

This paper provides the technical advice from EFRAG SR TEG to the EFRAG SRB, following EFRAG SR TEG’s public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

MAIG: Feedback and updates
Cover note

Objective

1. The objective of this session is for EFRAG SR to approve the updated MAIG to the SRB for publication, following recommendation and technical advice from the SR TEG on the 11 April 2024 (refer to Appendix 1 for the approved SoD of the SR TEG meeting and approvals)

Background

2. On 20 March 2024, the SRB provided input on strategic direction following the feedback received in the consultation period.
3. On 21 March 2024, the SR TEG the SR TEG was informed about those strategic directions and provided input on how to implement those directions, considering the consultation feedback. The SR TEG approved IG 1 with two dissents on the vote performed (see Appendix).
4. Secretariat followed the strategic decision from the SRB directions with a focus on the following areas:

| Feedback | Secretariat orientation as agreed by SRB and recommendations by the SR TEG |
|--|---|
| Conceptual points | |
| <p>a) MA process: Weighting the results of the subsidiaries materiality assessment at group level for impacts</p> | <p>The orientation was to further develop the principle of unbiased assessment defined in ESRS 1 para 102-104 and consider develop further the concept of significant differences from the subsidiary exemption. The SRB agreed to ask SR TEG for its inputs on the establishment of thresholds at group vs subsidiary level. In addition, SRB also suggested to include examples or illustrations for diverse groups or conglomerates. On 21 March, SR TEG agreed that different methodologies could be needed for the various sustainability matters when performing group materiality assessments with inputs from a wide variety of subs. It also discussed that aggregation was not a solution that would work for social matters, for example; and that the ESRS Delegated Act did not request that aggregation and group thresholds were required for all matters.</p> <p>MAIG References: The newly created section 3.6.3 Considerations for Group and subsidiaries and FAQ 13 <i>Performing the impact materiality assessment when the undertaking operates in different sectors.</i></p> |

| Feedback | Secretariat orientation as agreed by SRB and recommendations by the SR TEG |
|---|--|
| <p>b) Approach to supportable and objective evidence compared to other inputs</p> | <p>SRB orientation was to fine tune the wording within the context of ESRS 1 Qualitative characteristics of information. On 21 March, SR TEG discussed the consensus reached on the topic with ID185 for consistency with the updated drafting.</p> <p>MAIG References: Para 28 and FAQ 10.</p> |
| <p>c) Relationship between the materiality assessment and ESRS 1 par. 114.</p> | <p>SRB orientation was to clarify the architecture of the ESRS approach in the drafting.</p> <p>MAIG References Para 25</p> |
| <p>d) Clarification on the gross vs net impact approach for environmental matters in the materiality assessment</p> | <p>SRB orientation was to clarify and redraft whether and how to take into account the mitigation actions in the materiality assessment, including revision of examples if necessary. Significant edits have been performed following SR TEG discussion, inc changing the title of the question FAQ23. Further work is to be performed on this area with examples.</p> <p>MAIG References FAQ 23</p> |
| <p>Clarifications</p> | |
| <p>e) De facto introduction of a hierarchy of stakeholder engagement that goes beyond set 1.</p> | <p>SRB orientation to perform an editorial clarification on the role of consultation as a type of engagement in the guidance.</p> <p>MAIG References Chapter 3.5, para 108.</p> |
| <p>f) Conflicting views about suggestion that financial materiality is linked to engagement with users</p> | <p>SRB orientation to perform an editorial clarification on the user engagement role within the financial materiality lens.</p> <p>MAIG References Chapter 3.5, para 111 and 112. Also, para 134 for consistency.</p> |
| <p>Scope</p> | |
| <p>g) Governance considerations for the materiality assessment to be included (Chapter 3)</p> | <p>SRB orientation to include a mention to ESRS 2 GOV within Chapter 3.</p> <p>MAIG References Chapter 3.4, new para 99 added.</p> |
| <p>Further guidance</p> | |
| <p>h) Further guidance on value chain, thresholds definition and application, use of judgement in the thresholds (Chapter 3.6 and 3.7)</p> | <p>SRB orientation to be considered in the future workplan and prioritisation.</p> |

| Feedback | Secretariat orientation as agreed by SRB and recommendations by the SR TEG |
|---|--|
| i) Practical examples on the steps of the Materiality assessment (Chapter 3) | SRB orientation to be considered in the future workplan and prioritisation. |
| j) Engagement with stakeholders (i.e. prioritisation, types of engagement.) (Chapter 3.5 and 5.4) | SRB orientation to be considered in the future workplan and prioritisation. |
| Other support/ tools | |
| k) Tools and external sources of guidance in relation to the identification of matters for the materiality assessment (Chapter 4.1) | SRB orientation to include the use of additional sources, provided that the result is aligned with ESRS requirements, emphasis being on those that are interoperable with the ESRS. MAIG References Chapter 4. Sub-chapter 4.4 Leveraging other frameworks or sources created. |

Changes made to this version

5. In addition to the changes summarised in para 2 above, the following have been included, following EFRAG SR TEG recommendations:
 - (a) New examples for positive impacts and the application of the materiality of information have been included in para 37 c) and para 53.
 - (b) The FAQ 25 related to Art 8. Taxonomy has been subject to significant streamlining with the two examples being deleted.
 - (c) Minor clarifications have taken place in FAQ 5, 6, 7 and 21.
 - (d) Minor edits to figure 1(b) and 1(c).

EFRAG SR TEG Advice to EFRAG SRB

6. Voting • Two members dissented: Thomas Schmotz and Klaus Hufschlag. The dissent is justified by: (1) the rejection of their proposals about figures 4 and 5 (see above), (2) the changes introduced on the use of group thresholds and treatment of subsidiaries in the MA: these changes should per the due process trigger a new public consultation, (3) too much emphasis is put on the outcome of taxonomy informing the MA.
7. • The following SR TEG members that attended approved the new [Draft] EFRAG IG 1: MAIG: Belen Varela Nieto, Carlota de Paula Coelho, Chiara del Prete, Christoph Töpfer, Anne Claire Ducrocq, Joahn Dahl, Julian Muller, Maria Mora, Philippe Diaz, Luca Bonaccorsi, Sandra Alter, Signe Andreasen Lysgaard. Written approval prior to the meeting was provided by: Eric Duvaud, Alexandra van Selm, Julia Menacher and Sig Vitols.

Additional new IGs

8. The EFRAG SR TEG suggests to consider new IGs for:
 - (a) Illustration of whether and how evidence of the Art.8 Taxonomy can inform materiality assessment (ref. FAQ 25)
 - (b) Examples of conducting materiality assessment on impacts before mitigation actions (ref. FAQ 23).

Questions for EFRAG SR TEG

- 9. Does the SRB have any other comments on the changes to the MAIG?
- 10. Does SRB approve the publication of the MAIG?
- 11. Does SRB agrees to add to the pipeline of IGs (subject to overall workplan prioritisation) the two new IGs in paragraph 6 above?

Agenda papers

- 12. In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 03-02 – MAIG: the updated document;
 - (b) Agenda paper 03-03 – MAIG compared to version issued for public feedback;

APPENDIX – EFRAG SR TEG DISCUSSION ON 11 APRIL 2024 (APPROVAL)

| | |
|----------------------------------|---|
| Objective: | <ul style="list-style-type: none"> • Approval |
| Discussions and decisions | <ul style="list-style-type: none"> • Members were asked to provide their observations on the revised drafts proposed for approval, focusing on items that would be so significant for them that without a change they would dissent from the approval. The following topics were discussed: <u>FAQ 25 (links with Article 8 Taxonomy).</u> • One member of the TEG expressed apprehension regarding the alignment of Article 8 with the MAIG document, fearing it could create an expectation gap regarding whether the content of FAQ 25 also extends to non-eligible activities. Notably, Article 8 lacks a materiality principle and squarely focuses on economic activities. The member proposed revising the title, removing the rest, and adopting a more generic approach by viewing the taxonomy as illustrative of processes. A member of the EFRAG Secretariat suggested explicitly stating in the text that companies are not obliged to utilize the taxonomy. <p>All members of the TEG reached a consensus to keep the question while including the following paragraph in the main body of the IG: "Although there may be a correlation between the two concepts, Taxonomy eligibility does not set a precedent for materiality within the ESRS context. Disclosing Taxonomy-eligible activities by a company neither mandates firms to deem them as material nor requires them to elucidate their insignificance." Additionally, it should be noted that "Article 8 taxonomy serves as a procedure that can complement the MA alongside other procedures or reporting mechanisms such as due diligence or the ERP." One member proposed to consider a separate implementation guidance on the ESRS/Taxonomy interface,</p> |

| | |
|--|--|
| | <p>which was supported by other members. The secretariat noted this proposal for further consideration.</p> <ul style="list-style-type: none">• Five members indicated that they would dissent from approving the IG if the examples are kept in this FAQ.• <u>Conclusion: consensus on removing the examples, adding a disclaimer in the main body (see above)</u> <p><u>Figures 4 and 5</u></p> <ul style="list-style-type: none">• One member of the TEG expressed concern regarding Figure 4. Specifically, the member suggested adding a line indicating one box as red and two as yellow, with a "no" in the far-right column under the material impact assessment. Another TEG member suggested altering the question depicted in Figure 4 by substituting the word "material" with "severe." The EFRAG Secretariat proposed to add a caveat.• A member of the TEG proposed splitting the severity 5 and likelihood 1 cell in Figure 5 into two colors: orange and red. However, the other members of the TEG disagreed with the suggestion and chose to maintain the figure in its current state as no examples could be found to substantiate the suggested change.• <u>Conclusion: keep figure 4 unchanged, but add the clarification that there is no automatism and a case by case assessment needs to be performed. No changes to figure 5.</u> <p>On page 35, section 1.6, a member of the TEG voiced concern regarding the reference to meaningful aggregation from an environmental perspective.</p> <ul style="list-style-type: none">• <u>Conclusion: substitute "raw materials for circular economy" for "pollution" due to its site-specific nature, while still retaining "emission" as an example.</u>• A member of the TEG raised a concern about how the material topics for large corporations might differ from those of smaller businesses. The EFRAG Secretariat responded, explaining that (1) an impact that is severe in a small company is expected to still be severe in a larger entity – differences may arise in the granularity to present material impacts - and (2) a larger group could have impacts that are material at aggregated level while they are not severe at subsidiary level.• <u>Conclusion: in paragraph 126, change the sentence starting with "however" to be: "In a group, a matter may be assessed as material, as a result of the aggregation of several impacts deriving from different subsidiaries that, if assessed in isolation by each subsidiaries, would not be considered material." In addition, delete the reference to ILO and add: In certain instances, such as when negative fundamental human rights impacts are confined to the</u> |
|--|--|

| | |
|--|---|
| | <p><u>operations of a single subsidiary within a larger corporate group, possibly due to contextual factors, these impacts might still surpass the materiality threshold due to their severity."</u></p> <ul style="list-style-type: none">• One member of the TEG voiced apprehension regarding paragraph 125, citing potential contradiction with paragraph 190. The EFRAG Secretariat concurred, noting that paragraph 190 appears to be more concise.• <u>Conclusion: delete "are assessed using the group thresholds"</u>• One member of the TEG proposed removing the phrase "<i>leverage from this ongoing dialogue</i>" from paragraph 134.• <u>Conclusion: replace ongoing with regular/continuous</u>• Another TEG member expressed two concerns. One pertained to the use of "<i>affected</i>" in reference to affected stakeholders as opposed to other stakeholder groups. The other concern was regarding paragraph 53, specifically the example concerning temporary workers.• <u>Conclusion: The TEG members reached a consensus to:</u><ul style="list-style-type: none">- <u>Exclude "affected" from paragraph 105.</u>- <u>Retain "affected" in paragraphs 86 and 196.</u>- <u>In paragraph 107, incorporate the directive to "refer to AR-8."</u>- <u>Add a new examples for temporary workers.</u>- <u>par. 128: avoid the word "unbiasedly"</u><ul style="list-style-type: none">• One member of the TEG dissented from the proposal to remove the sentence in paragraph 146. All TEG members <u>agreed on the proposal to retain the deleted sentence.</u>• A TEG member raised a concern about Paragraph 63 regarding the example on thresholds. The EFRAG Secretariat suggested removing this information and instead referring to the subsequent example: <u>Paragraph 61 is deemed immaterial if all employees are encompassed by collective bargaining contracts and/or Paragraph 62 is considered immaterial if there are no non-employee workers.</u>• In connection with paragraph 157, concerns were raised by a TEG member regarding the initial sentence. The EFRAG Secretariat concurred with the comment and <u>chose to utilize the term "approach". Moreover, the financial sector example will be deleted to address the inconsistency issue.</u>• <u>Maintain the deleted example in paragraph 229.</u>• <u>Conclusion: add the example of future technologies in paragraph 223 and add "mitigate and remediate"</u> |
|--|---|

| | |
|--------------------|---|
| | <ul style="list-style-type: none"> • <u>Add a new sentence to paragraph 176: The emphasis on objective and quantitative information does not mean to imply that information from affected stakeholders should be disregarded.</u> |
| Voting | <ul style="list-style-type: none"> • Two members dissented Thomas Schmotz and Klaus Hufschlag. The dissent is justified by: (1) the rejection of their proposals about figures 4 and 5 (see above), (2) the changes introduced on the use of group thresholds and treatment of subsidiaries in the MA: these changes should per the due process trigger a new public consultation, (3) too much emphasis is put on the outcome of taxonomy informing the MA. • The following SR TEG members that attended approved the new [Draft] EFRAG IG 1: MAIG : Belen Varela Nieto, Carlota de Paula Coelho, Chiara del Prete, Christoph Töpfer, Anne Claire Ducrocq, Joahn Dahl, Julian Muller, Maria Mora, Philippe Diaz, Luca Bonaccorsi, Sandra Alter, Signe Andreasen Lysgaard. Written approval prior to the meeting was provided by: Eric Duvaud, Alexandra van Selm, Julia Menacher and Sig Vitols. |
| Next steps: | <ul style="list-style-type: none"> • SRB to discuss and approve IG1. • Members recommend to the SRB to work on future IGs on FAQ 23 (approach to assessing impacts and reporting before and after mitigation actions) and FAQ 25 (examples of how EU Taxonomy informs ESRS materiality). |