

Materiality Assessment Implementation Guidance

Cover Note

Objective

1. The objective of the session is to update the SR TEG on the enhancements performed on the Materiality Assessment Implementation Guidance (MA IG) and on the outcome of the SRB discussion on 23 August and discuss the new additional FAQs that have been added to the guidance.

Background

2. In March 2023, Commissioner McGuinness publicly called on EFRAG to prioritise implementation guidance on the first set of ESRS over the preparatory work for the draft sector-specific standards. EFRAG therefore adjusted its workplan accordingly and allocated resources for the task.
3. The EFRAG SRB concluded based on its members interactions with constituents that the highest priority is implementation guidance on the materiality assessment as well as value chain information.
4. In the Explanatory Memorandum to the delegated act issued in July 2023, the EC notes that *The Commission is putting in place an interpretation mechanism to provide formal interpretation of the standards. The Commission has also asked EFRAG to publish additional guidance and educational material, addressing the materiality assessment process and other issues.*
5. In the Q&A document that accompanies the delegated act, the EC notes that: *EFRAG will periodically publish additional non-binding technical guidance on the application of ESRS. ...The Commission has suggested that EFRAG prioritises the development of guidance on materiality assessment and on reporting with regard to value chains. EFRAG expects to publish draft guidance on these two issues for public consultation in the near future.*
6. The EFRAG Secretariat with support of individual SR TEG and SRB members prepared initial drafts that were subject to discussion in EFRAG SR TEG and SRB drafting sessions in May-July 2023.
7. In the second half of July until mid-August, the EFRAG Secretariat adjusted the draft to address EFRAG SRB comments on its content, reorganizing its structure and working on editorial enhancements. In addition, a number of FAQs were drafted and added to the updated version (refer to paragraph 9 below).
8. In relation to the reorganisation of its content following the SRB feedback received, the structure of the guidance has been revised as follows:
 1. Objective
 2. What is the double materiality assessment?
 3. Materiality assessment - why is it needed?
 4. Materiality assessment - how is it performed?
 5. Materiality assessment - how to leverage other sources?
 6. Frequently asked questions (FAQs)



9. The new FAQs drafted by EFRAG Secretariat have been summarised below:

Section 6 FAQs
FAQ 10: How to consider time horizon in the double materiality analysis?
FAQ 11: Should the assessment of impacts, risks and opportunities rely on quantitative information?
FAQ 22: Do ESRS require to disclose severity, scale, scope and irremediable character of material impacts?
FAQ 23: If a matter is material from the financial (or impact) perspective only, shall disclosures cover all the requirements, or only information about financial (or impact) materiality?
FAQ 24: Is a group active in different sectors required to include data for the entire group in the metrics or only data for the entities/sectors of the group related to material impact, risk or opportunity?
FAQ 25: When an undertaking has already put in place actions to avoid, minimise, mitigate or rehabilitate impacts, shall it nevertheless report on the impacts before those actions?
FAQ 27: Is there a recommended format or matrix to graphically present the material matters?
FAQ 28: What is the relationship between taxonomy eligible activities and impact materiality?
FAQ 29: What is the relationship between taxonomy eligible activities and financial materiality?

SRB of 23 August 2023

10. At its meeting of 23 August 2023, the EFRAG SRB discussed the following points:

- a. Overall satisfaction on the enhancement performed on structure of the guidance and streamlining; and some members noted that further simplifications could be achieved in the following iteration of the guidance.
- b. A proposal was received by a SRB member on splitting the MA IG in two parts which would be, on the one hand, section 1-5 and then the FAQs.
- c. Linkage between the sustainable finance activities, mainly Art 8 Taxonomy, and the materiality assessment (the two new FAQ respond to this request)
- d. Further clarification of the different concepts such as topics, matters and IROs.
- e. Perceived emphasis on the principle of omission of information rather than the inclusion of material information.
- f. Stakeholder engagement being centralised in the narrative sections rather than across a number of paragraphs.



- g. Emphasis on the GRI materiality process.
11. The EFRAG Secretariat is currently reviewing the feedback received on the 23 August 2023 MA IG version shared and discussed with the SRB and the following iteration will include such comments. Therefore, the version presented to the SR TEG has not changed since the 23 August SRB meeting. The SRB members and observers have been asked to provide comments on substance by the 31 August and editorial comments by the 6 September.

Important information

12. EFRAG can only issue non-authoritative guidance in its role as technical advisor to the EC.
13. Furthermore, while drafting guidance, EFRAG cannot develop concepts or requirements that go beyond the content of the July 2023 delegated act. The guidance aims to illustrate the delegated act but not go beyond it. For new provisions, separate standard-setting activities in accordance with that process has to be concluded.
14. EFRAG is also establishing a process to answer questions from constituents similar to the IFRIC decisions under the IFRS framework.

Next steps

15. The EFRAG Secretariat will update the document for SR TEG's feedback as well as comments received from SRB members and then subject to SR TEG's recommendation revert to the SRB for its approval.

Additional agenda papers

16. In addition to this paper, this session has the following agenda papers:
- a. Agenda paper 04-02 *MA IG* (Draft submitted to SRB for 23 August meeting with FAQ 28 and 29 added a posteriori);

Questions for EFRAG SR TEG members

17. Does EFRAG SR TEG have any comments on the new FAQs detailed in paragraph 9 above? Please explain.
18. Specifically for FAQ 28 and 29, the EFRAG Secretariat proposes in this document a drafting where taxonomy-aligned activities are assumed to have an impact and the undertaking should further assess such impact for materiality, i.e. there is no automatic conclusion that a topic is material when the undertaking has taxonomy-aligned activities related to the specific environmental objective. Do EFRAG TEG members agree with this approach? Please explain.
19. Any further comments or suggestions?

