

EFRAG's (draft) IG 1: Materiality assessment IG (MAIG)

Do you have comments on any of the following:

	Yes, I will provide my comments below	No, I do not have comments
Summary	X	
Chapter 1: Introduction		X
Chapter 2: The ESRS approach to materiality	X	
Chapter 3: How is the materiality assessment performed?	X	
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Chapter 5.7: FAQs on Art 8 EU taxonomy	X	

Summary

[Substance- minor change]-par 4: What is the purpose of this sentence, this sentence should be deleted

"Omissions are useful sustainability-related information, supporting the general coherence of the sustainability statement and therefore the fair coverage of sustainability matters."

[Wording- minor change]-par 9: a coma is missing after "financial position"

"Undertakings assess materiality of its risks and opportunities based on appropriate quantitative and/or qualitative thresholds related to anticipated financial effects on performance, financial position, cash flows and access to finance including cost of capital."

Chapter 1- Introduction

No comment

Chapter 2 - The ESRS approach to materiality

[Substance- minor change]-figure 1b) – box "Material risks and opportunities"

Some lowercase policies as for impacts. There is no need for an arrow in this box. Let's keep the same presentation as for material impacts (opposite box).

[Wording- minor change]-figure 1b) – Legend: the dashed arrow is no longer in the scheme and should be deleted

[Substance- minor change]-figure 1c) – Legend is not very clear

[Substance- minor change]-par 36: This paragraph 36 is very theoretical/conceptual (not practical at all) and brings useless complexity on the relationships between impacts and risks. We could delete the words “practical” and “process” in the first line to avoid that undertakings think they need to put such detailed process in place.

“A possible ~~practical~~ perspective in the MA ~~process~~ considering both impact and financial materiality is summarised below (refer to figure 1b) above):”

[Substance- minor change]-Box: Interaction between impact and financial materiality- What do we mean under “materials”? Material matters?

“Most of the material ~~matters~~ also give rise to financial risks and/or opportunities.”

[Substance- minor change]-par 38: This paragraph should be deleted as it is not useful and brings little added value. IG should not become an academic paper on the inter-relationships between impacts and risks.

[Substance- major change]-par 40: While materiality assessment shall reflect both impact and financial materiality perspectives, there is not necessarily a need to perform two separate processes. We could add that for low impact activities, a separate process between impacts and financial materiality is not needed. This would introduce the proportionality principle.

“Impact and financial materiality are two different concepts, but they are inter-related and the interconnections between them shall be considered. This may require judgement (in line with the proportionality principle) when organising the materiality assessment, including separation or not of the two processes or whether there should be common steps.”

[Substance- minor change]-par 48: Group of IROs is not far from topic or subtopic or even matter.

Just to point out that an IRO is a more granular matter or (sub)topic. It usually characterizes the matter or (sub)topic from an impact or risk perspective. We are talking about what can be lost or won in any case. EFRAG has covered the reality with many terms: matters, topics/subtopics, IROs, DRs, Datapoints. Complex but at the end, it is understandable.

Chapter 3 – How is the materiality assessment performed?

[Substance- major change]-par 61: Add a sentence on proportionality at the end of the paragraph 61. EFRAG should provide additional guidance about the proportionality principle

“The ESRS do not mandate how the materiality assessment process shall be designed or conducted by an undertaking. This is because no one process would suit all types of economic activity, organisational structure, location of operations or upstream and downstream value chains of all undertakings applying the ESRS. In particular, the depth of the process and documentation of the materiality assessment as described in this guidance should be adapted to the specific facts and circumstances of the reporting entity and should be proportionate, in particular to its size, impacts and locations. The materiality assessment process should however be sufficiently documented in order to be correctly audited.”

[Wording- minor change]-par 63 – delete “they”

“Finally, there may also be impacts deriving from risks and opportunities and from the way ~~they~~ those risks and opportunities are managed by the undertaking.”

[Wording- minor change]-par 64 – delete “and”

« Step C: Assessment and determination of the material IROs~~and~~ related to sustainability matters; »

“Assessment and determination of material impacts, risks and opportunities related to sustainability matters: a) • Impact materiality assessment; b) • Financial materiality assessment; c) • Consolidation of the outcome of the impact and financial materiality dimensions”

[Wording- minor change]-figure 3: - Box B: replace “material” by “potential”

*“The outcome is the identification of actual and ~~material~~ **potential** impacts, risks and opportunities across sustainability matters”*

[Substance- major change]-figure 3 – box C

As financial and impact materiality are not necessarily two separate processes, we suggest not to use a, b & c but rather bullet points

[Substance- minor change]- par 67

We suggest not to use a, b & c but rather bullets as there is no specific order.

[Substance- major change]-par 72- We should write: “should start from” rather than “use”. We suggest to add a sentence saying: *“**But sustainability matters may be structured differently from AR16.**”* AR16 is seen as a very low-quality list by people with sustainability experience.

*“The undertaking should **start from** ~~use~~ the list of the sustainability matters in ESRS 1 paragraph AR16 to support this process and to ensure completeness”. **But sustainability matters may be structured differently from AR16.***

[Substance- major change]-par 74 - Where does this obligation come from? ESRS 2 Par 4a) requires a brief description of material IROs including where in the value chain they are concentrated. In some cases, IROs relate to different steps in the VC and the time horizons are large. Why do we ask this information for each IRO?

*“For ~~identified~~ material IROs **specifically identified in the ESRS (see VCIG)**, the undertaking shall briefly describe whether it relates to own operations, upstream or downstream value chain and the relevant time horizon per ESRS 1 Chapter 6.4 Definition of short-, medium- and long-term for reporting purposes.”*

[Substance- minor change]-par 76 – ANC strongly suggests to delete this part of the sentence as AR16 is far from being a best structure practice.

“The undertaking may also develop a ‘long’ list of impacts, risks and opportunities relevant to its business model and upstream/downstream value chain ~~and aggregate them following the structure of ESRS 1 paragraph AR 16.~~”

[Substance- major change]-par 78 The names of the matters and IROs remain free and this relationship has not to be published. The sentence should be redrafted.

"It should relate the names it uses (or used before ESRS implementation) for sustainability matters, when these differ from the list in ESRS 1 AR16 to demonstrate completeness to the auditor."

[Substance- major change]-3.3.1 Impact materiality assessment

As stated in §63, we should add here that the *"materiality assessment shall reflect both the impact and financial materiality perspectives, but does not necessarily need to perform two separate and independent processes."* even if this is presented this way in the following 3.3.1 and 3.3.2.

[Substance- minor change]-par 105 – We could add an example of ongoing stakeholders engagement process.

"...as undertakings may already have ongoing engagement with them to use (such as customer or employees satisfaction surveys or dialogue with employees representatives)."

[Substance- major change]-par 106 - Alternatives to direct stakeholder consultation should be considered not only in situations where stakeholder consultation is infeasible, but also when the undertaking opts for alternatives either because other sources of qualitative information can be used or due to cost constraints, choosing instead to leverage existing engagement processes.

The first sentence should be deleted:

~~*"In situations when consultation with stakeholders is not possible (for instance, because such engagement would put them at risk). The undertaking may consider appropriate alternatives to consultation with stakeholders"*~~

[Substance- minor change]-par 107 The verb "to consult" should be deleted. Science is a source for materiality assessment, not for stakeholders' consultation.

"A source ~~to consult~~ for impact materiality is the scientific research; in particular, for environmental matters, where credible scientific reports and other sources may be key to objectively assess the severity and/or likelihood of impacts"

[Substance- major change]-figure 4 and 5 - Replace "and" by "or". Alternatively, delete the full last sentence or "also" that are misleading. The graph is already a possible answer to IRO-1 on threshold as it provides qualitative thresholds for scale, scope, etc. **Low, medium, high are already qualitative threshold.**

"ESRS 2 IRO-1 ~~also~~ requires the undertaking to explain how it determined the materiality of the impact, including the qualitative ~~and or~~ quantitative thresholds used"

[Substance – major change]-section 3.6.2 Potential impacts or FAQ 13. The identification of IROs at the subsidiaries and group levels remains very confusing even with the elements provided in the FAQ13. EFRAG should provide some additional guidance on that point either in this guidance or provide a specific explanation on this topic. Moreover, EFRAG should provide additional guidance about the consultation of subsidiaries about the materiality assessment process. Should the management of subsidiaries be involved in the MA process and the validation of its results?

Chapter 4 – How to leverage other sources?

[Substance- minor change]-4.3 Leveraging international instruments of due diligence

Redundancy between §102 and Chapter 4.3 on due diligence. Couldn't we keep only one and make a cross reference?

Chapter 5.1 – FAQs on impact materiality

[Wording – editorial]-par 150

Numbering issue – Should be FAQ 3 and not FAQ 1

[Wording – editorial]-par 151

Numbering issue – Should be FAQ 4 and not FAQ 2

Chapter 5.2 – FAQs on financial materiality

[Wording – editorial]-par 156

“The differences between information that is likely to be financially ~~materiality~~ **material** for the financial statements and the information that is likely to be financially ~~materiality~~ **material** for the sustainability statement relate to the following aspects:”

[Substance- major change]-par 156 b)

Management commentary covers risks in the value chain as well. This argument is not valid.

[Substance- minor change]-par 158 - Are we talking about sustainability risks & opportunities? If yes, add the word.

“In particular, financial effects that arise from **sustainability** risks and opportunities are to be reported irrespective of their accounting treatment, when they have or could reasonably be expected to have a material influence on the undertaking’s financial position, financial performance and cash flows, over the short-, medium- and long- term.”

Chapter 5.3 – FAQs on the materiality assessment process

[Substance- minor change]-FAQ 11: Adding “impact and financial materiality” should add some clarification

“Should the **impact and financial materiality** IRO dimensions of a sustainability matter be aggregated for the materiality assessment?”

[Substance- major change]-FAQ 13:

EFRAG should add a paragraph on not obscuring the sustainability statements. When operating in different sectors, the most material matters/information should be disclosed. The group MA result is not the pure aggregation of the MA results from all subsidiaries. This FAQ should clarify that materiality assessment for undertakings operating in diverse sectors is not a mere aggregation of all material matters and information from subsidiaries. Instead, it involves hierarchical prioritisation to prevent information obscurity.

Chapter 5.4 – FAQs on stakeholder engagement

[Substance- minor change]-par 186 -The word "materiality" should be added near assessment to clarify which assessment we are talking about.

"The ESRS require disclosure on the **materiality** assessment and its outcomes but do not mandate specific behaviour on stakeholder engagement or the due diligence process."

Chapter 5.5 – FAQs on aggregation/disaggregation

No comments

Chapter 5.6 – FAQs on reporting

[Substance- major change]-FAQ10 (par 168): EFRAG takes a position in favor of quantitative rather than qualitative information, whereas the ESRS do not indicate a preference for quantitative measures. The sentence should be redrafted.

"Even if quantitative information is the most objective evidence of their materiality, qualitative information can be used in the process of materiality assessment".

[Substance- major change]-FAQ 22: This FAQ should stipule that, in the case of **holdings** conglomerates, multiple materiality assessments may be conducted for sector activities, with relevant data collected exclusively for these activities (e.g., Bouygues with Construction, Broadcasting, and Telecom or Wendel Group).

It should also indicate that, if an entity's contribution to a data is deemed insignificant, it can be excluded from the calculation, provided that this insignificance is justified and methodological consistency is maintained over time (e.g., the environmental impact of small tertiary establishments for industrial companies with major environmental impact)

[Substance- major change]-FAQ 23: This FAQ is deemed irrelevant, since impacts are identified before mitigation actions, and metrics are presented after mitigation actions. There is no need to distinguish actual from potential impacts. A requirement for gross impact, mitigation policies and actions, and net metrics is sufficient. Answer to FAQ 23 should be redrafted.

In particular, sentence in par 215

"Therefore, the users of the sustainability statement will receive information on the actual impacts where no distinction is made between gross and net." is not relevant.

the impacts are identified before mitigation actions in any case. Metrics are provided after mitigation actions. There is no reporting on future metrics for potential impacts. The distinction between actual and potential is not relevant here.

[Substance- major change]-par 217 a) The answer should be redrafted since the impact is inherent to the activities, not to the accidents. The accidents consequences will be reflected in the metrics (flow of pollutants). And a specific description of an important accident may also be disclosed.

[Substance- major change]-par 218 – There is no need for all the details and explanations. The gross impact may not be disclosed only when the history has proven the efficiency of mitigation actions and when the impact is considered as solved.

[Substance- major change]-par 219 – The examples provided should be removed since they have nothing to do with FAQ 23

[Substance- minor change]-FAQ 24 – Box Example. « *A hotel has identified the lack of health and safety training as a material impact* »

This sentence should be redrafted. The impact is not the lack of training but the health and safety matter in relation to the activities. The lack of training is a mitigation action that is not implemented

Chapter 5.7 – FAQs on Art. 8 Eu Taxonomy

[Substance- major change]-FAQ 25 - par 224, 225, 226, 227

In this FAQ, materiality assessment should not be tied to technical screening criteria from the EU Taxonomy. From the sentence “the following information can be input to the materiality assessment when identifying IROs ...” to the end of the par 227, text should be deleted. These sentences and paragraphs do not bring any added value to the question. On the contrary they may bring confusion.