



FEEDBACK STATEMENT

**EFRAG IG 1**  
Materiality  
Assessment

### **Disclaimer**

This Feedback Statement has been prepared by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft implementation guidance and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its implementation guidance.

The content of this Feedback Statement does not constitute any form of authoritative material, advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG.

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## Introduction

### Objective of this feedback statement

The objective of this Feedback Statement is to describe how the comments received in the public feedback were discussed within EFRAG's governing bodies, the EFRAG SR TEG and EFRAG SRB, and subsequently considered for the final version of the *ESRS IG 1: Materiality Assessment*. This Feedback Statement addresses how EFRAG has implemented the changes following the public's comments and suggestions and the rationale for implementing those changes. In addition, this feedback statement illustrates the main differences between the draft IG 1 and the final version of the IG 1.

### Background

On 22 December 2023, EFRAG published its first three draft ESRS Implementation Guidance documents, with a deadline for public feedback set to 2 February 2024. The documents are non-authoritative and support the implementation of ESRS.

The aim of IG 1 *Materiality Assessment* (MAIG) is to support the implementation activities of preparers and other parties using or analysing ESRS reports with regard to the double materiality assessment (referred to as 'materiality assessment', 'assessment' or 'MA' in this document). As there is no single solution for all undertakings in terms of designing processes and adopting methodologies, the MAIG provides tools and mechanisms for undertakings to comply with the ESRS while taking full account of their specific facts and circumstances. It also includes a number of FAQs that succinctly cover various implementation questions that undertakings may have in relation to the materiality assessment exercise.

### General overview of comments received from respondents

EFRAG received and analysed 104 responses to the online survey and seven general comment letters from respondents. These comment letters are available on EFRAG's [website](#). For more details on the detailed public feedback, please refer to [Paper 06-03](#) of the EFRAG SRB meeting on 20 March 2024.

The responses and comment letters received came from national standard-setters, business associations, NGOs, preparers, users and assurance providers.

The following points summarise the main comments and suggestions collected from the respondents' feedback:

- necessity to further clarify the weight of the results of the subsidiaries' materiality assessment at a group level, including the use of a unified threshold at a group level
- approach to supportable and objective evidence
- linking materiality assessment to ESRS 1 paragraph 114
- gross and net impacts for environmental matters
- clarification of the role of stakeholder engagement within the financial materiality process
- inclusion of governance requirements from ESRS 2 GOV disclosures in relation to the materiality assessment
- use of additional sources for the materiality assessment
- further guidance and illustrations to be included.

## Feedback statement – EFRAG IG 1: Materiality Assessment

Overall, the respondents provided valuable and detailed comments on the various sections of the draft Implementation Guidance and the FAQs. Further guidance was requested on specific areas, such as threshold definitions, or examples of the objective criteria to be used in the materiality assessment exercise.

The final MAIG considered and implemented all appropriate editorial changes and suggestions from the public consultation that enhanced the readability and understandability of the document, including the comments that referred to the provided visuals and examples in green boxes. These changes are not addressed in this document.

### EFRAG's final Implementation Guidance

Following the discussions in the EFRAG SR TEG and SRB meetings, the EFRAG Secretariat amended *EFRAG IG 1: Materiality Assessment*. The main changes can be summarised as follows:

- new section included for impact materiality: Section 3.6.3 *Considerations for groups and subsidiaries*. This section is developed under the principle of unbiased assessment, and it covers the subsidiary exemption
- clarification of the concept of objective and supportable evidence. This is aligned with the qualitative characteristics of information
- clarification of the architecture of the ESRS in drafting non-ESRS sustainability information that could be included in the sustainability statement

- clarification of the role of mitigation, remediation and prevention actions in the impacts to be considered for the materiality assessment
- addition of specific references to governance disclosures that stem from ESRS 2 GOV-2 and that relate to the materiality assessment
- inclusion of additional sources that could serve as an input to the materiality assessment
- other miscellaneous amendments from feedback received.

In addition, it was acknowledged that further examples of material impacts, risks and opportunities and detailed illustrations of the various steps of the materiality assessment could be included in a future iteration of this implementation guidance. Further research is required, and it will be considered in the future workplan subject to prioritisation.

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## Development of the principle of unbiased assessment

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### *Respondents' comments*

Several respondents recommended EFRAG to clarify whether a matter that is assessed as material from an impact perspective at a subsidiary level would also automatically be considered material at a higher consolidated group level.

It was also noted that the illustrative example within the green box in Chapter 3.6.2 on page 31 lacks clarity regarding the effect on group materiality.

### *EFRAG's final position and decision*

A new section was added to Chapter 3.6 to reflect the matter of unbiased assessment and to further consider the concept of significant differences from the subsidiary exemption. The section included the principle following the ESRS Delegated Act provision on this matter in practical terms (i.e., a coordinated approach to Materiality Assessment at a group level while pursuing an unbiased identification of impacts). The EFRAG SRB and EFRAG SR TEG added the concept of conglomerates and investment groups in this section and further developed the concept of application of thresholds for group materiality with some examples. Such examples distinguished between the matters that could be aggregated at a group level (for example, pollution) from those where aggregation was not suited (for example, violation of human rights).

Regarding the relevant illustrative example, it was highlighted that the extent to which the subsidiary impact will be an input at the group level materiality would depend on the interplay of the subsidiary impact with the group. The revised draft was linked with ESRS 1 paragraphs 102, 103 and 104.

### *Reference in the final IG 1*

Page 32, newly added Section 3.6.3 *Considerations for groups and subsidiaries*; page 46, FAQ 13 *Performing the impact materiality assessment when the undertaking operates in different sectors*.

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## Qualitative characteristics of information

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### *Respondents' comments*

Regarding evidence to inform the materiality assessment, respondents noted that the ESRS do not explicitly indicate a preference between qualitative and quantitative information (refer to FAQ 10).

### *EFRAG's final position and decision*

The wording of this section was fine-tuned within the context of ESRS 1 *Qualitative characteristics of information*.

### *Reference in the final IG 1*

Page 9, paragraph 28; page 44, FAQ 10 *Should the assessment of IROs rely on quantitative information?*

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## Clarification of the architecture of the ESRS

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### *Respondents' comments*

Several respondents raised concerns on the potential contradiction between paragraph 25 and ESRS 1 paragraph 114.

Clarification was also requested as to whether immaterial information can also be disclosed in the sustainability statement.

### *EFRAG's final position and decision*

EFRAG provided clarification on the wording. An explanation regarding the application of ESRS 1 paragraph 114 stating the possibility of adding other sustainability information was developed.

### *Reference in the final IG 1*

Page 9, paragraph 25.



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## Mitigation actions in the materiality assessment

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### *Respondents' comments*

The public consultation revealed that there was a need to better define the concepts and scope of gross and net impacts as well as to clarify whether FAQ 23 is also applicable to risks and opportunities.

Respondents proposed to consider mitigation actions for potential impacts along with the need to address the interplay with existing regulation related to mitigation. Concerns on a potential contradiction between paragraph 228 and paragraph 231 were raised.

Clarification was also requested on the potential conflict between paragraph 228 and paragraph 230 regarding actual impacts.

### *EFRAG's final position and decision*

EFRAG clarified the extent to which mitigation actions may be considered in the materiality assessment and amended the examples. The question was reformulated, and the terms gross and net were replaced by pre-mitigation, remediation or prevention actions.

### *Reference in the final IG 1*

Page 54, FAQ 23 *Are remediation and mitigation actions considered in the material assessment for environmental impacts?*

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## Specific reference to governance considerations

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### *Respondents' comments*

Respondents suggested enhancing the materiality assessment process by including the role of management and governance in the validation of the analysis.

### *EFRAG's final position and decision*

A specific reference to ESRS 2 GOV was added in the materiality assessment process in Chapter 3.

While EFRAG recognises the importance of including management in the validation of the analysis, no further changes were implemented with regard to the management dimension.

### *Reference in the final IG 1*

Page 24, Section 3.3 *Step C. Assessment and determination of material IROs related to sustainability matters*; page 26, newly added paragraph 100, Section 3.4 *Step D. Reporting*.

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## Inclusion of relevant sources

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### *Respondents' comments*

For the materiality assessment, it was suggested to include other tools and external sources for guidance in relation to the identification of matters.

### *EFRAG's final position and decision*

EFRAG clarified that it is possible to use additional sources as inputs provided that the result is aligned with the ESRS requirements. An emphasis is put on those sources that are interoperable with the ESRS.

### *Reference in the final IG 1*

Page 35, Section 4.1 *Leveraging the GRI standards*; page 38, Section 4.4 *Leveraging other frameworks or sources created*.

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## Other miscellaneous amendments

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### *Respondents' comments*

Respondents proposed the introduction *de facto* of a hierarchy of stakeholder engagement going beyond Set 1.

Conflicting views were shared regarding the suggestion that financial materiality is linked to engagement with users (refer to paragraph 112).

Further guidance was also requested on value chain along with a clearer definition and application of thresholds as well as the use of judgment in setting them. Engagement with stakeholders on prioritisation, among other types of engagement, is deemed to lack clarity (refer to sections 3.5 and 5.4). Respondents asked for additional practical examples on the steps to be followed in the materiality assessment.

### *EFRAG's final position and decision*

EFRAG provided editorial clarification on the role of consultation in the guidance as well as on the role of user engagement through the financial materiality lens. FAQ 25 related to Art. 8 *Taxonomy* was significantly streamlined, and two examples were removed. The EFRAG SR TEG recommended the SRB to conduct further research in the future in this area. EFRAG will consider issuing specific implementation guidance or educational material on this, with possible input from the Platform on Sustainable Finance. Minor clarifications have been added to FAQ 5, FAQ 6, FAQ 7 and FAQ 21. Minor edits have also been made to figures 1(b), 1(c), 3 and 4.

### *Reference in the final IG 1*

Page 28, paragraphs 108, 111 and 112 of Section 3.5 *Role and approach to stakeholders in the materiality assessment process*;

page 29, figure 4 and Section 3.6 *Deep dive into impact materiality – Setting thresholds*;

page 34, paragraph 134 of Section 3.7 *Deep dive into financial materiality – Setting thresholds* (consistent with Section 3.5 Amendments);

page 47, Section 5.4 *FAQ on stakeholder engagement: impact materiality*;

page 14, paragraph 37, paragraph 54, figures 1(b) and (c) in Section 2.1 *Implementing the concept of double materiality*; and

page 56, FAQ 25 *What is the relationship between taxonomy eligible activities and materiality?*