

February 2nd, 2024

RE: Survey on (draft) EFRAG IG 1 – Materiality Assessment

The Italian Foundation for Business Reporting (O.I.B.R. Foundation) (<https://www.fondazioneoibr.it/en/>) is an organization dealing with the elaboration and dissemination of guidelines, studies and researches, principles, and standards with a technical and practical orientation in the field of business reporting, non-financial disclosure, sustainability and integrated reporting. For this reason, it acknowledges the importance that EFRAG publishes guidelines on the materiality assessment related to sustainability reporting.

O.I.B.R. Foundation believes that the quality of this version of the implementation guidance has significantly improved compared to the first drafts and can therefore constitute a useful tool for users.

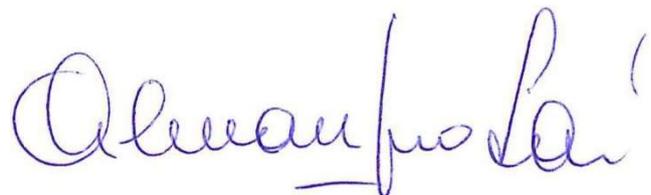
Having said this, the O.I.B.R. Foundation is pleased to provide some comments aimed at further improving the guidance respectfully of its overall structure and objectives. These comments mostly refer to:

- 1) The need to include explicit references to the governance structure and processes related to the materiality assessment;
- 2) The need to include additional examples that could help users better understand how to concretely apply the Guidance and, more generally, the ESRSs;
- 3) The need to better explain, also through examples, how and the extent to which the so-called 'financial materiality' in ESRS and ISSB Standards can lead to aligned results in order to appreciate how interoperability can effectively be achieved in practice.

More detailed comments are also included.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,



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President, O.I.B.R. Foundation

EFRAG Materiality Implementation Guidance – 2.2.2024

Comments to Summary

The O.I.B.R. Foundation suggests EFRAG to rewrite the Summary of the Materiality Implementation Guidance in a more structured way. The use of the term 'material' with reference to a wide range of notions (information, risks and opportunities, matters) since the very first sentences is not helpful (despite this reflects its use in the Delegated Act). In order to support companies in the understanding and implementation of materiality, we would suggest articulating the Summary in a more straight to the point way, for example by using bullet points or simple sentences that can highlight the key notions a preparer should be aware of in approaching this assessment. Please also note other, more general, comments in relation to the language used in the MAIG, included below (under the heading 'Other Comments').

Comments to Chapter 1 “Introduction”

The O.I.B.R. Foundation recognises the need for additional practical examples. Practical examples should cover (a) matters that are impact material; (b) matters that are financially material; (c) matters that are impact material and also financially material; and (d) matters relevant only under an impact perspective and only under a financial perspective. In addition to the examples already provided, EFRAG should also seek to address “smaller” companies operating in the European context. Moreover, EFRAG should also provide practical examples of the processes for determining the materiality of matters, again concerning impact, financial, and double materiality.

To identify useful and consistent examples, EFRAG could engage some organisations that already prepare their non-financial statements according to a double materiality perspective. Although no organisations have already adopted the ESRS standards, many organisations have already applied double materiality, as required (implicitly) by the NFRD.

There are numerous organisations, including members of the O.I.B.R. Foundation, which in recent years have made significant efforts in operationalizing the double materiality approach, also highlighting relevant impacts, risks and opportunities for each matter.

Furthermore, an enhancement in the clarity and effectiveness of Figures 1(b) and 1(c) is recommended. Figure 1(b) contains several diverse arrows, impeding comprehension of the overall message. Simplification of this figure is thus suggested. As for Figure 1(c), there is a risk of confusing the reader: the figure does not necessitate the identification of risks and opportunities arising from matters related to impacts. It is advised to align the figure more closely with the process outlined in paragraph 36 of MAIG.

Comments to Chapter 2

Detailed comments:

- Page 14, green box: “Irrespective of the fact that the matter is material due to its impacts or risks/opportunities, it is only when an undertaking identifies that material risks and/or opportunities exist that the undertaking discloses the financial effects relating to the matter.”. The O.I.B.R. Foundation suggests EFRAG to better explain when a material risk and/or opportunity EXIST.
- Paragraph 39: “...Sustainability-related regulatory developments that address systemic risks may affect the prospects of the undertaking’s business.”. The O.I.B.R. Foundation suggests

EFRAG to avoid using IFRS-related language which is not consistent with the language used in the Delegated Act (eg, 'prospects', 'management commentary').

- Paragraph 50: "...This is relevant for the primary users of general-purpose financial information (i.e., financial materiality focused) and/or for other users whose interest is on the undertaking's impacts (i.e., impact materiality)". The O.I.B.R. Foundation is aware of the distinction between 'affected users' and 'users of sustainability statement' and the possible interaction between the two (ESRS1, para. 23). However, it is not clear why reference cannot be made in this paragraph also to 'affected users'. This strong distinction appears quite theoretical to be stressed also in an implementation guidance.

Comments to Chapter 3 "How the materiality assessment is performed"

OIBR Foundation recognises the need for explicit references to governance involvement into the materiality assessment process. Indeed, ESRS 2 requires reporting on the roles and responsibilities of the governing management and control bodies in relation to IROs (e.g., oversight, goal setting, monitoring, management and control, impact on strategy). MAIG does not cover governance issues, which are key in developing a robust and credible materiality assessment. EFRAG should therefore devote a dedicated space to it.

In this regard, the O.I.B.R. Foundation suggests defining a step "zero" devoted to governance issues. In this step, organisations should be suggested to set up of an adequate governance structure and processes to build, validate, sign off, and use the insights from the materiality assessment. Please refer to the O.I.B.R. Foundation's *"Operationalising materiality. Applied guidelines on how to identify and monitor the evolution of sustainability-related material issues"* for an overview on the setting up of adequate governance structure and processes (the document can be downloaded at <https://www.fondazioneoibr.it/en/guidelines-and-documents/>).

Detailed comments:

- Paragraph 82: "...ESRS 1 chapter 3.4 requires that undertakings apply objective criteria using appropriate quantitative and/or qualitative thresholds to assess the materiality of current and potential impacts.". The O.I.B.R. Foundation suggests EFRAG to substitute the term 'current impacts' with the term 'actual impacts' in line with the language of the Delegated Act. 'Current' is in fact referred to 'financial effects'.
- Paragraph 88: "...Therefore, the undertaking shall go through the list of potential material risks and magnitude and also consider nature for the effects of the identified risks and opportunities.". The O.I.B.R. Foundation suggests EFRAG to clarify what is meant with 'the nature of effects'.
- Paragraph 89: "...As most impacts give rise to financial risks and opportunities, the undertaking generally will assess whether material financial effects derive from the impacts identified (including the outcome of step B)". The O.I.B.R. Foundation suggests EFRAG to substitute the expression 'financial risks and opportunities' with 'risks and opportunities that are financially material'.
- Paragraph 123: "...However, the undertaking shall consider that the time horizon for financial materiality assessment in sustainability reporting is longer than the typical time horizon factored in financial statements and management commentary.". The O.I.B.R. Foundation suggests EFRAG to slightly change the wording with the following one "the undertaking shall consider that the time horizon for financial materiality assessment in sustainability reporting CAN BE longer". In fact, this is not true when for example considering climate-related risks in the financial statements.
- Paragraph 124: "In this context, the materiality assessment cannot be limited to the scope of financial effects that affect (or will affect in the future) items recognised in the financial

statements.”. The O.I.B.R. Foundation suggests clarifying what is meant by ‘the scope of financial effects’, especially in light of the fact that this is an Implementation Guidance and thus, should be practical in nature.

Comments to Chapter 4.2 “Leveraging the ISSB standards”

Detailed comments

- Footnote: The footnote, as reported, is not consistent with what is included in IFRS S1, especially with reference to this sentence “In addition, IFRS S1 requires to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term. Under ESRS 2 SBM-3, the undertaking shall disclose its material impacts, risks and opportunities.”. In fact, IFRS S1 does not require to disclose info about all sustainability-related risks and opportunities etc etc IN ADDITION to material info. According to IFRS S1, material information should be disclosed on those sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term. So firstly, the undertaking should identify those risks and opportunities and then, through the materiality filter, disclose information on those risks and opps.
- Furthermore, always with reference to this footnote, it is not fully clear how it is possible to state that the two materiality filters are equivalent and lead to the same results. As previously mentioned, materiality in IFRS S1 refers to information. Firstly, in ESRS1, financial materiality, refers to sustainability matters and thus topics, sub-topics and sub-sub-topics. Secondly, in ESRS1, reference is made to ‘material influence’ which is not clear and adds confusion to the word ‘materiality’ which is used in relation to many different items (matters, risks and opportunities, information). The O.I.B.R. Foundation suggests EFRAG to possibly include an example on how (financial) materiality in ISSB and in ESRS is aligned and lead to the same result.
- Paragraph 133: “Because the criteria financial materiality in the two frameworks are aligned.”. Framework is not the correct term, they are standards.

Comments to Chapter 5.2 “FAQ 3: Is the material information for financial statements the same as for the sustainability statement?”

Paragraph 154 “No, it is not the same. However, the objective remains the same.”. Information does not have an objective: Thus, we would encourage EFRAG to slightly change the wording.

Comments to Chapter 5.3 “FAQs on the materiality assessment process”

With reference to what pointed out for Chapter 3, OIBR Foundation suggests adding a specific FAQ dedicated to the need to set up an adequate governance structure and processes to build, validate, sign off, and use the insights from the materiality assessment.

Other

Relationship between the concepts of ‘relevance’ and ‘materiality’. The O.I.B.R. Foundation acknowledges that the concepts of ‘relevance’ and ‘materiality’ are used in the Delegated Act and thus, the Materiality Implementation Guidance (MAIG) cannot contradict this. However, the expanded role of the concept of ‘relevance’ in the MAIG, which is aimed to provide practical support to preparers, to determine information that is financially material can result to be highly

confusing and purely theoretical in nature, especially if not supported by examples (see comment on Introduction).

Language. Investors. The O.I.B.R. Foundation suggests EFRAG to substitute throughout the MAIG the term 'investors' with the term 'primary users of general-purpose financial reporting' which is more consistent with the language used in the Delegated Act and also in IFRS Sustainability Disclosure Standards. (see for example paragraphs 50 and 67).

Management Commentary. As previously mentioned (see Comments to Chapter 2), the O.I.B.R. Foundation suggests to replace 'management commentary' with 'management report'. The first is in fact not endorsed in Europe.