



The Chairman

To the kind attention of

1 February 2024

Mr. Hans Buysse
President
EFRAG
Square de Meeûs 35
1000 Brussels

CC:
Mr. Patrick De Cambourg
Sustainability Reporting Board
Chair
35 Square de Meeûs
1000 Brussels

Mrs. Chiara Del Prete
Sustainability Reporting TEG
Chair
35 Square de Meeûs
1000 Brussels

Comments to EFRAG's draft Implementation Guidance IG 1 on Materiality Assessment

Dear Mr. Buysse,

Assirevi is the association of the Italian audit firms. Its members represent the vast majority of the audit firms licensed to audit companies listed on the Italian stock exchange and other public interest entities in Italy, under the supervision of CONSOB (the Italian Commission for listed companies and the stock exchange).

Assirevi promotes and carries out technical research in the field of auditing, assurance and accounting and publishes technical guidelines for the benefit of its members. Assirevi is a founding member of OIC (Organismo Italiano di Contabilità – the Italian accounting standard setter) and collaborates with CONSOB, the Italian accounting profession and other bodies in developing auditing, assurance and accounting standards.

We acknowledge that guidance issued by EFRAG is limited to providing clarifications and illustrations to the European Sustainability Reporting Standards (ESRS) and is non-authoritative in nature, as interpretations are outside of EFRAG's mandate and fall instead under the European Commission's (EC) remit. This caveat informs our comments as summarised in this document (and its attachment).

We welcome EFRAG's efforts to develop guidance on materiality (and value chain) as interpretations of these areas will be critical in supporting consistency and comparability in sustainability reporting. We really appreciate the clarifications of some key elements of the materiality assessment and the description of the steps to help entities design and undertake such a process. However, we believe that there is room to further improve the Materiality Assessment Implementation Guidance (MA IG) to ensure it is comprehensive and can be regarded as a useful tool in applying the ESRS, as better detailed in our comments provided in the attachment to this document.

We welcome the changes made to the final Delegated Acts that are intended to ensure alignment of investor materiality between the ESRS and the ISSB Standards and promote interoperability.

As interoperability with the IFRS Sustainability Disclosure Standards is critically important to many users and preparers, we concur with the view that EFRAG's Implementation Guidance should be aligned to the greatest extent possible with IFRS S1 Application Guidance on financial materiality. To support this, we suggest that EFRAG incorporate some of the application guidance on financial materiality included in appendix B of IFRS S1 General requirements in the MA IG. Differences in application guidance between the two sets of standards could give rise to different interpretations that would undermine interoperability in practice.

In addition, as the ISSB also intends to develop further guidance on materiality, we recommend that EFRAG and the ISSB continue their coordination efforts to ensure alignment between the two sets of standards.

In respect of the ISSB Standards, we believe that the MA IG should also recognise that, for the purpose of assessing financial materiality under the ESRS, where a company identifies sustainability related risks and opportunities and then the material information required to be reported under the IFRS Sustainability Disclosure Standards, this would meet the requirements for financial materiality under the ESRS. We therefore recommend that the words "and vice versa" be added to paragraph 133 to reflect this element of reciprocity.

In addition to the points reported above, we call for clearer examples, for instance on the setting of thresholds for impact and financial materiality and other aspects better detailed in the attachment to this document. We believe that, in the future, more clarifications and examples could be incorporated in the ESRS sector standards, but as they will need more time to be finalized we believe that the inclusion of additional examples in the MA IG would increase the comparability between entities.

We are deeply appreciative of EFRAG's efforts in prioritising the preparation of this guidance, as we realise that application of the standards will be challenging, particularly for the early years of reporting and for those entities that have not previously reported on non-financial matters under the Non-Financial Reporting Directive (NFRD).

With specific reference to the role of auditors and other assurance providers going forward, we acknowledge that the delivery of high-quality assurance services depends on the clarity of the reporting requirements and related guidance, but we are also aware that preparers will need time to collect data and build processes, systems, and internal controls that are needed to support high-quality corporate reporting. As a result, it cannot be ruled out that in this initial phase auditors and other assurance providers may have to issue qualified assurance reports in a number of cases. Clear communication to the markets on the challenges of sustainability reporting may help alleviate market concerns if qualified assurance reports are issued: given the critical role that ESMA and member state regulators will play in this area, we encourage EFRAG to remind the Commission to take appropriate steps in that direction and communicate with them in this respect on a timely basis.

As previously highlighted in our 2023 comment letter on the first set of the ESRS, time appears to be crucial to deliver such guidance as the ESRS have already become effective as of 1 January 2024 for some entities. Following the practical application of new reporting standards over the next few years, further aspects may emerge that require further investigation or requests for clarification to be included directly in the standards when they will be open for revision, or in future versions of this MA IG.

Going forward, the successful implementation and development of additional ESRS and guidance will require a robust due process to give stakeholders sufficient time to express their views. This should include ongoing dialogue with stakeholders to identify issues as well as the development of high-quality guidance by EFRAG.

For a more granular analysis of the topics mentioned above, please refer to the detailed comments included in the attachment to this document.

We would welcome the opportunity to discuss these matters further with you if it would be helpful.

Yours sincerely,



Gianmario Crescentino
Chairman

(Enclosure)

COMMENTS ON EFRAG's DRAFT IMPLEMENTATION GUIDANCE

IG 1 on Materiality Assessment

(December 2023)

Summary

Reference	Description
Paragraph 12	This paragraph states <i>"An undertaking that applies the ESRS is expected to be able to comply with the identification of the sustainability related information on risks and opportunities under IFRS Sustainability Disclosure Standards ..."</i> . It is essential in our view that the MA IG is fully consistent with IFRS S1 to support this statement.

Chapter 2: The ESRS approach to materiality

Reference	Description
Paragraph 35	<p>This paragraph concludes by saying <i>"Material risks and opportunities generally derive from impacts and dependencies"</i>: for consistency with Figure 1b), we suggest adding the phrase <i>"and other risk and opportunity factors"</i>.</p> <p>We recommend including industry-agnostic examples (standalone impact materiality and standalone financial materiality items) under the graph in Figure 1a) to support the undertaking's understanding of such graph. The key explaining the arrows used in the graph in Figure 1b) does not match with how the arrows are used in the Figure 1b) and the graph is not easy to understand.</p> <p>An alternative solution could be to:</p> <p>(1) communicate the message of the graph in a few sentences or in a simplified manner (e.g., Step 1 - Identify Material IROs, Step 2 - Determine what needs to be reported on, etc.). It should be clear that undertakings must firstly determine what are the material IROs/matters to report on, and then determine what information to report. At a minimum, explanatory text in addition to the Figure 1b) to support its purpose should be included, and/or</p> <p>(2) present the materiality assessment performance narrative (such as Steps A, B, C, and D in section 3 of the guidance) clearly and directly within the MA IG in one place (as compared to several narratives throughout the MA IG as this is currently structured).</p>
Paragraphs 37 and 38	The MA IG includes examples of impacts with financial effects, and risks that do not arise from impacts but from an undertaking's dependency on the human and natural resources, while examples of impacts without financial effects are not provided. The only examples can be found in ESRS 1 AR 12, but they solely refer to the impacts arising from the undertaking's business relationships. We recommend that examples of impacts without financial effects be included in the MA IG for a more comprehensive understanding.

Paragraphs 44 and 48	It is stated in Figure 2 that SBM-3 requires the disclosure of material impacts, risks and opportunities and how they interact with an undertaking's strategy and business model and that <i>"An example at a granular level is provided"</i> . However, the subsequent paragraphs do not provide an example of disaggregated information but solely an example of aggregated information. This makes it difficult to identify the appropriate level of disaggregation for which the information is to be provided. Moreover, we believe that more detailed guidance on the operating process to be applied to comply with the requirements of paragraphs 33 and 34 of ESRS 1 would be particularly helpful. The example about the information to be disclosed on a "health and safety" matter in the MA IG is too brief, may be unclear and does not comply with the above-mentioned requirements.
Paragraph 50	This paragraph states <i>"When a matter is material from both an impact and a financial perspective, the information needs of the two groups of users (investors and others) will highly likely be the same in practice"</i> . We do not find this statement to be useful, as it is probable that the information necessary to determine the financial materiality of a sustainability matter is very different from the information required by other users to support their decisions in terms of impact materiality.

Chapter 3: How is the materiality assessment performed?

Reference	Description
Paragraph 71	This paragraph states <i>"In this step, the undertaking identifies the material IROs relating to environmental, social and governance matters across its own operations and in its upstream and downstream value chain"</i> . We recommend removing the word "material" as this is the initial step to identify the list of IROs before establishing their materiality.
Paragraph 72	This paragraph states <i>"The undertaking should use the list of sustainability matters in ESRS 1 paragraph AR16 to support this process and to ensure completeness"</i> . We suggest removing the words "to ensure completeness" from this sentence. The list in AR 16 of ESRS 1 is solely a starting point, as specified on several occasions in the MA IG and, therefore, the objective of ensuring completeness seems too ambitious. In addition, it is unclear what exactly the term "completeness" relates to.

Paragraph 84	More information or examples to explain what is meant by <i>“established scientific consensus”</i> (ministerial reports, scientific papers, other?) should be provided. When <i>“established scientific consensus”</i> is used, given that an analysis of scale, scope and irremediability is not necessary to determine whether an impact is material, guidance should be provided as to how an undertaking should document this in its materiality assessment.
Paragraph 91	The paragraph refers to engagement with investors and other financial counterparts (e.g., banks), specifies the categories of stakeholders to be involved in the financial materiality assessment process and seems to suggest they are the only user categories. However, this appears to contradict paragraphs 108 and 109, which refer to stakeholders <i>“other than investors”</i> .
Paragraph 92	We recommend removing this paragraph. The first part refers to a subsequent phase of the process, which seems unnecessary in this context. On the other hand, the second part refers to something applicable also to impact materiality, which has already been addressed in a footnote at the bottom of page 30 and in paragraph 34.
Paragraph 94	The reference to paragraph <i>“3.7 Deep dive on financial materiality: Setting thresholds”</i> is missing.
Paragraph 95	The paragraph states <i>“Analysis performed at material topic/sub-topic or sub-sub-topic is to be converted to IROs if this has not been done yet”</i> . This sentence is unclear, as the connection between the IROs and the topic/sub-topic or sub-sub-topic is already addressed in paragraphs 75 and 76 of the MA IG. An explanation of the circumstances in which this connection has not already been made in the subsequent phases (i.e., the identification of material IROs) should therefore be provided.
Paragraph 96	This paragraph states <i>“Those in charge of this activity may also validate the aggregated double materiality results with the management to assess and validate the completeness of the list of material IROs”</i> . We recommend strengthening (e.g. <i>“It is recommended that ...”</i> - or <i>“should”</i> instead of <i>“may”</i>) the requirement for an internal validation of the assessment process and the double materiality results, in line with the approach of the standards of the governance bodies with respect to the responsibilities of governance bodies to conduct an analysis of the IROs, as well as with the need for an internal review process that is an integral part of the system of internal controls over sustainability reporting. Moreover, given the responsibilities of the assurance provider under the CSRD, a final validation by a governance body would be needed as an integral part of the assurance process.

Paragraph 97	<p>This paragraph identifies three mandatory disclosures required by ESRS 2, but no examples are provided.</p> <p>Specifically, the “Impact Materiality” specified by the GRI Standards is presented with a table including prioritised positive impacts and another table reflecting prioritised negative impacts. We wonder whether “Double Materiality” should be presented in a single tabular and/or matrix format (including the IROs associated with a specific topic) and/or whether the “Impact Materiality” tables should be presented in combination with the “Financial Materiality” tables.</p>
Paragraph 108	<p>The paragraph states <i>“This is aligned with current practice for the financial reporting materiality processes, where notes to the financial statements and presentations to investors are adjusted regularly to reflect emerging issues and other matters of interest to investors”</i>. This sentence is unclear and does not provide the necessary information for those who perform the materiality assessment for sustainability reporting purposes. In our view the above sentence could be removed.</p>
Paragraph 109	<p>The entire paragraph could be removed as it does not provide any useful operating indications. Actually, it seems to contradict paragraph 91 to which it refers, as already noted in our comment on that paragraph.</p>
Paragraph 122	<p>The factors to be considered when determining financial materiality do not include consideration of the time horizon, which is a key factor for considering financial materiality under the IFRS as it enables discounting the effects on the company's prospective performance.</p> <p>Given that the calculation of financial materiality is based both on quantitative thresholds and the time horizon in which the effects will materialise, we recommend that examples (including in the form of graphs) be included, especially to emphasise the importance of the time aspect when determining materiality.</p>
Paragraphs 125 and 126	<p>Paragraph 125 states that an undertaking should also consider that a sustainability matter may be financially material despite its financial effects not being measurable at the reporting date. In this case, the thresholds will rely on qualitative factors. There are no concrete examples to identify the circumstances referred to in this paragraph. The only example is in paragraph 126, and refers to an undertaking's exposure to reputational risks. In addition, the last sentence of paragraph 125 (<i>“In this case, there is a similarity with financial reporting, where materiality is not confined to quantitative aspects, but a transaction may be material due to its nature, i.e., qualitative approach to materiality”</i>) is unclear, and could be removed in our view.</p>

Chapter 4: How to leverage other sources?

Reference	Description
Paragraph 129	We recommend providing more in-depth information on the differences (if any) between an impact materiality assessment performed in accordance with the GRI and the ESRS. For example, guidance could be provided about how to treat impacts that are mostly regarded as having economic implications under the GRI, given that the ESRS address impacts on people and the environment.

Chapter 5.1: FAQs on impact materiality

Reference	Description
FAQ 1 paragraphs 140-143	We recommend giving greater emphasis to the fact that the assessment of impact materiality is performed by an undertaking's management, who also considers inputs and feedback from stakeholders.
FAQ 2 paragraphs 144-149	FAQ 2 seems to suggest that the undertaking should consider the impacts generated by other entities operating in the same geographical area, even though they do not have a business relationship with the undertaking itself. This seems to be contrary to the requirements in the Delegated Act, which establishes that <i>"impact materiality covers impacts connected with the undertaking's own operations and value chain, including through its products and services, as well as through its business relationships"</i> .
FAQs 3 and 4 (check numbering against the table of contents)	The numbering in the table of contents for FAQ 3: <i>"What are material IROs in the value chain?"</i> and FAQ 4: <i>"Can positive impacts be netted against negative impacts?"</i> does not match the numbers of these FAQs on page 33 of the MA IG (FAQ 3 is shown as "FAQ 1: What are material IROs in the value chain?" and FAQ 4 is shown as "FAQ 2: Can positive impacts be netted against negative impacts?").

Chapter 5.2: FAQs on financial materiality

Reference	Description
FAQs 5 and 6 (check numbering against the table of contents)	The numbering in the table of contents for FAQ 5: <i>"Is the material information for financial statements the same as for the sustainability statement?"</i> and FAQ 6: <i>"Is financial materiality for sustainability reporting limited to effects presented in financial statements?"</i> does not match the numbers of these FAQs on pages 33 and 34 of the MA IG (FAQ 5 is shown as "FAQ 3: Is the material information information for financial statements the same as for the sustainability statement?" and FAQ 6 is shown as "FAQ 4: Is financial materiality for sustainability reporting limited to effects presented in financial statements?").

FAQ 6 paragraphs 157-158	<p>The FAQ <i>“Is financial materiality for sustainability reporting limited to effects presented in financial statements?”</i> highlights the difference between information that is financially material presented in the sustainability statement and that included in the financial statements and the management report. Paragraph 158 includes an example (internally generated intangibles) to show that certain information which can have financial effects and may be included in a sustainability statement may not meet the definition of an asset or a liability and/or the criteria for recognition in the financial statements.</p> <p>We recommend that the guidance provide concrete examples of these situations (in addition to the example mentioned above), which potentially have financial effects over a time horizon that would require presentation in the sustainability statement but are not recognised in the financial statements.</p>
FAQ 7 paragraphs 160-161	<p>As the requirement is to update the materiality assessment once a year, the statement of paragraph 160, which allows to make reference to the conclusions of the previous reporting period, should as a minimum state that formal approval is required from the governance/management bodies of the undertaking as to the inexistence of material changes (reference is also made to our comments on paragraph 96). Furthermore, paragraph 161 appears to contradict paragraph 160.</p>
FAQ 10 paragraphs 168-172	<p>The answer seems to refer more to impact materiality than to financial materiality. Specifically on financial materiality, the FAQ is rather unclear as to the definition of the related thresholds, where it states that greater importance should be given to quantitative and monetary information. We recommend that the answer be integrated with specific considerations about financial materiality (with appropriate examples).</p>

Chapter 5.3: FAQs on the materiality assessment process

Reference	Description
FAQ 12 paragraph 176	The statement should be more specific about the need to prepare sufficient documentation on the double materiality assessment for assurance purposes.

Chapter 5.5: FAQs on aggregation/disaggregation

Reference	Description
FAQ 18 paragraph 196	We believe that disaggregating information for different IROs would be extremely challenging and complex in operating terms, and it would also compromise the comparability of sustainability information.

Chapter 5.6: FAQs on reporting

Reference	Description
FAQ 20 paragraph 205	In our view, reference to assurance providers should be removed, as this guidance is intended for the undertaking.
FAQ 21 paragraph 207	<p>The paragraph states: <i>"Hence, if a matter is material due to its impacts and there are no material risks and opportunities arising from the same matter, information disclosed on metrics may be limited to metrics that are relevant under the impact materiality perspective and the datapoints related to the risks and opportunities or financial effects are omitted."</i></p> <p>As no mapping is provided in the guidance about metrics that are relevant under the impact materiality perspective and the financial materiality perspective, this paragraph could be misleading. The only metrics that clearly refer to the financial impacts are those presented as the last disclosure requirement of the environmental standards.</p>

Chapter 5.7: FAQs on art. 8 EU taxonomy

Reference	Description
FAQ 25 paragraphs 223-227	These paragraphs do not deal with the issue of consistency between taxonomy-related disclosures and other information about material IROs which is more closely intertwined with them (e.g., with respect to environmental matters). As a result, the examples are not particularly helpful for the purposes of the materiality assessment and should in our view be reconsidered or removed.