directive, referencing the ICESCR for this purpose.

The current ESRS: misaligned and discriminatory

The current ESRS Delegated Act was [adopted in 2023](#). Disclosure Requirement S1-10 in the Own Workforce standard contains a requirement for companies to disclose in which countries (if any) employees do not earn an adequate wage, as well as the percentage of employees for which this is the case. For this purpose, companies need to compare pay against an adequate/living wage benchmark. The benchmarks companies can use are differentiated between EU and non-EU countries. For the

former, reference is made to the EU Directive on Adequate Minimum Wages. For non-EU countries, companies are expected to use – in hierarchical order:

(b) outside of the EEA:

- i. the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;
- ii. if none of the instruments identified in (i) exist, any national or sub-national minimum wage established by legislation or **collective bargaining**; or
- iii. if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) (*'Roadmap on Living Wages - A Platform to Secure Living Wages in Supply Chains'*), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided the primacy of collective bargaining for the establishment of terms and conditions of employment is ensured.

Due to lack of clarity about the application of the first option, many companies resorted to option two. This led to extensive reporting on compliance with minimum wages, without any guarantee whatsoever that this minimum wage provided for a decent standard of living. As such, the existing ESRS does not provide sufficient safeguards that companies will indeed provide information that investors and other stakeholders need on whether wages enable a decent standard of living for employees.

From a legal perspective, the current ESRS disregard the accepted definitions of the term adequate/living/fair wages from the ESC, the European Pillar of Social Rights, the Adequate Wage Directive, the ILO and ICESCR. They also create an interoperability problem with the CSDDD and impair the ability of CSDDD supervisory authorities to rely on ESRS reporting to help inform compliance.

Furthermore, although differentiated benchmarks for EU and non-EU workers are not inherently problematic, the current ESRS allow use of a much lower standard for non-EU workers. This is because benchmarking in the EU hinges on compliance with the EU Adequate Wage Directive – which is based on the notion of a decent standard of living – whereas reporting on non-EU workers can be based on mere minimum wages. This approach is discriminatory and has a high risk of concealing poverty wages outside the EU as being 'adequate'.

The 2025 EFRAG Advice: aligned and non-discriminatory

The technical advice by EFRAG to the EU Commission on the revised ESRS fixes the above-mentioned problems and is thus substantially aligned with EU and international (human rights) law and the ILO framework. Importantly, it allows companies to use two benchmarks against which to measure wages for non-employees. These are:

- i. the adequate minimum wage established by legislation or collective bargaining which provides a decent standard of living as confirmed by a calculation in line with the ILO principles on estimating a living wage; or
- ii. any living wage estimate, including estimates produced by an institution mandated by the public authorities of the country where the workers are based, which takes into account the ILO principles on estimating a living wage.

The revised S1-9 explicitly references and relies on the ILO's estimation principles which were not available when ESRS Set 1 was adopted, ensuring that any benchmark used to report on adequate

wages for employees outside of the EU in the revised ESRS, either (a) is an adequate statutory minimum/collectively set wage evidenced to meet living wage criteria in line with ILO principles, or (b) is a living-wage estimate that meets ILO estimation principles. This raises the credibility of disclosures and make it possible for investors, workers, and other stakeholders to make meaningful comparisons across companies and geographies.

In addition to addressing these problems of principle with the existing disclosure on adequate wages, amendments in the revised ESRS also address problems of practicality. They make clear that companies can always use living wage benchmarks for calculating whether the wages of employees outside the EU are below a living wage, where these take into account the ILO wage estimation principles. There are already benchmarks available for free that provide this information. Most particularly, WageIndicator provides over 3,000 publicly-available benchmarks, updated regularly, for all relevant countries, and publishes how their methodology reflects the ILO principles. This ensures there is no additional cost or burden on companies in securing the data needed for this disclosure.

Conclusion

The new Disclosure Requirement creates full alignment with EU and international (human rights) law, including the CSDDD. Furthermore, it removes the discriminatory approach between EU and non-EU employees, as the methodology for both categories hinges on a benchmark that is based on ‘a decent standard of living’. It prevents a two-tier system that is unfair to workers, contrary to EU values, and misleading for investors and other stakeholders that rely on companies’ reporting.

The S1-9 Disclosure Requirement should therefore be retained in the final Delegated Act in order to ensure that a disclosure requirement on adequate wages does what it purports to do: allow companies to issue data to users on the extent to which their employees are earning an ‘adequate,’ not ‘minimum,’ wage – also for workers that are employed outside of the EU. Retention of the current language approved by the EFRAG Sustainability Reporting Board (SRB) will therefore enhance legal coherence, comparability, and users’ trust in sustainability disclosures.