**Comments Materiality Assessment Implementation Guidance**

**Please find top general observations of the RJ WG**:

* Although the document gives some guidance on the MA process, we feel that the title does not do justice to what is does. The guidance is very technical, and it provides limited practical support. Companies would expect a more practical guidance and more illustrative examples and details from different sectors, especially for those companies that are new to sustainability reporting.
* Some elements included in the guidance are valuable, in particular section 3 “How is the materiality assessment performed?”. However, we consider that especially for companies that are new to materiality assessments (and more so to Double Materiality Assessments) (DMA), the document is far too complex and hard to follow. Our general recommendation would be to simplify the MAIG, give a straightforward step-by-step approach (where chapter 3 is a good starting point), carving out very complex and theoretical FAQs.
* Question even is if, in the current form and under the current title, the document should be released as the practical value is considered very limited.
* Request for more examples of how the different requirements would work for different companies and sectors would be helpful.
* More visualisation providing clarity on the practical application.
* Furthermore, EFRAG is asked to continue its work with the ISSB also on these guidelines to ensure alignment to the level that the ISSB standards can be applied by internationally operating financial institutions as a global base line for sustainability reporting
* We invite EFRAG to also consider the impacts of the guidance in the assurance process and the quality of the evidence needed to enable auditors to provide the required level of assurance on the Materiality Assessment.
* It is also important to consider that ESRS reporting will advance as stakeholders gain more experience. However, there is value in sharing good real-life practices as these will help other stakeholders advance too. This could be done via EFRAG’s old European Lab, which could be reactivated.

The below sections include a draft response to be included in the EFRAG Survey:

* General comments
* Specific comments to each chapter.

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| **General**  The Dutch Accounting Standards Board (DASB) appreciates the opportunity to express its views on the draft EFRAG IG 1 Materiality Assessment (MA IG).  We welcome implementation guidance on the materiality assessment, as it provides guidance for implementation of ESRS provisions regarding such a complex and fundamental concept of new Double Materiality Assessment. However, based on the feedback received from our constituents, 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 and structure it in a straightforward step-by-step approach.  Generally, we believe that the guidance that stakeholders are looking for consists of different elements:   1. **Educational guidance** on DMA; a more simple explanation of the purpose and objectives of the DMA, the steps to be taken, and the outcome of the DMA and its role as part of the sustainability reporting. The key purpose of such “educational” guidance as part of the IG would be explain in layman terms the key elements of the DMA, which would be more accessible and easier to understand that the ESRS itself which is written as a technical standard (related references to the Standard will be very helpful as part of such guidance, so that the audience can actually understand the link between this guidance and the Standard itself. 2. **Implementation support:** the objective of this part of the guidance should be to help stakeholders, especially first time reporters, how they can actually perform a DMA in practice, which steps they need to go through. This guidance should also help for users to have a clear view at what point “good is good enough”; as we see a risk that some of the guidance only focuses on doing “more”, while ultimately the entire purpose of the DMA is to identify the material topics and focus on those as these are relevant for the users of the sustainability reporting. A very good and helpful example of such support would for example be a list of “expected” material topics by industry (for example similar to the materiality identifier by industry as published by the SASB). This could be a very quick win (especially since the industry sector standards will now take much longer before they are published), still be very clearly non-authorative, but would greatfully help practice. 3. **Illustrative examples:** examples are very helpful for practitioners to better understand the meaning of the DMA, and its application in practice. Such examples could consist of both “real-life” examples as well simplified examples that illustrate a certain part of the DMA process and its outcomes. 4. **FAQs:** the use of FAQs can be very helpful in explaining the key concepts and steps of the DMA. However, at this moment it is somewhat unclear how these FAQs interact with the FAQs resulting from the access point and such FAQs can be kept up to date where necessary. As a result, it would be worthwhile to consider to integrate the FAQs prepared by EFRAG itself into the FAQ database of EFRAG, which will include answers to FAQs raised by stakeholders. Additionally, we believe that the FAQs should be clear and helpful for practice, currently we think that some of the FAQs are difficult to understand or raise more questions; simplifying some of the FAQs (starting with the question actually raised, may be helpful in this respect.   In addition to the above more general comments, we have the following suggestions on how to further improve the MA IG:   * **More illustrative examples** and **visual representations** 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. Although for example Figure 1 c) could be very helpful, we find it quite difficult to understand, especially for a first-time reporter. * We would also expect some **practical suggestions** on **how to select and engage with (affected) stakeholders**, who to collaborate with to do a double materiality assessment for example collaborations in a multistakeholder setting including peers, unions, NGOs, and sector associations.   + Especially non-listed smaller large entities could also to quite some extent rely on sector-based stakeholder dialogue, with the companies dialogue only focusing on very specific company matters * We would welcome suggestions for **tools/guidane that can support companies** with the materiality process and specifically on tools and sources for general risks in certain sectors (especially since for each sector would expect that the material topics would to a very large extent be very similar – see also our more general comments on this topic above). * We would expect more guidance and **examples on consolidation principles** in materiality assessment (for example, for groups with multiple industries), as well as more examples-guidance on how to cluster data within a company that operates in different sectors. * We propose to include more implementation advice and examples on ESRS 1 paragraph 31 to understand **how companies should substantiate the process**. * Next, more guidance is expected on when and where **a specific Disclosure Requirement** can be **omitted as assessed not material** (sub-topic or sub-subtopic). * It would be helpful for both preparers and auditors what level of evidence companies would be expected to provide and would be sufficient for the DMA under the ESRS. Focus on the undertaking’s strategy and substance over form should remain a priority, not making DMA an excessive documentation exercise about items which are actually already clear from the outset about topics which are material or not. Such guidance would also be helpful for auditors to focus their procedures on the substance of the DMA and not merely on the formalities of it. Ultimately the DMA is a means to define the material topics on which the company discloses information, and not a goal by itself (with excessive documentation requirements). * 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. As a result, **we urge EFRAG to consult the International Sustainability Standards Board (ISSB)** and **the Global Reporting Initiative (GRI)** when developing the final implementation guidance to ensure interoperability (or have specific clarity on what would need to be done extra).   DASB remains at your disposal to provide further feedback. |

**Comment on Summary in 13 key points**

* We recommend avoiding introducing abbreviations (MAIG) without writing in full and briefly explain the term.
* **Par. 6:** (observation) assessment seems to explicitly allow for non-sustainability matters to be included in the assessment.
* **Par. 7:** Engagement with (potentially) affected stakeholders instead of 'Engagement with affected stakeholders'.
* **Par. 8:** 'The undertaking assesses the materiality of impacts for reporting purposes against criteria of severity and likelihood. This also includes setting appropriate quantitative and/or qualitative thresholds for reporting purposes. Severity is based on the scale, scope and irremediable character of negative impacts and the scale and scope of positive impacts. Further guidance on these concepts is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.' - Companies are looking for further clarification of what severity and likelihood mean and as the ESRS already refer to these instruments it would be logical to refer to them in the summary. Ideally a link is added.
* **Par. 11:** Suggestion to state that this is true for "impact materiality", so it is clear that additional work is needed for financial materiality.

**Chapter 1. Introduction.**

* **Par. 12**: 'is expected to be able to comply with'. Is this clear enough? Does this mean ESRS disclosure is sufficient to comply with ISSB requirements and reference.

**Chapter 2: The ESRS approach to materiality**

* **Par. 26:** It is advised to put the second sentence ('However, for reporting purposes this prioritization should not include any material IRO's') in a positive way instead of a negative formulation. Our suggestion would be "However, for reporting purposes all material topics should be included, even if the company for prioritization purposes has not addressed or fully addressed these material IROs through its policies, targets and action plans.'
* **Par. 28**: 'should be based upon supportable evidence and rely to the maximum extent possible on objective information': Can examples be given from challenges that may exist? E.g., some steps that will be done based on knowledge of their own business, value chain knowledge from the purchasing department, etc.? This part seems to conflict with the paragraph above, as this seems to limit the room somewhat to base one's impact assessment on more qualitative considerations / inputs.
* **Par. 28**: In paragraph 27 the assessment of thresholds requires the exercise of judgement, from our experience the same goes for assessing impact and financial materiality as both rely in practice more on judgement rather than on objective information/data. Suggestion to rephrase: The materiality assessment should be based upon supportable evidence and rely where possible on objective information, but can also rely on an exercise of judgement, while implementing the impact materiality and financial materiality criteria specified in the ESRS (ESRS 1 chapters 3.4 and 3.5).
* **Par. 30: '**should be consistent with internal and other external reporting': Can an example be added of what is meant with internal and external reporting? What if a company is working on a material topic but has not finalized policies, actions, and targets (PAT) internally and does not feel confident to share externally. Can they just report they do not have it yet, or should they indicate what is the status at the time of reporting?
* **Par. 31:** 'briefly explain the conclusions of its materiality assessment in relation to any omitted topic or topics' in addition: including topics where a phase-in is applied. This is not covered in the IG MA yet.
* **Par 32.** Definitions of Sustainability matters and sustainability information should be included, so the difference is clear in this paragraph.
* Note: mattes is only defined in par 41, this is too late, because the term has already been used multiple times before.
* **Figure 1 b)** The 2nd arrow ' --->' from the legenda is not used in the figure. Suggestion to remove this in the legend or use it in the figure. The top of the image 'IRO universe' uses thick bold arrows in both ways. The legenda states that this arrow has an impact on reporting. Reporting however only becomes a factor in the bottom of the image 'IRO assessment and reporting'. This should be adjusted.
* **Figure 1 c)** To complete the left side of the decision tree: Suggestion to include/reference the exception for Climate Change to the left orange box.
* **Par 38. (c)** This perhaps is not the best example of a 'Social' impact/dependency on human resources. Many might consider this as a more ordinary business risk (your gross salaries are lower than your competitors). Suggestion to include an element of education (i.e., availability of STEM educated people) to make it a better example.

**Comments on Chapter 3:**

* **Par. 48:** "However, the outcome of the materiality assessment (ESRS 2 SBM-3) is to be disclosed at the level of impacts, risks and opportunities (or groups of them)." What is meant with "Groups of them"? How would that work in practice as ESRS standards require disclosure per IRO?
* **Par. 63** as a specific example: We recommend not to double information too much to avoid confusion. For example, the contents of Par. 63 are for the biggest part already discussed in paragraphs 36 & 40.
* **Par. 71**: 'identifies the material IROs' seems to indicate only actual, not potential.
* **Par. 78** states: 'It should relate the names it uses (or used before ESRS implementation) for sustainability matters, when these differ from the list in ESRS 1 AR 16'. Does this mean that any existing naming/descriptions should be changed and altered to match ESRS terminology (if applicable)?
* **Par. 84**: Could another example be added like 'Another example, when there is an established scientific consensus about the severity of state-imposed forced labour in certain countries or regions and industries, for example when governments force citizens to pick cotton or when ethnic minorities are forced to work.
* **Par. 85:** We miss the specific reference of affected stakeholders in the first sentence. As they are crucial for a correct and complete materiality assessment they should be added specifically. Suggestion: 'The purpose of engagement of affected stakeholders including workers and their representatives and other key stakeholders is to help the undertaking understand how they may be impacted.'
* **Par. 90:** "When applicable, the undertaking may compare the material risks and opportunities per the list prepared in step B to the ones used in its risk management process (for example, ERM5 processes)". Suggest making the guidance more directive and replace "may" with "shall" to overcome a potential issue that companies are working with two risk registers, one on sustainability matter and one on other matters that are not linked to one another.
* **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. Readers will benefit greatly from giving more examples on threshold.
* **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 reworked.
* **Par. 115:** 'When setting up thresholds, priority should be given to any supportable evidence that provides as much objectivity as possible to the materiality conclusion.' Not clear how this works in practice. For example, when do you set the thresholds and at what level (in case of a group).

**Chapter 4: How to leverage other sources?**

* We wonder if references to **IFRS S1 and SASB (chapter 4 paragraph 135)** as part of sector-specific reporting, are needed in this document. We fear the key messages get blurred with so many details.

**Comments on FAQs**

* **Chapter 5.1: FAQs on impact materiality**. **Par. 117:** Although Actual impacts are not scored on their likelihood, in order for comparison with Potential impacts multiple companies decided to also score actual impacts on likelihood with a score of 100% or highest possible level. Potential impacts can then be score on the full scale from 0% - 100% or low - high. Suggestion to add this as a guidance element to be able to compare actual and potential impacts on the same categories.
* **Chapter 5.2: FAQs on financial materiality. Par. 149**: 'categorisation of the negative impact' Also for the positive?
* **Chapter 5.3: FAQs on the materiality assessment process. Par. 156:** likely to be financially material instead of 'likely to be financially materiality' (2 times).
* **FAQ 12 (paragraph 176)**. We recommend adding more content to evidence and documentation. Preparers have already seen significant documentation requests from auditors and 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 long list of requirements.
* **Chapter 5.4: FAQs on stakeholder engagement. Par. 156:** We advise to include examples for a, b, c, and d to make it clearer for the users.
* **Chapter 5.5: FAQ 18.** 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.
* **Chapter 5.6**. **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.
* **Chapter 5.7: FAQs on art. 8 EU taxonomy**. In general, there is not much attention for the EU Taxonomy in the guidance, which will also apply for undertakings that shall be CSRD-compliant. Suggestion to add an explanation for users which are less familiar with this regulation. For example, 'The EU Taxonomy is a classification system that clarifies which economic activities can be regarded as environmentally sustainable. Companies that fall within the scope of the CSRD must also report, pursuant to Article 8 of the Taxonomy, on how and to what extent their business activities are aligned with the Taxonomy. Although both the Taxonomy and the CSRD address the same environmental topics, they each take a different approach resulting in different reporting requirements. We also suggest adding an answer to these questions in the FAQ: a. What about the company not engaging in eligible activities, and eligible amounts are low?
* In general, we observed limited consistency of FAQ responses: FAQ responses do not always address the question in a clear and actionable manner (**e.g., FAQ 20**).
* A cross-reference or **FAQ on relation to EU Taxonomy** would be a useful addition since the EU Taxonomy scope is expected to impact the materiality considerations.