**General:**

The Dutch Finance Executive Association (FEA) appreciates the possibility to comment on the draft EFRAG IG 1 Materiality Assessment, reflecting views of nearly 30 sustainability reporting practitioners working at the largest Dutch listed companies.

We welcome this draft MA IG as it provides guidance for implementation of ESRS provisions regarding such a complex and fundamental concept of new Double Materiality Assessment.

Some elements included in the guidance are valuable for practitioners, in particular, the section 3 “How is the materiality assessment performed?”. However, we consider that especially for companies that are new to materiality assessments, and Double Materiality Assessments (DMA) in particular, the document is far too complex and hard to follow. Our general recommendation would be to simplify the MA IG, give a straightforward step-by-step approach (where chapter 3 is a good starting point), carving out very complex and theoretical FAQs.

In addition to the above, we provide below some specific suggestions to further improve the MA IG to ensure it is a comprehensive, practicable and useful tool in applying ESRS:

* **More illustrative examples** would make the guidance easier to follow and apply, in particular for the first-time application. A more logical flow would be to start with the explanation of the background of DMA, followed by the DMA process (as presented in Figure 3), with explanations of requirements per each key process step.
* More focus and **deep dives in the critical building blocks of the DMA** will be helpful, for instance, explanation and examples **on the process of stakeholder engagement**, including the coverage, selection of stakeholders for an unbiased assessment, weighting of stakeholders’ input, potential trade-off in case of conflicting interests, etc.
* The guidance does not clarify a fundamental question on how to apply the concept of double materiality, especially with respect to **criteria for aggregating an undertaking’s impacts, risks and opportunities at a global level**. As this is a starting process for determining the scope and content of the disclosures, it is critical for companies to understand and apply the process in a consistent way. Further, we would expect more **guidance and examples on consolidation principles in materiality assessment** (for example, for groups with multiple industries).
* We would appreciate **more connection between materiality assessment and value chain guidance**, in particular, how far undertakings should go in the value chain when making materiality assessments considering different types of companies.
* Share **more examples** on how the preparers are expected to **measure uncertain sustainability-related financial impacts**.
* **Update of the DMA –** we would expect from the document more clarifications on how the materiality assessment needs to be updated, frequency and depth of revision and conditions leading to an update, which FAQ does not provide.
* There is no clear guidance **on what evidence is required** to substantiate the materiality assessment. That would be helpful for both reporters and assurance providers. Focus on the **undertaking’s strategy** and **substance over form** should remain a priority, not making DMA audit a checkbox exercise. We already notice that auditors lean to a more formalistic approach to the DMA documentation, which is likely to undermine the main purpose of the assessment.
* The guidance does not provide sufficient implementation advice and examples on ESRS 1 paragraph 31 to understand how we should substantiate when and where a specific **Disclosure Requirement can be omitted as assessed not material**.
* Further, we urge EFRAG to consult the **International Sustainability Standards Board** (ISSB) and the **Global Reporting Initiative** (GRI) when developing the final implementation guidance.

We recognise that the guidance is non-authoritative and is limited to providing clarifications and examples to the ESRS. However, as practitioners, we anticipate that the non-authoritative guidance has a high chance to become unofficially binding as a common practice, by being the main reference point for new practitioners, users, and assurance providers. Therefore, all its provisions should be considered to have equal impact on reporting quality as any authoritative guidance.

On a general note, FEA members expressed the need for more robust due process in the development of ESRS standards and guidance documentation. To deliver quality sustainability reporting,further time for implementation and meaningful consultation is necessary. In the case of MAIG and VCIG the public consultation period was short and coincided with the year-end closing process, where we as practitioners could not dedicate all the time to the review such complex topics require.

FEA ESG reporting practitioners remain at your disposal for any further inputs or clarifications.

**Detailed comments**

* **Entity-specific disclosures:** **Summary in 13 points** currently states that undertakings shall report on entity-specific matters identified in the DMA process but does not provide practical guidance on what they should be and how they should be treated. As we currently focus on the available topical standards, the guidance should clarify further what disclosure are expected.
* ***Paragraph 1.*** The guidance is inconsistent in the approach of performing a Double Materiality Assessment: it should start with identifying the sustainability matters or IROs, and it should be clear that the outcome of the Double materiality process is the identification of both the sustainability matters and the IROs.
  + In paragraph 1 it is mentioned that the undertaking should disclose the IROs and material sustainability matters.
  + In paragraph 13 it is mentioned that the undertaking should disclose the IROs, and the identification / disclosure of sustainability matters is not mentioned.
  + In paragraph 95 it is mentioned that the undertaking should start with identifying the sustainability matters and should derive the IROs from there.
* **Paragraph 90.** It may be useful to explain how **the result of risk management process can be integrated in the DMA process**. We see integration of the two processes as a positive synergy.
* **Chapter 3.6** **Deep dive on impact materiality: Setting thresholds**. The chapter includes additional insights into impact characteristics, but does not clarify use of thresholds, nor includes any reference on how those can be set. **Chapter 3.6, paragraph 113.** More explanations and examples on scale, scope, irremediable character, time horizons, more clarity/examples on positive impacts would help readers, being one of the key elements in the assessment. Examples can be collected from the practitioners.
* **Figure 1b and 1c.** The overall idea of a visual presentation is helpful; however, the impact and financial materiality flows are unclear as well as the flows of decisions. Those should be re-worked.
* Some paragraphs are written in a very complex language. For example, the message included in **paragraph 36 (c)** is not clear and does not appear to be value-adding.
* A few typos across the document need to be corrected. Green text box with **paragraph 37** – **typo** in 2nd Alinea – “Most of the materials also give rise …”. We think materials should be material topics.
* Typo in **paragraph 63** – last sentence “.. and from the way they those risks .. “, we think they should be removed.
* **Consistency of FAQ responses**: FAQ responses do not always address the question in a clear and actionable manner (e.g., FAQ 20). For example, the response of FAQ 20 “do the ESRS require disclosure of the severity for material impact and likelihood and magnitude for material risks and opportunities” is that “an appropriate explanation of criteria and thresholds used shall be included “. This is too vague and not helpful.
* **FAQ 2 (paragraph 152 (a))** – “This contradicts ESRS 1 paragraph 56“. We think the author tried to say, “This is in line with ....”
* **FAQ 12 (paragraph 176)** – It would be useful to expand on the topic of evidence and documentation. Practitioners have already seen very significant documentation requests from auditors, and we need to be careful that we do not get lost at the first stage of the reporting journey. We fear for a “form over substance” situation, where auditors just want to check a (very long) list of requirements.
* **FAQ 18 (section 5.5).** An example given on paragraph 197 bullet 3 might be misinterpreted: the example of a material matter uses garment manufacturing industry and indicates that in one country a subsidiary pays under fair wage. The latter is not a trigger for materiality, the materiality trigger should occur before - already with a fact that the undertaking is engaged in a vulnerable industry and in vulnerable countries. The fact of non-compliance is an issue to be reported, but undertakings should not consider a topic material only in case of non-compliance.
* **FAQ 20** – It would be useful to give more guidance on the “expected” disclosures on the DMA process. By giving more guidance on this, we can better manage expectations.
* **Paragraph 219** – Context of this section (examples of avoidance, minimisation, restoration, and compensation) is not explained.
* **Section 5.7 on EU Taxonomy** – we found this section unclear, and the examples did not support the storyline. We suggest improving or removing the section. Most of the companies required to comply with the CSRD do not apply the EU Taxonomy yet. The connection of the materiality assessment to the Taxonomy should hence be better explained, as well as approach for companies not engaged in eligible activities.
* The guidance uses references to **IFRS S1 and SASB** (chapter 4 paragraph 135) as part of sector-specific reporting, which might be excessive, in particular for the new readers since sector-specific standards and scope are not yet formally developed, and there is no obligation for ESRS reporters to use IFRS or SASB at the moment.
* **Financial materiality ISSB compliant**: “an undertaking that applies ESRS is expected to be able to comply … under IFRS” (**page 6 – paragraph 12**). We understand that the IG does not include interoperability interpretations, however, the current wording might be misinterpreted as does not give clarity whether ESRS disclosure is adequate to comply with ISSB requirements and reference is sufficient.