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Feedback on MA IG

Issues paper

Objective

1. The objective of this session is to obtain inputs from SR TEG about feedback received from SRB and SR TEG members on the MA IG draft (version uploaded for the SRB on 23 August 2023). The intention is to agree the wording for certain topics before amending the guidance.

How selected key comments have been addressed

2. The following key comments have been analysed:
 - a) Assessment of materiality of information - *for information only*
 - b) Role and approach to stakeholders in the materiality assessment process – *for discussion in this meeting*
 - c) Proportionality – *for discussion in this meeting*

a) Assessment of materiality of information – **FOR INFORMATION**

The table below summarises the feedback received together with the secretariat's analysis and response.



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Section	Feedback received	Secretariat analysis and proposal
<p>Summary in 12 points</p>	<p>To clarify the interoperability with the ISSB on the materiality of information concept</p>	<p>Redrafting of the text below to enhance interoperability in para 1 that needs to be read in conjunction with para 3:</p> <p>Para 1 “...<i>The materiality assessment is the process by which the undertaking determines material information on sustainability impacts, risks and opportunities. This is achieved by the determination of material matters and material information to be reported in the undertaking’s sustainability statement.</i>”</p> <p>Para 3 “<i>Once an impact, risk or opportunity related to a sustainability matter has been identified as material, the undertaking (a) refers to the requirements in the related ESRS to identify the relevant information to be considered for disclosure on the matter.</i>”</p>
<p>Section 4.2 Leveraging the ISSB standards</p>	<p>Comment 1: the reading suggests that criteria for financial materiality and materiality of information is, in principle, aligned but not the same. (para 110 of the 23 Aug version)</p> <p>Comment 2: the ESRS and the IFRS perspectives are expected to be equivalent but they do not seem to follow the same criterion. (para 113 of the 23 Aug version)</p>	<p>Comment 1: New sentence has been added in para 123 (current version) to detail how the alignment is achieved (i.e., reference to para 124 to 126).</p> <p>Comment 2: What is meant by the two perspectives has been clarified as double materiality under ESRS vs financial materiality under ISSB (see para 126).</p> <p>Also, para 127 has been added to clarify interoperability in relation to the consideration of SASB standards. New text in green below: <i>Finally, IFRS S1 (paragraph 55) requires an entity to refer to and consider the applicability of the disclosure topics in the SASB Standards. Similarly, ESRS 1 (paragraph 131 b) identifies, as a source of disclosure that an undertaking may use in the definition of its entity-specific disclosures, the available frameworks or reporting standards, such as IFRS industry-based guidance (i.e. SASB Standards) and GRI Sector Standards. While for ESRS preparers the use of SASB standards is optional (as this is a possible source of disclosure, but not the only one), the provision of entity-specific disclosure including sector metrics is a requirement (see ESRS 1 paragraph 11).</i></p>

<p>FAQ 5: Is materiality for financial statements and management commentary the same as financial materiality for the sustainability statement?</p>	<p>The wording seems to imply that the concept of financial materiality between financial reporting and the sustainability statement was not aligned whilst the basis of the concept is the same.</p>	<p>The following additional text has been added that whilst the concept doesn't differ significantly, its application does. See changes in green below for para 147.</p> <p><i>The <u>materiality</u> assessment <u>of information depends on</u> whether the information is considered to be material for decision-making of those who provide, or may provide in the future, resources to the undertaking- <u>ESRS 1 (paragraph 47) clarifies that the scope of financial materiality for -sustainability -reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the -undertaking's financial statements. This means that, whilst the concept of materiality does not differ between the two reporting framework, its application on the information that is likely to be material does, since the principles applied for the preparation of the financial statements, as illustrated by the financial reporting conceptual framework, establish a clear delineation of what should be accounted for on the basis of criteria for recognition of assets and liabilities (including in relation to control and/or obligations).</u></i></p>
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b) Role and approach to stakeholders in the materiality assessment process – FOR DISCUSSION

3. With regard to role and approach to stakeholder engagement in the materiality assessment process, conflicting views were obtained. Whilst some members indicated that further guidance should be provided on how to involve the affected stakeholders in the various steps of the materiality assessment process and the language proposed to do so supported such recommendation; other members commented that the content of this guidance should be faithful to the literal of ESRS 1 Chapter 3.4 and not pre-empting any forthcoming legislation on Due Diligence in Europe, which in turn would establish behaviours on this area.
4. Based on the comments received, Secretariat reviewed the language of stakeholder engagement in the working paper to ensure that it was aligned with the text of the Delegated Act. In addition, Secretariat proposes for discussion additional examples of stakeholder engagement within the Appendix of this guidance.



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<p>3.5 Role and approach to stakeholders in the materiality assessment process</p>	<p>The following proposal was received to provide guidance on stakeholder engagement for each of the steps of the materiality assessment*:</p> <p><u>While it is not necessary to consult</u> with affected stakeholders or their legitimate representative in each step separately, their views and <u>input should be reflected throughout the process</u> for determining impact materiality:</p> <ul style="list-style-type: none"> - In step B: affected stakeholders <u>(and/or their legitimate representatives) should be consulted</u> for the breadth and depth of impacts that they experience or may experience in connection with the company's products, services or activities. - In step C setting up thresholds: <u>experts</u> but also affected stakeholders and their representatives <u>should be involved</u> in setting thresholds by providing their expertise on what constitutes on appropriate thresholds for a particular impact, as well as how to set thresholds across a wide range of impacts, in line with the available scientific research and other relevant sources. <p>*Secretariat has not copied comments on step A or Step C received as these were already onboarded and not subject to further discussion.</p>	<p>We note that feedback for stakeholder engagement in relation to step A has already been incorporated (refer to para 64) and also for step C assessment of impacts, risks and opportunities (refer to para 78).</p> <p>Secretariat took on board the feedback for the materiality assessment that received consensus at the previous SRB and SR TEG discussions. Such consensus derived from prior experiences whereby the most effective phase to engage was during step C assessment. The objective of the assessment was twofold: on the one hand, to assess severity/likelihood assessment and, on the other hand, the validation that no missing impacts were identified.</p> <p>The proposal to include guidance on stakeholder engagement across all the phases could dilute the message described above. Whilst GRI and other DD international instruments describe that the undertaking <u>should engage</u> with affected stakeholders to inform the impact materiality or due diligence process, the level of engagement or in which part of the process to engage is not specified in detail. ESRS 1 AR 8 describes that “Materiality assessment is informed by dialogue with affected stakeholders. The undertaking <u>may engage</u> with affected stakeholders or their representatives to provide inputs or feedback on its conclusions regarding its material IROs”. there</p> <p>Therefore, the matter of discussion is whether further guidance is to be included in the MA IG to extend the “undertaking may engage affected stakeholders” in Step B and for threshold setting in Step C.</p>
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c) Proportionality – FOR DISCUSSION

Section	Feedback received	Secretariat analysis and proposal
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FAQ 10 Should the assessment of impacts, risks and opportunities rely on quantitative information?	This is probably too strong and should be refined particularly for proportionality purposes. Small large companies should not be required to quantify all their IROs before to perform the MA. (Para 155 23 August 2023 version)	<p>Whilst proportionality is a concept that can be applied at different levels (i.e. depth of the materiality assessment process performed, steps followed for the materiality assessment process or level of documentation), it is noted that proportionality cannot be applied when assessing severity of impacts.</p> <p>Proportionality understood as articulating the level of complexity can be explored within the boundaries of evidence needed to support the materiality assessment process. The same logic could apply to the simplification of FAQ 10 for smaller large undertakings. However, such concept of proportionality has not been included in ESRS cross-cutting standards for materiality assessment.</p> <p>Therefore, the matter of discussion is whether proportionality should be included in the MA IG? And how would the articulation be drafted within the mandate of this guidance?</p>
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Questions for EFRAG SR TEG members

- 5) Do EFRAG SR TEG members agree with the Secretariat analysis for point b) above)?
- 6) Do EFRAG SR TEG members agree with the Secretariat analysis for point c) above)?



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