

Implementation Guidance for the Materiality Assessment Cover Note

Objective

1. The objective of the session is to discuss the implementation guidance for the materiality assessment.

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 EFRAG expects to publish draft guidance on these two issues for public consultation in the near future.*

Process so far

6. The EFRAG Secretariat, with input of individual SR TEG and SRB members, commenced drafting the implementation guidance based on the EFRAG draft ESRS submitted to the European Commission ('EC') in November 2022.
7. **EFRAG SR TEG has contributed to the development of this document in a number of drafting sessions. On this basis the SRB will discuss its content on the 23 August 2023 meeting.**
8. As the EC was moving with its process for adoption of the delegated act in parallel to the drafting of the implementation guidance, and as the discussions on the guidance were drafting in nature, the SR TEG and the SRB sessions on these were held in private.
9. After adoption of the delegated act by the EC, the EFRAG Secretariat updated the guidance for the changes made by the EC and uploaded it for this meeting.
10. Based on decisions in the last SRB meeting the structure of the Materiality assessment guidance has been revised having now chapters 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 (FAQ)

Important information

11. EFRAG can only issue non-authoritative guidance in its role as technical advisor to the EC.
12. 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.
13. The content of the guidance presented for this meeting has not been discussed with the ISSB or GRI nor validated by FISMA.
14. EFRAG is also in the process of establishing a process to answer questions from constituents similar to the IFRIC decisions under the IFRS framework.

Next steps

15. This implementation guidance will follow the EFRAG SR TEG and SRB approvals in September. Once the approval process has taken place, EFRAG envisages releasing the guidance in draft for public comment once approved by the SRB and the SR TEG for a period of four weeks and then issuing the final document also after approval by SR TEG and SRB.

Additional agenda papers

16. In addition to this paper, Agenda paper 06-02 *Implementation guidance for materiality assessment* sets out the current draft of this guidance and Agenda paper 06-03 *MA IG content index 230623* gives an allocation of the FAQs in the implementation guidance to batches discussed in the materiality assessment working groups and presented to SRT and SRB at different dates.
17. The following is a list of **new FAQs** sorted based on the sub-headings of chapter 6 *Frequently Asked Questions* that have not been presented to the SRB or SRT yet:

Chapter / FAQ	Batch
6 Frequently Asked Questions (FAQ)	
6.1 FAQ on impact materiality	
6.2 FAQ on financial materiality	
6.3 FAQ on the materiality assessment process	
FAQ 10: How to consider time horizon in the double materiality analysis?	New



FAQ 11: Should the assessment of impacts, risks or opportunities rely on quantitative information?	New
6.4 FAQ on stakeholder engagement	
6.5 FAQ on aggregation / disaggregation	
6.6 FAQ on reporting	
FAQ 22: Do ESRS require to disclose severity, scale, scope, and irremediable character of material impacts, respectively likelihood of occurrence and potential magnitude of material risks and opportunities?	New
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?	New
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 the material impact, risk or opportunity?	New
FAQ 25: When an undertaking has already put in place actions to avoid, minimize, mitigate or rehabilitate impacts, shall it nevertheless report on the impacts before those actions?	New
FAQ 27: Is there a recommended format or matrix to graphically present the material matters?	New

Questions to EFRAG SRB members

18. Do the EFRAG SRB members have comments on structure of the guidance document (Agenda paper 06-02)?
19. Should chapters 4.5 and 4.6 of Agenda paper 06-02 be transposed into frequently asked questions (FAQ)?
20. Questions on new FAQs 10-11, 22-25 and 27 or chapters 5.3 *Leveraging international instruments of due diligence* of Agenda paper 06-02?
21. Any other comments from SRB members?

