

To:  
EFRAG

From:  
Maja Engholm Pedersen, Director, Head of Sustainability & Impact

## Feedback Letter: Draft EFRAG IG 1: Materiality assessment implementation guidance

To whom it may concern,

### Feedback letter

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Maja Engholm Pedersen  
Direct phone: +45 4182 0045  
MAP@novo.dk

Novo Holdings A/S  
Tuborg Havnevej 19  
DK-2900 Hellerup  
Denmark

novoholdings.dk  
+45 3527 6500  
VAT no.: 24 25 76 30

### Introduction

In recent years, Denmark has seen a growth in ownership structures that can be described as **'investment holding companies'**.

Investment holding companies are characterised by the fact that ultimate ownership is typically held by either an enterprise foundation or a small group of individuals, usually comprised of one or more families, company founders, or a combination of these. The investment holding company's capital and basic foundation typically started with one underlying main activity, the returns of which have built up a larger capital over time, which the owner company/enterprise foundation, for reasons of diversification and risk management - and in accordance with their business model - has reinvested in other independent companies/activities (more or less related to the original main activity). The result is, in corporate law, a group where one main owner (enterprise foundation or holding company) ultimately controls a number of underlying, but otherwise separate companies and groups (often called "portfolio companies").

This letter represents the views of Novo Holdings, a large investment holding company in Denmark managing the wealth and assets of the Novo Nordisk Foundation. Novo Holdings has worked together with other large investment holding in Denmark to interpret the requirements of the CSRD and ESRS for our specific business model to ensure our undertaking of the DMA identifies our material IROs, links it to our strategy and business model, and that our subsequent reporting is of value to our stakeholders.

Novo Holdings has the following comments to Draft EFRAG IG 1 Materiality assessment implementation guidance, which we believe would provide increased clarity to the requirements of CSRD and the ESRS.

## Background

Investment holding companies differ from traditional holding companies, or conglomerates in several crucial aspects. These differences are evident in their distinct business models and in the exercise of their influence as an owner through their governance models.

Investment holding companies are characterised by:

- A group governed by company law, where one main owner (enterprise foundations or holding company) ultimately, under company law, controls a number of underlying, but otherwise separate, companies and groups (portfolio companies).
- The portfolio companies have their own independent boards, where the investment holding company is represented.
- As an active owner the investment holding companies support the portfolio companies in their goals and development to secure and stimulate the portfolio companies as separate independent entities with their unique characteristics, goals and business models.
- To this end, the investment holding company engages with the portfolio companies with a focus on the companies' strategy, finances and governance.
- The basis for this approach is the arm's length principle, where the investment holding companies respect the obligations, rights and autonomy of the board and possibly interests of other shareholders.

## Comments for Draft EFRAG IG 1: Materiality assessment implementation guidance (MAIG)

- **MAIG Chapter 3.6 Deep dive on impact materiality: Setting thresholds, example §3.6.2:** A more nuanced example would be relevant, considering what would influence changes in material outcomes due to changes in circumstances such as acquisitions i.e. what is material at a standalone company level might not hold the same materiality in a group setting, given, for example, higher thresholds of materiality.
- **MAIG Chapter 5.1 FAQs on impact materiality, i.e. §141:** It is considered useful if the MAIG include descriptions of the boundaries of 'own operations'

in the case of 'portfolio companies' with independent boards and management (i.e. where the investment holding company does not have power to direct). For example, the employees at portfolio company level will not be considered to be employees of the investment holding company.

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- MAIG Chapter 5.3 FAQs on the materiality assessment process, FAQ 13:** Highlights that there is no prescribed process for the materiality assessment as no one process fits all undertakings, including diversified global undertakings i.e. operating in different sectors or countries. The FAQ could further nuance this chapter by emphasising that the IROs identified in the double materiality for diversified global undertakings assessment should ultimately reflect/link to the business model of the parent company.
- MAIG Chapter 5.3 FAQs on the materiality assessment process, FAQ 13:** It is considered valuable to further incorporate examples of 'top down' approaches to conducting the materiality assessment and include explanations of situations (such as investment holding companies) where this would be most useful. It is further deemed relevant if the guidance include more nuances on the balancing of both 'top down' and 'bottom up' approaches to double materiality assessment to best accommodate certain business models.
- MAIG Chapter 5.6 FAQs on reporting, FAQ 22 §212:** Further examples on consolidation and disaggregation is needed, also noting that consolidation is not necessarily equal to the approach of financial consolidation. For example, reporting a gender pay gap ratio as one number by taking the median employee remuneration across several companies in a ratio to the highest paid individual in one of the companies would be meaningless. Here it would need to be reported separately per company in the group to be meaningful.