

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SRB. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, 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.

## Approach to materiality

### Background

- 1 On the 15 August 2022 EFRAG SRB discussed the approach to materiality in sector agnostic ESRS, which is relevant for the finalization of the 13 EDs in Set 1. **Agenda Paper 07.03** is the supporting material prepared for the SRB discussion on the 15 August (for background reading only). The SRB requested that the SR TEG discusses:
  - (a) a combination of the Approaches 3 and 4 described in Agenda Paper 06.02, as a possible way forward;
  - (b) whether the public consultation outcome suggests that views against the rebuttable presumption are justified by a rejection of the underlying concept of by the burden associated to the 'explicit' approach;
  - (c) advantages and disadvantages of the explicit and implicit approach to the rebuttable presumption, to support a future decision on this aspect.
- 2 In the meeting on the 24 August 2022, EFRAG SR TEG discussed points (a) and (b) above. **Agenda Paper 07.04** (for background reading only) summarises the material considered in that discussion and the main observations by EFRAG SR TEG members. In the meeting SR TEG members noted that, in order to progress in the discussion, it would have been helpful to consider concrete examples of implicit and explicit approaches.
- 3 In the meeting on the 2 September the EFRAG SRB noted the outcome of the EFRAG SR TEG discussion on the 24 August 2022. EFRAG SRB members focused on the possibility to develop a 'light explicit' approach and to use a visual presentation (a sort of 'content index') of the items that have been omitted and they asked the SR TEG to consider how to implement this proposal.
- 4 In the meeting of the 6 September 2022 the EFRAG SR TEG discussed the 'light explicit approach'. **Agenda Paper 07.02** is the paper discussed by the EFRAG SR TEG in that meeting.

### Objectives of this session

- 5 On the basis of the EFRAG SRB and EFRAG SR TEG discussions so far, the objective of this meeting is to agree on a possible materiality approach to be implemented in the final standards.

### SR TEG discussion on the light explicit approach and the visual presentation

- 6 **Agenda Paper 07.02** is the paper discussed by EFRAG SR TEG in the meeting on the 6 September.

*Agenda Paper 07-01 SRB 12 September 2022  
– Approach to materiality*

- 7 EFRAG SR TEG members discussed the value added by a content index that would allow to visualize the omitted items more easily (as considered in the Appendices to paper 07.02). 17 members participated to the discussion<sup>1</sup>.
- 8 The majority of the members that expressed an opinion, considered necessary, next to the list of omitted items (along the lines of Appendix 2 of Agenda Paper 07.02), to require a justification when an entire topic (ESRS) has been considered not material. The following comments were made:
- (a) Some considered that the omitted DR are visible anyhow, also in absence of a content index, as they cannot be found in the report. In a digital environment this will be even easier, so there is not a real need for a content index. Others had the opposite opinion and made the following individual comments:
- (i) The information provided by the most granular approach (Appendix 4 of Agenda Paper 07.02) would be very informative for civil society organizations.
  - (ii) The GRI content index was a very powerful and appreciated tool for users, so ESRS should contemplate a table where all the DRs are listed with the number of page where they are covered and the indication of those that have been omitted as not-material; this would facilitate users that are interested to a very specific aspect and do not have to read all the document.
  - (iii) ESRS should have a list of possible justifications for omissions like GRI (not applicable, data not available, confidentiality risk, legal risk) and this should be illustrated in a tabular form.
- (b) While it is acceptable to have an implicit approach when a DR or group of DRs related to a specific aspect of an ESRS is omitted, it would be essential to keep the requirement to disclose the reasons for omitting an entire ESRS, when an entire topic is omitted, and the example in GRI GRI3-Material topics 2021 (see Agenda Paper 07.02) was a good example. If we limit this requirement to when an entire ESRS has been omitted, this would not create the risk to overload the reports (only few sentences) and would not create overload for the preparers (as the evidence to omit an entire topic should be available as a result of the materiality assessment anyway).
- (c) It is difficult to express an opinion on the light explicit approach without knowing how the general approach to materiality will look like, for example:
- (i) A light approach has to be considered in the context of developing an approach that combines a list of mandatory items and in conjunction with the scope of the materiality assessment (as opposed to the scope of the list of material items). For example, those that consider that most of the DR in ESRS S1 should be mandatory consider essential to disclose a justification at level of DR or datapoints, if such DR were to be subject to the materiality assessment instead than being made mandatory.
  - (ii) Once the standard setter has performed an appropriate materiality assessment and identified what is to be mandatory, there should be few items in the scope of the undertaking's materiality assessment and, as such, the question whether justifications should be reported becomes much less important.
- (d) If explanations are not provided when a group of DRs related to a specific aspect of an ESRS is omitted, an information that is important for users could be omitted. For

---

<sup>1</sup> At the time of preparing this paper the SoD of this meeting has not been yet approved.

example, if an undertaking has only female employees, gender pay gap is not an issue, so one could say that gender pay gap is not 'material' for the undertaking, however knowing that it is not an issue is a material information for users.

- (e) To provide a justification of why a topic is not material is an essential part of the stakeholders' dialogue; also without imposing a disclosure of the justifications, ESRS should acknowledge this circumstance.

### **Proposed way forward**

9 The EFRAG secretariat proposes to consider an approach that:

- (a) combines a list of mandatory disclosure requirements (DRs) with a list of DRs that are subject to materiality assessment by the undertaking;
- (b) replaces the rebuttable presumption with an assessment of the items in the list of DRs that are subject to materiality assessment in each ESRS;
- (c) allows the assessment to be performed at different levels, with the same granularity for the rebuttable presumption in ESRS 1 (from the more granular to the less granular: at level of individual datapoints in a DR, at DR level, for a group of DR that relates to a specific aspect of a topic covered in the ESRS or at ESRS level);
- (d) requires to disclose the reasons for omissions only at ESRS level, e.g. when the entire list of mandatory items in a ESRS is omitted as the topic (e.g. Pollution) is considered not material;
- (e) adopts an implicit approach when the assessment/omission is made at a granularity level below ESRS level;
- (f) requires to report the list of ESRS omitted, when the topic is assessed to be not material, and the group of DR omitted that relate to a specific aspect of a topic, when the specific aspect is assessed to be not material;
- (g) specifies that below the level of ESRS and groups of DR when DR or individual datapoints are omitted, they are considered implicitly disclosed as not material;
- (h) considers mandating a standard format for the list of omitted items, along the lines of Appendix 2 of Agenda Paper 07.02 (Content Index).

- 10 Paragraphs 57, 58 and 59 of ESRS 1 would be replaced by the following text. Paragraph 60 would be adjusted to reflect the revised content of 57/59 and paragraph 61 and 62 would be deleted.

*57. Sector agnostic ESRS set requirements for all undertakings reflecting double materiality. They provide for:*

- a) a list of mandatory items disclosure requirements; and*
- b) a list of disclosure requirements that are subject to the undertaking's materiality assessment.*

*The undertaking will have to assess for materiality all the disclosure requirements in the list b) above, considering its specific facts and circumstances and the outcome of its assessment process. Based on reasonable and supportable evidence that confirms that an item in the list b) is not material for the undertaking, the undertaking will omit that item.*

*58. An undertaking may assess:*

- a) that a specific aspect of a sustainability topic covered in a ESRS is not material and, as a consequence, omit the group of disclosure requirements related to that specific aspect in the list b) of paragraph 57;*
- b) that a sustainability topic is not material and, as a consequence, omit all the disclosure requirements in the list b) of paragraph 57 that are subject to the*

*Agenda Paper 07-01 SRB 12 September 2022  
– Approach to materiality*

*undertaking's materiality assessment (list b above) in a specific ESRS. In this case, the undertaking shall disclose the reasons why that sustainability topic is assessed to be not material.*

*The undertaking shall disclose the ESRS(s) and group(s) of disclosure requirements related to a specific aspect of a sustainability topic covered in a ESRS for which the items in the list b) of paragraph 57 have been omitted, as the topic or the specific aspect have been assessed to be not material. [The undertaking shall use the content index provided in Appendix D to ESRS 1 for this purpose].*

*59. When an undertaking omits an individual disclosure requirement, or an individual datapoint in a disclosure requirement of a topical standard that is below materiality criteria / thresholds (see paragraph 43), such individual disclosure requirement or individual datapoint is considered implicitly disclosed as 'not material for the undertaking'.*

**Questions to the EFRAG SRB**

- 11 Do you agree with the proposed approach?
- 12 Do you have any additional suggestions for the re-drafting?