

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. 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.

## MAIG: Summary and analysis of the public feedback received

1. The EFRAG Secretariat has analysed and summarised the responses received on the *Draft EFRAG IG 1: Materiality Assessment Implementation Guidance* (IG1 or MAIG) that was subject to public feedback from the 22 December 2023 to 2 February 2024.
2. The EFRAG Secretariat analysis and proposed orientation for the strategic direction discussion at the 20 March SRB meeting is detailed in paper 04-02 MAIG Strategic direction based on feedback. The detailed analysis of the feedback has been summarised in this document.

### Structure of the paper

3. This comment letter analysis contains:
  - i. Background;
  - ii. Summary of respondents;
  - iii. Summary of respondents' views and proposed orientation from EFRAG Secretariat;
  - iv. Appendix 1 – detailed analysis of responses; and
  - v. Appendix 2 – list of respondents.

### Background

4. On 22 December 2023, EFRAG published its first three draft ESRS Implementation Guidance documents with a deadline for public feedback of 2 February 2024. The documents are non-authoritative and support the implementation of ESRS.
5. The objective of [draft] IG 1 – Materiality Assessment (MAIG) is to support the implementation activities of preparers and others using or analysing ESRS reports, with regard to the double materiality assessment (referred to as “materiality assessment” or “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 undertaking may have on the adoption of the ESRS and its materiality assessment exercise.

### Summary of respondents

6. At the time of performing this analysis, 104 responses to the survey have been received (excluding 7 general letters).

Country	Academic	Assurance provider	Civil Society	Consultant	n/a	Other	Preparer	Standard setter	User	Total
Austria		1		1			2	1		5
Belgium		4	4	1			13	1	1	24
Bulgaria				1						1
Denmark		1	1	2			5	1		10
Estonia								1		1
France		1	1				3	1	1	7
Germany	1	2		2	1		10			16
Iceland									1	1
Italy		2		1			2	2		7
Malta	1									1
n/a					9					9
Poland							1			1
Spain		1	1			1	1		1	5
Sweden			1							1
Switzerland								1	1	2
Netherlands							1	1		2
United Kingdom		2		2			1		4	9
USA			1	1						2
<b>Total</b>	<b>2</b>	<b>14</b>	<b>9</b>	<b>11</b>	<b>10</b>	<b>1</b>	<b>39</b>	<b>9</b>	<b>9</b>	<b>104</b>

### Summary of respondents' views and proposed orientations from EFRAG's Secretariat

7. The following points summarise the main concerns, issues and ideas collected from the respondents' comment letters. The EFRAG Secretariat has set out its approach to updating the MAIG in more detail in paper 07-02 MAIG: Strategic direction based on feedback.

	Comment (MAIG reference)	EFRAG Secretariat orientation
<b>Conceptual points</b>	1. MA process: Weighting the results of the subsidiaries materiality assessment at group level for impacts (Chapter 3.6)	To further develop the principle of unbiased assessment defined in ESRS 1 par. 102
	2. Approach to supportable and objective evidence compared to other inputs (par. 28, FAQ10)	To fine tune wording within the context of ESRS 1 Qualitative characteristics of information
	3. Relationship between the materiality assessment and ESRS 1 par. 114. (par. 25)	To clarify the architecture of the ESRS and approach and include in the drafting
	4. Clarification on the gross vs. net impact approach for environmental matters in the materiality assessment (FAQ23)	Clarification on how to take into account the mitigation actions in the materiality assessment, including revision of the examples

*Draft IG 1: Materiality Assessment: feedback analysis*

<b>Clarification</b>	5. De facto introduction of a hierarchy of stakeholder engagement that goes beyond Set 1. ( <i>Chapter 3.5</i> )	Editorial clarification of the role of consultation in the guidance
	6. Conflicting views about suggestion that financial materiality is linked to engagement with users (par. 109)	Editorial clarification on the user engagement role within the financial materiality lens
<b>Scope</b>	7. Governance considerations for the materiality assessment to be included ( <i>Chapter 3</i> )	To include a mention to ESRS 2 GOV within Chapter 3
<b>Further guidance</b>	8. Further guidance on value chain, thresholds definition and application, use of judgement in the thresholds ( <i>Chapter 3.6 and 3.7</i> )	To be considered in the future workplan and prioritisation
	9. Practical examples on the steps of the Materiality assessment ( <i>Chapter 3</i> )	To be considered in the future workplan, subject to prioritisation
	10. Engagement with stakeholders (i.e. prioritisation, types of engagement, etc.) ( <i>Chapter 3.5 and 5.4</i> )	To be considered in the future workplan, subject to prioritisation
<b>Other support/ tools</b>	11. Tools and external sources of guidance in relation to the identification of matters for the materiality assessment ( <i>Chapter 4.1</i> )	Possibility to use additional sources, provided that the result is aligned with ESRS requirements, emphasis being on those that are interoperable with the ESRS

8. The following table shows the number of respondents who addressed each section by providing at least one comment.

	<b>Number of responses</b>
Summary	32
Chapter 1: Introduction	29
Chapter 2: Approach to materiality	65
Chapter 3: Performing MA	83
Chapter 4: Leveraging other sources	28
Chapter 5.1: Impact materiality – FAQ 1 to 4	40
Chapter 5.2: Financial materiality – FAQ 5 to 6	25
Chapter 5.3: MA process – FAQ 7 to 14	45
Chapter 5.4: Stakeholder engagement – FAQ 15 to 17	28
Chapter 5.5: Aggregation/disaggregation – FAQ 18 to 19	24
Chapter 5.6: Reporting – FAQ 20 to 24	44
Chapter 5.7: EU Taxonomy – FAQ 25	19
<b>Total</b>	<b>462</b>

**Strategic SRB discussion**

9. The EFRAG Secretariat has set out its approach to updating the MAIG in more detail in paper 06-02 *MAIG: Strategic direction based on feedback*.

*Question for EFRAG SR TEG*

10. Does EFRAG SR TEG have any comments on this summary?

## **Appendix 1: Detailed analysis of responses to questions**

### **General comments on the MAIG - General feedback**

#### *Comments summarising respondents' feedback*

11. One respondent (preparer) recommended to simplify the MAIG by using a straightforward step-by-step approach, more illustrative examples, more focus and deep dives in the critical building blocks of the DMA, more guidance and examples on consolidation principles in materiality assessment, more connection between materiality assessment and value chain guidance, more examples on how the preparers are expected to measure uncertain sustainability-related financial impacts, clear guidance on what evidence is required to substantiate the materiality assessment, as well as more implementation advice and examples on ESRS 1 par. 31.
12. One respondent (standard setter) requested to simplify the MAIG, give a straightforward step-by-step approach, and provide more practical guidance and more illustrative examples, visualisations, and details from different sectors to ensure clarity as regards the practical application.
13. One respondent (user) recommended complementing IG 1, among others, with more concrete examples of how the materiality assessment should be performed and how IROs should be reported. The respondent also requests comprehensive examples of how to consult stakeholders, how to collect and analyse their answers, and ultimately, how to use their answers to inform the due diligence process. Finally, they recommended publishing a document providing a comprehensive example that would illustrate the successive steps that a company should follow in order to produce a qualitative reporting.
14. Two respondents (assurance providers) considered that the Guidance needs improvement to make it more useful and comprehensive in applying ESRS. The respondent also called for more guidance on consolidation, including making group materiality assessments and reporting consolidated information. Furthermore, more guidance and examples should be added, for topics such as significant differences between material impacts, approaches in determining material risks and opportunities for the group, and how to consolidate impacts, risks, and opportunities.

#### *General comments regarding the structure of the Guidance*

15. One respondent (other) proposed to place disclaimers at the beginning of the document to clarify its non-authoritative nature, thus making the guidance more user-friendly. It was also suggested to incorporate visuals and improve navigation to ensure clarity in the overall process.
16. Two respondents (standard setter, preparer) suggested to further clarify the double materiality assessment (DMA). One respondent (standard setter) proposed to amend the structure of the MAIG, namely, to begin with an explanation of the background of the double materiality assessment, followed by the DMA process (as presented in Fig. 3) and clarifications on requirements for each key step. Including additional examples and visual representations was recommended to enhance understanding.
17. One respondent (preparer) suggests including the key statements provided in the FAQs in the primary part of the document and making specific reference to the elaborated explanation in the FAQ, by adding the topics discussed in the FAQ to the last paragraph of each section, which would improve the extent of guidance provided in the main section of both IG 1 and IG 2.
18. One respondent (user) considered MAIG to be excessively long, while references to ESRS were deemed compromising understandability (e.g. in par. 34 (a) and (b), 122,163, 190, 169,

212). To improve the overall structure, it was recommended to include a list and categorisation of different stakeholders, instead of discussing it in paragraphs, as well as to provide a comprehensive list of ESRS topics and sub-topics with respective examples in a table view.

#### *Level of flexibility*

19. Two respondents (assurance provider, user) shared concerns on the perceived too high flexibility left to organizations to define the appropriate methodology and governance regarding the materiality assessment process. One respondent (assurance provider) deemed MAIG to be rather principle-based, thus lacking guidance on specific processes, level of granularity, or thresholds and standard steps in assessing materiality. Further practical guidance was requested, along with recommendations for undertakings on the effectiveness and efficiency of the materiality process regarding assurance, going beyond mere compliance. Besides, it was suggested to address the value chain in relation to materiality assessment, as well as the inclusion of ESG dimensions in one's activity (through ESG strategy, review of governance, embedding of ESG in the enterprise-wide risk management framework, operations and culture). The 3 Lines model was recommended as an adequate governance model. One respondent (user) mentioned that the flexibility around defining materiality thresholds is likely to affect the core purpose of CSRD and ESRS on the standardisation of the reported information, as similar undertakings may use different materiality criteria and thresholds. It was suggested to further address this issue in the upcoming sector-specific ESRS, by including industry-relevant guidance and requirements on the MA process.

#### *Consistency with other frameworks and regulations*

20. Five respondents (user, assurance provider, preparers) asked for further clarification on interoperability. One respondent (user) [Datamaran] suggested to provide explanations on the extent to which SFRD datapoints material under CSRD would be covered in the sustainability statement. One respondent (assurance provider) requested guidance on the link between materiality assessment and CSDDD, given the lack of thresholds in the latter. One respondent (preparer) recommended clarifying how the materiality assessment and value chain concepts apply to undertakings reporting under Article 48i of the Accounting Directive. Two respondents (preparers) recommended continuing efforts on alignment with ISSB in general and regarding financial institutions: it was proposed to remove guidance restating CSRD and ESRS, and challenge additional one against potential difficulties for preparers to disclose both under CSRD and ISSB.
21. One respondent (standard setter) suggested replacing the term 'investor' with 'primary users of general-purpose financial reporting' throughout MAIG, to ensure consistency of the language used in the Delegated Act and in IFRS Sustainability Disclosure Standards. It was also proposed to replace 'management commentary' with 'management report' as it is more consistent with European legislation.
22. Five respondents (assurance providers, preparer, standard setter) suggested that EFRAG should engage with ISSB and GRI to ensure their respective guidance is aligned, and thereby homogeneous application of the respective standards is guaranteed.

#### *Stakeholder Engagement*

23. One respondent (standard setter) recommended adding guidance on the selection and engagement process with affected stakeholders, as well as on the collaboration possibilities in conducting the DMA.
24. One respondent (preparer) suggested requested further illustrations are expected on the consultation of stakeholders, the collection and analysis of stakeholders' feedback, as well as the linkage with the due diligence process.

*Requests for practical examples*

25. One respondent (preparer) suggested providing practical examples of the implementation of DMA with regard to: “identifying material IROs; completing the list of sustainability matters indicated in ESRS 1 par. AR 16; connecting materiality sustainability matters to the corresponding IROs, as indicated in par. 77.”
26. One respondent (civil society) requested additional examples illustrating the financial effects of dependencies.
27. One respondent (other) suggested expanding coverage to include positive impacts and emphasized the importance of providing illustrative examples to enhance clarity and facilitate implementation. Similarly, another respondent (user) suggested adding further examples and guidance to conduct the positive impact materiality assessment (e.g. how the scale and scope for actual positive impact could be measured for a given social issue, such as working conditions; if undertakings should consider all sub-sub-topics, both their operations and products, to evaluate material positive impacts).
28. One respondent (preparer) suggests that more specific guidelines would help companies less advanced in ESG matters apply the ESEF requirements. The guidelines should include visual examples and recommendations. The illustrations could be a beginner's toolkit, especially for SMEs, to jump-start the process. Practical examples of different sectors of activity are also necessary.

*Requests for further guidance*

29. One respondent (assurance provider) requested further guidance related to group and consolidated information, and a consultation with the European Commission if it is mandated to do so. They also asked to provide further guidance on significant differences between IROs prepared by groups, and those prepared by subsidiaries.
30. One respondent (preparer) suggested requesting further clarification on matters versus material information, and on the materiality assessment of a single datapoint within material topics to guarantee homogeneity and objectivity in the approach taken by preparers.
31. One respondent (preparer) recommended to provide further guidance on the implementation of the social standards. Specifically, the respondent suggested to include a dedicated section providing clarifications on the distinction between “non-employees” and “workers in the value chain.”
32. One respondent (preparer) requested more clarifications on how the materiality assessment needs to be updated, frequency and depth of revision, and conditions leading to an update.
33. One respondent (civil society) requested further guidance on the materiality assessment specific to issues of inclusion, diversity and vulnerable groups including persons with disabilities in the undertaking’s own workforce and value chain, affected communities and consumers and end-users.
34. One respondent (standard setter) asked for further clarification and illustration on reporting of divergent activities within a subsidiary, the application of transitional provision related to entity-specific disclosures in ESRS 1, chapter 10.4., and whether the transitional provision set out in the latter and in ESRS 1, Appendix C takes precedence over ESRS 1, par. 11. It was also asked to align IG1 and IG2 to avoid contradictions, and to call for the translation of these documents by the European Commission and national authorities.
35. One respondent (civil society) requested more clarity as regards the fact that companies should consider that the materiality of impact-related information in E1 and S1 sub-topics and indicators does not always depend on their scope or scale. Then, it was recommended that the disclosure requirements on GHG Scope 1, 2 and 3 emissions should be applied for all entities and activities of the undertaking. Finally, the respondent suggested that the risk

of insufficient materiality assessment regarding the wording of paragraph 28 ("to the maximum extent possible") should be minimised by explicitly referencing the relevant thresholds in ESRS 1.

36. One respondent (consultant) requested to further cover financial materiality that specifically addresses unconsolidated subsidiaries in EFRAG IG 1, to clarify that the identification of material IROs shall be made for each subsidiary, whether consolidated or not.

#### *Requests for sector-specific guidance*

37. Four respondents (standard setter, preparer, user, civil society) suggested including further sector-specific examples. One respondent (standard setter) considered the inclusion of specific guidance regarding financial institutions prepared in collaboration with the Financial Institutions Advisory Panels to be essential. Two respondents (user, civil society) asked for specific guidance on financial institutions and the publication of the timeframe envisioned. One respondent (preparer) also requested further guidance for the financial services sector, along with illustrations, while indicating it will engage with EFRAG on the matter. An updated timeframe following the extension of the deadline for sector-specific standards to 2026 was proposed to plan accordingly. Besides, it was requested to allow undertakings to benefit from a transitional period of a full financial year, ideally an 18–24-month period, for FY26 regarding the implementation of sector-specific standards. Lastly, clarification was requested on whether undertakings may indeed choose to adopt a group-level approach to conducting materiality assessment or an entity-level to assess a given business activity.
38. In addition, another respondent (preparer) suggested clarifying whether and how undertakings are expected to provide sector-specific metrics as entity-specific disclosures even though the sector-specific standards have not been adopted yet. They recommended including FAQ highlighting the expectations at present where sector-specific standards are not adopted, especially to what extent the entities are legally expected to include sector-specific metrics – and if so how to best ensure comparability in the sector and to ensure that the reporting is future-proof. In this connection, another respondent (assurance provider) suggested an elaboration on 'an appropriate set of additional disclosures' in ESRS 1, par. 131 (b), if laid out in the light of the regulators' appreciation of the need to postpone sector-specific standards.

#### *General editorial comments*

39. One respondent (preparer) suggested streamlining the terms used by harmonising the three terms referring to materiality assessment currently being: "materiality assessment", "assessment", "MA". It was proposed to clarify the legal terms, such as "other external reporting" in par. 9, and reference to soft law, such as the OECD Guidelines.
40. One respondent (other) recommended to add nuanced details to sections focusing on "affected stakeholders."

#### *Documentation of the MA process*

41. One respondent (preparer) has expressed his concerns that the draft IG 1 and IG 2 introduce additional administrative burden, by going beyond what is prescribed in the ESRS, for example, by stating that companies shall report on the outcome of the materiality assessment process (IG 1). Moreover, it was highlighted that neither the CSRD nor the ESRS set out any specific documentation obligations and, thereby, cannot be regulated by IG 1. Similarly, there is no requirement in the ESRS to document the "reporting process" (IG 2). Finally, the respondent suggested that the guidance should use the same terms as the ESRS and within the guidance to ensure clarity and avoid the creation of new concepts.



### *Governance of the MA Process*

42. Two respondents (user, assurance provider) requested further guidance on the disclosure requirements set out in MAIG. One respondent (user) was concerned about DRs included in ESRS 2 regarding the governance of the materiality assessment process (i.e. ESRS 2 GOV-1, ESRS 2 GOV-2, and ESRS 2 SBM-2). It was suggested to address this matter within a dedicated FAQ: “What is the governance of the materiality assessment process?” to emphasise that undertakings should bear in mind the listed DRs when performing their materiality assessment (as prescribing any specific governance process is considered beyond the scope of MAIG). One respondent (assurance provider) suggested including a table summarising the disclosures to be reported regarding sustainability material topics in order to enhance consistency among different entities. It was also recommended to provide sector-specific disclosure guidance, clarify the extent of consideration of stakeholders and the weight assigned to each stakeholder group in link with the justification of removal of a non-material topic.
43. One respondent (standard setter) requested to include explicit references to the governance structure and processes related to the materiality assessment, to provide additional examples to enhance understandability, as well as to further precise the alignment of the term ‘financial materiality’ between ESRS and ISSB standards.

### *Timeline*

44. Three respondents (user, preparers) were concerned about the timeline of consultation periods for standards. Two respondents (user, preparer) pointed out the timeline of the public consultation was challenging and suggested extending the consultation period. One respondent (preparer) asked to consider giving more time to comment on draft sector-specific guidance, to ensure conciseness and minimal repetition.

### *Q&A Platform*

45. Two respondents (assurance providers) suggested that the FAQs in the MA IG and Q&As in the platform may be duplicative and repetitive and could create confusion. Therefore, it is suggested that EFRAG reworks some FAQs as simple guidance. Additionally, clarifications could be incorporated in the respective ESRS when the first set is open for revision, and the MA IG could serve to explain and illustrate how to make judgments. Furthermore, it is important to share good real-life practices to help other stakeholders advance, too. ‘EFRAG should not lose sight of its main standard-setting duties, including issuing the Basis for Conclusions for the ESRS, which enhances trust. Therefore, EFRAG should collaborate with the EC to update the Basis for Conclusions and include the EC’s rationale when making the final changes.’

### *Comments on IG 1*

46. One respondent (assurance provider) reiterated their comments to VC IG, calling for additional guidance and illustrative examples on how and to what extent the value chain should be incorporated in materiality assessments. Similarly, another respondent suggested explanations on evaluating topics that are material solely from the value chain perspective, along with specifications on which data points should be disclosed concerning such topics.

## **Comments related to the Summary in 13 key points**

### *General comments*

47. One respondent (preparer) considers that undertakings report on entity-specific matters during the MA process, but the Summary in 13 points lacks practical guidance. The guidance should clarify what disclosures are expected and meet the necessary requirements.

48. One respondent (preparer) suggested that, although they support a well-structured MAIG that follows ESRS and CSRD provisions without unnecessary requirements, the MAIG should reflect organizations' circumstances and propose changes to support this principle.
49. One respondent (preparer) suggested checking whether restatement is justified to avoid unnecessary repetition of the standards unless it is clearly justified.
50. One respondent (assurance provider) suggested that EFRAG run a final review of the document to ensure that the correct ESRS references and spirit of provisions are cited. 'For example, we noticed that entity-specific information is omitted from par. 43(c). In another example, paragraph 158 of the MA IG states that "[...] financial effects that arise from risks and opportunities are to be reported irrespective of their accounting treatment" may not be fully in line with the ESRS or even FAQ 5 of the MA IG. Other examples include par. 13(b), the second paragraph in the text box on page 14, the title of Step B in Figure 3, par. 97(c), which may suggest that the consolidation thresholds have to be reported too, par. 215, etc.'
51. One respondent (business association) pointed out that the exemplary description of possible processes or sequences of steps is essential for companies to meet the requirements for reporting data points and should, therefore, be set out in the guidelines.

*Technical corrections & clarifications*

52. Four respondents (preparers, business associations) suggested minor editorial and conceptual changes presented in paragraph 1:

Write 'impacts, risks and opportunities' in full, and the acronym 'IROs' should be in parentheses, as it is the first time it has been mentioned.

Referring to 'sustainability matters,' defined in Annex 2 of the ESRS, instead of 'environmental, social and governance matters.'

Clarify that the outcome of the double materiality process is identifying both the sustainability matters and the IROs.

Providing detailed information on the meaning of 'material information' and 'judgment,' as the assessment criteria should be clear.

53. One respondent (standard setter) suggested deleting the sentence 'omissions are useful sustainability-related information, supporting the general coherence of the sustainability statement and therefore the fair coverage of sustainability matters' in paragraph 4.
54. One respondent (preparer) recommended to further expand on par. 4, which raises a question about the necessity of conducting a materiality assessment in this case ("Disclosure Requirements in ESRS 2 addressing cross-cutting matters are to be reported irrespective of the outcome of the materiality assessment").
55. One respondent (preparer) suggested checking whether restatement is justified to avoid unnecessary repetition of the standards unless it is clearly justified.
56. One respondent (standard setter) suggested changing 'engagement with (potentially) affected stakeholders' in par. 7 to 'engagement with affected stakeholders'.
57. One respondent (preparer) requested a definition of 'severity' with practical examples in par. 8.
58. One respondent (standard setter) claimed that a comma is missing after 'financial position' in par. 9.
59. One respondent (user) considers adding a clear statement in the summary, specifying that the term impact pertains to 'impact materiality.' At the same time, risks and opportunities associated with 'financial materiality' would be beneficial.

60. One respondent (preparer) requested a 'due diligence process' definition concerning ESRS in par. 10.
61. One respondent (preparer) pointed out that, in par. 13, the undertaking should disclose the IROs; however, it does not mention the identification/disclosure of sustainability matters as in par. 95.
62. One respondent (assurance provider) noted that, in par. 12, there are some places where the draft guidance doesn't reflect terminology in ISSB standards; they, therefore, suggested deleting the second sentence of this paragraph.
63. Two respondents (user, preparer) suggested changing a minor typo to 'ISSB' instead of 'ISBB' in par. 8 and par. 12.
64. One respondent (user) suggested asserting in par. 12 that the scope of financial materiality in ISSB SDS and the ESRS is aligned. They consider that 'despite a search of documentation emanating from the ISSB/IFRS, there is no similarly explicit recognition from the ISSB itself to confirm that complying with the ESRS financial materiality will allow an undertaking to claim compliance with ISSB, which is focused on financial materiality (...).

#### *Clarifications*

65. One respondent (preparer) requested clarification on complying with the requirement for entity-specific disclosures and the interplay and potential overlaps between the corporate reporting under the ESRS and the CSDDD Directive. The respondent considers that companies could benefit from knowing in par. 3:  
  
    'whether companies' due diligence obligations are subsumed under the conduct of the materiality assessment under the ESRS.'  
  
    'How does the materiality assessment under the ESRS compare to the mapping approach for value chains under the CSDDD?'  
  
    'which due diligence obligation can be complied with through reporting on the ESRS (e.g., transition plans, stakeholder engagement).'
66. Two respondents (preparer, assurance provider) suggested, in par. 3, including a clarification on the entity-specific disclosure requirements about the ESRS (i.e. complementing the disclosures already required by the ESRS) and the GHG (Greenhouse Gas) Protocol. It emphasizes that while entities may find the scope of certain emissions inadequate, they must still report them as required under ESRS E1 and the GHG Protocol. Additionally, it notes that ESRS-defined metrics should not be changed to reflect entity-specific contexts, but entities may consider providing additional information in the entity-specific layer.
67. One respondent (user) suggested that, in par. 4, the omission should be explicit for data points derived from other EU legislation (see ESRS 2 Appendix B for a list of these data points) and implicit in other cases.
68. One respondent (standard setter) addressed concerns about a potential lack of consistency in reporting, particularly due to the discretionary nature of the design of the materiality assessment process in par. 5.
69. One respondent (assurance provider) suggested that 'as steps from a to c, which are listed afterward, are the same as in ESRS 1 AR 9, a reference to ESRS 1 AR 9 should be included. Additionally, they requested clarification that steps a to c of ESRS 1 AR 9 is not an option in par. 6.
70. One respondent (preparer) requested to advise on where to define thresholds in par. 8. They consider that the materiality analysis should start with the list of ESRS topics. As companies may or may not explain why certain breakdowns are not material, except for climate aspects,

they noted that having further developments on the list of topics will clearly present the results of the materiality assessment.

71. One respondent (user) considers adding a clear statement in par. 9, specifying that the term impact pertains to 'impact materiality.' At the same time, risks and opportunities are associated with 'financial materiality.'

#### *Examples & Illustrations*

72. One respondent (assurance provider) requested to provide further examples and illustrations on the criteria and thresholds to be used to determine the material IROs and the material information, respectively. Additionally, they pointed out that it should better point out the areas where proportionality could be considered to alleviate the burden for smaller companies with fewer locations and impacts, considering their specific facts and circumstances.
73. One respondent (standard setter) suggested providing examples for the topics and subtopics and using cases of IROs concerning individual topics.' They consider 'it is not helpful to define the implementation options for materiality analysis more narrowly or differently than described in the ESRS.'

#### *Further Guidance*

74. One respondent (standard setter) requested further guidance on assessing the materiality of impacts for reporting purposes using severity and likelihood criteria, including establishing thresholds. Adding a link to the UNGP BOHR was also suggested as they provide further guidance.
75. One respondent (preparer) suggested to provide further guidance on the inclusion of value chain information. Par. 2 states that companies should report across the "entire value chain", reference should also be made to the "LSME cap."

#### *Regulatory & Framework Alignment*

76. One respondent (preparer) claimed that, in par. 7, referring to the CSDDD might be misleading because there are differences that seem to be not considered. The ESRS does not require any specific stakeholder engagement behaviour and does not dictate the content of the CSDDD. It noted that the CSDDD would not require companies to engage with stakeholders for materiality assessment but only for potential adverse impacts. Moreover, companies that fall under the CSDDD scope will have different obligations throughout the value chain.
77. One respondent (preparer) addressed that the MAIG needs to provide more detailed information on the due diligence process and the interplay between the ESRS reporting and the CSDDD Directive. Companies need clarity on their due diligence obligations and how reporting can meet them. The guidance should also address how to account for sector-specific standards in the materiality assessment process.
78. One respondent (user) suggested asserting in par. 12 that the scope of financial materiality in ISSB SDS and the ESRS is aligned. They consider that 'despite a search of documentation emanating from the ISSB/IFRS, there is no similarly explicit recognition from the ISSB itself to confirm that complying with the ESRS financial materiality will allow an undertaking to claim compliance with ISSB, which is focused on financial materiality (...).'
79. One respondent (assurance provider) suggested that further work is needed on clarity, comparability, and interoperability. They highlighted a few key areas where interpretations of financial materiality could differ between ESRS and the ISSB Standards and suggested that further guidance is needed to address potential expectation gaps and differences of opinion over how impact materiality judgments should be made. They also suggested that the

guidance on financial materiality should be aligned with IFRS S1 to ensure interoperability with IFRS Sustainability Disclosure Standards.

80. One respondent (assurance provider) suggested that, in par. 11, the MAIG should state more clearly that the assessment under the GRI Universal Standards covers the impact materiality assessment only and that for ESRS purposes, additional work is needed to assess from the materiality perspective as well.
81. One respondent (preparer) suggested deleting the sentence 'when undertakings assess the GRI Universal Standards, the GRI assessment constitutes a good basis for assessing impacts under the ESRS' as the document is about implementation guidance, not interoperability' in par. 12. 'At least not be part of the summary of 13 points.'
82. One respondent (preparer, standard setter) pointed out that, in par. 12, 'the current wording might be misinterpreted as it does not give clarity whether the ESRS disclosure is adequate to comply with ISSB requirements and reference is sufficient.'
83. One respondent addressed that, in par. 12, the MAIG should be fully consistent with IFRS S1 to support the following statement: 'an undertaking that applies the ESRS is expected to be able to comply with the identification of the sustainability-related information on risks and opportunities under IFRS.'

### Question 1

*Do you have comments on Chapter 1: Introduction?*

#### *Summary of constituents' comments*

##### *General comments*

84. Three respondents (preparers) noted that any contradiction between the ESRS and the MAIG should be avoided (par. 14 seems to suggest such contradictions may occur).
85. One respondent (preparer) recommended to further highlight that ESRS 1 allows a certain flexibility of performing the double materiality assessment (par. 15). Similarly, another respondent (preparer) highlighted the need of flexibility, e.g., in interpreting factors such as their key stakeholders, engagement mechanisms, and assessment frequency. They therefore suggested to clarify that key process decisions can be made based on factors beyond a company's specific business circumstances, such as external availability of data, ensuring that the results of the assessment are based on solid evidence, rather than on estimates and assumptions.
86. One respondent (assurance provider) requested further guidance on how "other users of sustainability statements" (ESRS 1 par. 22) are considered in the materiality assessment.
87. One respondent (user) requested further acknowledgment that for the analysis of impact and financial materiality objective information should be primarily quantitative.

##### *Inclusion of Practical Examples*

88. Four respondents (preparers, standard setters) highlighted the importance of including practical examples. Another respondent (assurance provider) suggested emphasizing that market practice is continuing to evolve. That, for example, benchmarking of other companies in the same sector will be essential to the results of the double materiality assessment (par. 18).
89. Two respondents (preparer, user) recommended referencing existing tools for impact valuation in alignment with a leading framework (one example was the OECD Sectoral Due Diligence Guidance). Another respondent (standard setter) proposed to draft a list of expected material topics by industry.

90. One respondent (standard setter) suggested to practical examples include additional on (i) matters that are impact materiality, (ii) matters that are financially material, (iii) matters that are impact materiality and also financially material and (iv) matters relevant only under an impact perspective and only under a financial perspective; as well as practical examples of the processes for determining the materiality of matters, concerning impact, financial and double materiality.
91. One respondent (civil society) requested further guidance on the reduction of GHG emissions by 2030, 2040, 2050 in line with ESRS 1.

#### *Due Diligence*

92. One respondent (preparer) suggested to include an introduction of the MAIG earlier in Chapter One. Another respondent (civil society) recommended to delete the following sentence in par. 20 (“For example, the due diligence aspects related to the materiality assessment (and VC aspects) are covered in that guidance rather than here.”), as the Guidance also refers to the relevance of due diligence in for example, par. 75 or Chapter 4.3. This may cause unclarity; par. 18 should be amended and direct readers to where guidance related to due diligence may be found.
93. Another respondent (preparer) asked for clarification on the IG’s relationship with the CSDDD and recommended to further explain the due diligence process under the ESRS.

#### *Editorial comments and rephrasing*

94. One respondent (preparer) requested further explanations of terminology (specifically the terms “undertaking”, “site”, “facility”).
95. One respondent (user) suggested to include the following acronyms in par. 22: “VC”, “VCIG”, “SASB.” Three respondents (preparers) noted that the hyperlinks to the delegated acts do not work.
96. One respondent (preparer) also commented on the disclaimer, asking for confirmation that the Guidance is non-authoritative and only provides examples of how undertakings could carry out their materiality assessments.
97. Two respondents (preparer, standard setter) commented on the length of the Guidance and asked to reduce repetitions throughout.
98. Two respondents (standard setter, preparer) specifically addressed the complexity of the IG and asked for further simplifications; one example mentioned (standard setter) was to adjust the structure to a step-by-step approach (with related references to the ESRS). Another respondent (preparer) suggested to add the topics of the FAQs in the corresponding Chapters for further clarity.

## **Question 2**

*Do you have comments on Chapter 2: The ESRS approach to materiality?*

### *Summary of constituents’ comments*

#### *General comments*

99. Two respondents (assurance provider, preparer) requested further guidance on how to incorporate the value chain in the double materiality process.
100. One respondent (assurance provider) requested further guidance on how to identify IROs related to a sustainability matter (par. 25).

*Financial Materiality vs. Financial effects*

101. One respondent recommended that the Guidance's approach to financial materiality should more firmly align with financial materiality in financial reporting. Furthermore, the respondent requested more clarity on how companies shall disclose financial materiality on time horizons and the nature of financial effect (specifically the respondent disagreed with "material impacts trigger in most cases material risks and opportunities"). The Guidance should emphasise that financial effect and financial materiality are not the same.
102. The respondent furthermore suggested that undertakings could rely on their audit risk threshold as the financial materiality threshold for magnitude.

*Exercise of judgment*

103. One respondent noted that the approach of allowing for the exercise of judgment may influence greenwashing and proposed to impose a clear reporting threshold with a set of required information.
104. Another respondent (civil society) suggested that the flexibility provided to undertakings on prioritising issues and setting thresholds, may lead to undertakings underestimating issues (for example scope 3 emissions). They also recommend providing ambitious sector guides, particularly as concerns the climate, given the urgency in this domain.

*Requests for Examples*

105. One respondent (standard setter) requested examples of impacts without financial consequences.

*General Editorial Comments for Chapter 2*

106. One respondent (other) suggested to introduce a visual representation of the process as a whole, including the distinction between the materiality assessment process and the determination of material information, and to include it in the very first part of Section 2. In addition, the diagram sections might hyperlink to the relevant parts of the document.

*Comments on 2. The ESRS approach to materiality*

*General comments*

107. One respondent (preparer) proposed to encourage undertakings to continuously improve their reporting towards primary vs secondary data, quantitative vs qualitative data and the level and scope of data disaggregation to achieve better results and more accuracy.
108. One respondent (assurance provider) requested further guidance on how to set thresholds based on ESRS 1 criteria (as mentioned in par. 27) and how undertakings should apply these criteria for the materiality assessment.
109. One respondent (assurance provider) suggested to include further examples on how to incorporate the value chain in the double materiality process (with reference to Chapters 2, 3, 5.1, 5.6).

*Prioritisation of IROs*

110. Four respondents (preparers) asked to further elaborate on the criteria to prioritise IROs (par. 26). One respondent (assurance provider) recommended to adjust the example provided in FAQ 10 based on par. 26, since IROs may need to be prioritised for management purposes (replace "prioritise" by "assess").
111. One respondent (other) recommended to emphasise that for reporting purposes no material IROs should be excluded, in particular if the undertaking has not addressed or fully addressed these material IROs through its policies, targets and action plans.

### Internal and external reporting

112. One respondent (preparer) requested further guidance on internal reporting (par. 30) and the extent to which KPIs relating to the materiality assessment need to be reported to the board.
113. One respondent (assurance provider) found par. 30 unclear (consistency in the MA-process for internal and external reporting should be required only for the identification and assessment of IROs).
114. One respondent (preparer) noted that par. 30 may conflict with the requirements of reporting on financial effects (“To meet the required characteristics of quality (Appendix B of ESRS 1), the materiality analysis process (including criteria and thresholds applied and conclusions) should be consistent with internal and other external reporting”).
115. Four respondents (users, preparer, standard setter) asked for clarification on what is meant by “other external reporting” (par. 30). Three respondents (users, preparer) asked which “sustainability management policies and actions” are targeted in this paragraph.
116. One respondent (assurance provider) requested clarity on the ESRS reference (par. 30).

### Exercise of judgment

117. Three respondents (preparers, standard setter) requested further guidance on the exercise of judgment for the assessment of thresholds (disclaimer and par. 27). One respondent (standard setter) suggested to re-phrase: “The materiality assessment should be based upon supportable evidence and rely where possible on objective information, but can also rely on an exercise of judgement, while implementing the impact materiality and financial materiality criteria specified in the ESRS (ESRS 1 chapters 3.4 and 3.5).”
118. One respondent (preparer) noted that par. 25 (“If the MA process is not appropriately designed, the undertaking may provide incomplete reporting (with material IROs not being disclosed”) may contradict the overall assumption that the process is flexible and requires a certain degree of judgment.

### Evidence

119. Five respondents (preparer, consultant, assurance provider, civil society, user, standard setter) requested further clarification on par. 28 (“*the materiality assessment should be based upon supportable evidence and rely to the maximum extent possible on objective information*”). Two respondents (civil society, standard setter) noted that this could be interpreted as supporting a more limited approach than what is explained in MA Step 1 (“Understanding the company context”).

### Outcome of Materiality Assessment

120. Three respondents (preparers) disagreed with par. 29 and argued that the reference to reporting on the outcome of the materiality assessment should be deleted (par. 29).
121. One respondent (standard setter) asked to include a reference to phase-in topics in par. 31 (“*briefly explain the conclusions of its materiality assessment in relation to any omitted topic or topic*”).

### Materiality of information

122. Three respondent (preparers) requested further information on par. 32 and clarification on the criteria to assess the materiality of individual datapoints. Another respondent (preparer) suggested to provide uniform criteria for assessing the materiality of information.
123. One respondent (assurance provider) requested further clarity on the distinction between material matters and material information.



### Immaterial matters

124. Two respondents (assurance provider, preparer) commented that it is unclear whether the ESRS allow for reporting of information about immaterial matters, which appears to conflict with MAIG par. 25 (“By definition, the reporting excludes matters that are not material”).
125. Two other respondents (preparers) were unclear about par. 25 (“By definition, the reporting excludes matters that are not material”) in reference to ESRS 1 par. 114 (inclusion of additional disclosures) and argued this constitutes a contradiction with ESRS. One other respondent (preparer) asked to include a clarification that ESRS 2 requirements must be reported regardless.
126. One respondent (preparer) recommended the Guidance should explicitly state that it is not necessary to provide disclosures on all sub-sub-subtopics if a sub-topic is considered material.

### Editorial comments and rephrasing

127. One respondent (user) suggested to add “(...) financial materiality pertains to the material information about risks and opportunities related to a sustainability matter *that could significantly affect the undertaking's financial conditions or performance in the short, medium, or long term*” to par. 24. Another respondent recommended to rephrase the following sentence (To enhance clarity, we suggest that it should read “(...) *The terms "material" and "materiality" are used throughout the ESRS to refer to double materiality (referred to in this document as "materiality"), unless specified otherwise.*”).
128. One respondent (preparer) asked for a revision of par. 25 (“the” should be deleted).
129. One respondent (assurance provider) commented that the mandatory Disclosure Requirement IRO-1 of each topical ESRS should be added (par. 29).
130. One respondent (consultant) noted that par. 30 refers to “characteristics of quality”, while ESRS 1 Appendix B addresses “qualitative characteristic of information” and requested alignment.
131. Two respondents (civil society) recommended to align with ESRS in par. 31 (the wording should be clear that “*the undertaking shall provide detailed explanations if it concludes that it has no material IROs with respect to climate change*”).
132. One respondent (preparer) requested to include a reference to omissions of datapoints in ESRS 2 Appendix B in par. 31.
133. One respondent (standard setter) suggested to include definitions of sustainability matters and sustainability information in par. 32.

### Comments on 2.1 Implementing the concept of double materiality

#### General Comments

134. Two respondents (civil society) recommended the use of stronger language in par. 35 to encourage undertakings to start with the identification of impacts (impact materiality), instead of describing it as “*a possible practical perspective.*” The use of dependencies should also be explained further (par. 35 and Figure 1(c)).
135. One respondent (civil society) noted that despite recognising the interconnections between impact and financial materiality, par. 40 seems to take a different approach, guiding companies to exercise judgment when organising the MA, “*including the separation of the two processes.*”
136. One respondent (assurance provider) requested further clarification of the distinction between material matters and material information. Furthermore, the respondent requested guidance on time horizons and the assessment of thresholds (if an impact can

change over time, over what time horizon should be threshold be defined; and how impacts can be assessed and compared when establishing thresholds).

*Metrics as Input for the Materiality Assessment*

137. Three respondents (civil society) recommended that Chapter 2 should further emphasise the potential usefulness of DRs and ARs to identify material impacts (since topical DRs and associated datapoints and AR methodologies can be instructive for the identification of material impacts; identifying whether an impact is material may necessitate gathering some of the data required by a given DR). One respondent (civil society) noted that the MAIG implies that that undertakings can first assess the topic of for example adequate wages (for which the disclosure requirement includes further methodology for the materiality assessment), before gathering data in line with the metric on the number of employees not being paid an adequate wage (the same applies for S1-11).
138. Additionally, three respondents (civil society) proposed to include an explanation that ESRS S1 is also likely to be material for all companies. Another respondent (civil society) noted that for certain sub-topics (e.g. E1, S1) it should be clearer that they will likely be material for most undertakings (regardless of undertakings materiality assessments, the scale of identified impacts).
139. Another respondent (assurance provider) made the same argument related to climate change and proposed to edit par. 31 (“the undertaking shall provide explanations if it concludes that it has no material IROs with respect to climate change and therefore omits required disclosures per ESRS E1 Climate Change” to add: “and shall include a forward-looking analysis of the conditions that could lead the undertaking to conclude that climate change is material in the future (ESRS 2 par. 57)”).

*Example requests*

140. One respondent (user) suggested to include practical examples in par. 35 of differences between financial materiality for the financial report and that for the sustainability report, for example: how and what are the external reports that are related; multisectoral materiality assessment; consistency and definition of thresholds within a group; aggregation of material impact.
141. Two respondents (assurance provider, preparer) requested to add other examples in par. 37 of higher relevance and likelihood (e.g. manufacturing). One of the respondents (assurance provider) argued that it is unclear how the financial effects of the two examples can be anticipated.
142. In response to par. 37 and 38, two respondents (assurance providers) requested examples where a material impact exists without a material financial risk and/or opportunity. Furthermore, one respondent (assurance provider) commented that the Guidance should clarify how to take into account remediating actions (the Guidance appears to allow an entity to assume that planned mitigation actions should be taken into account when assessing the risks and/or opportunities and therefore deem such a matter immaterial from a financial perspective).
143. Two respondents (academic, preparer) requested to include an example illustrating how risks or opportunities can arise over time due to external changes, unrelated to a company's decisions (e.g. changes to regulatory framework).
144. One respondent (standard setter) recommended to include a different example of a social impact, dependency in par. 38(c), such as the availability of STEM educated people.

*Financial materiality*

145. Two respondents (preparers) commented that assessment of financial risks and opportunities must be aligned with risk management principles that have already been defined in the company (par. 34(b) and to take into account in the example in par. 38(c)).
146. One respondent (assurance provider) recommended to further specify consideration of the investor assessments and decisions on which the IFRS S1 definition of materiality is based.
147. One respondent (assurance provider) noted that it is not sufficiently explained how the combination of likelihood of occurrence and the potential magnitude of financial effects shall be considered when it comes to applying the two criteria for financial materiality in ESRS 1, par. 48 and 49.

*Financial materiality vs. Impact materiality – one or two separate processes*

148. One respondent (standard setter) suggested to clarify in par. 40, that while the materiality assessment reflects both the impact and financial materiality perspective, it is not strictly necessary to perform two separate processes. Introducing the principle of proportionality for low impact activities, a separate process between impacts and financial materiality is not needed.
149. One respondent (preparer) requested clarity on whether impact and financial materiality are two separate processes, as depicted in Figure 1(c), since the Guidance does not make this clear.
150. Another respondent (civil society) noted that par. 40 suggests that impact and financial materiality can be considered separately, which weakens the rationale that encourages seeking synergies between both sides of materiality. One respondent (preparer) suggested to further highlight the interdependencies between impacts (especially environmental and social).

*Figure 1(a)*

151. Three respondents (civil society, assurance provider) commented that it was unclear that a sustainability matter can be material from an impact perspective or from a financial perspective or both.
152. Four respondents (user, assurance providers) requested the provision of examples of matters material from an impact perspective and matters material from a financial perspective. Another respondent (consultant) proposed to include an example of what is meant by “scope”. One respondent (assurance provider) [Accountancy Europe] suggested to link Figure 1(a) with the examples of par. 37, 38 and include the reporting consequences.
153. One respondent (user) proposed to provide a reference to Figure 1(a) in par. 40 (and provide a visual explanation of double materiality, connecting Figure 1(a) with ESRS 1 AR16 and specific matters identified by the undertaking, Figure 1(c) and Figure 1(b)).

*Figure 1(b)*

154. Two respondents (preparers) commented that Figure 1(b) suggests that impacts and risks/opportunities have to be reported separately and requested a clarification in the Guidance.
155. Two respondents (preparer, standard setter) requested a revision of Figure 1(b) and (c) regarding clarification of financial and impact materiality flows as well as the flow of decisions. Another respondent (civil society) commented that Figure 1(b) and (c) do not illustrate that impacts are often the source of risks and opportunities and could falsely deliver the message to companies that financial risks and opportunities must be dealt with separately from impacts.

*Figure 1(c)*

156. Two respondents (civil society) proposed to change the text box in the top right corner to read: “list of matters identified by the undertaking from existing materiality assessment and/or its potential sustainability due diligence or risk management processes.” Moreover, further illustration should be added on the analysis needed to be able to arrive at the conclusion of whether a matter is material (to convey need for a robust assessment).
157. One respondent (civil society) suggested to further explain the use of dependencies in the Figure.
158. One respondent (assurance provider) found that since there was no link between the boxes for impacts and risks and opportunities in Figure 1(c), there’s an implication that there is no need to identify whether a material impact leads to a material risk or opportunity.
159. One respondent (preparer) commented that the Figure suggests that a subject must have a material impact and material risks and opportunities to be material. Another respondent (assurance provider) felt that the question “are there material risks and opportunities arising from the matter that are not related to impacts?” should be changed, as it suggests that there is no need to identify whether a material impact also leads to material risks or opportunities; while in some situations, an immaterial impact could arise from a sustainability-related matter and nevertheless lead to a material risk or opportunity.
160. One respondent (assurance provider) suggested clarifying that financial effects and impacts are often closely related and impacts may lead to financial effects.
161. One respondent (standard setter) proposed to align Figure 1(c) more closely with par. 36, with regard to the identification of risks and opportunities arising from matters related to impacts. Another respondent (assurance provider) requested alignment with par. 75 and 76, as Figure 1(c) seems to indicate that the materiality assessment starts with the identification of sustainability matters and is followed by the determination of IROs.

*Interaction between impact and financial materiality (text box)*

162. Six respondents (preparers, standard setter, user) suggested a review of the green box on page 14, in particular the overall complexity and editing “*materials*” (should be “*material matters*”).
163. One respondent (civil society) proposed to include an example of a matter that is material from both the impact and financial perspectives (such as family-friendly workplace practices, or marketing to children). One respondent (user) suggested to include an example of a sustainability matter that is material from the impact perspective but has no material risks and opportunities.
164. One respondent (standard setter) noted with regard to the phrase “irrespective of the fact that the matter is material due to its impacts or risks/opportunities, it is only when an undertaking identifies that material risks and/or opportunities exist that the undertaking discloses the financial effects relating to the matter”, it should further be explained when a material risk and/or opportunity exists.
165. One respondent (preparer) asked for clarification on “irrespective of the fact that the matter is material” and whether this encompasses the financial effects of the material matters.

*Positive vs. Negative Impacts*

166. One respondent (civil society) noted that positive impacts may be unrelated to negative impacts and provided several examples.
167. One respondent (other) suggested to add another example in par. 37 based on positive impacts.

*General editorial comments and rephrasing*

168. Two respondents (civil society) commented that par. 36(a) should include a reference to Chapter 3 to guide the reader on where to find information on identifying impacts. Furthermore, one respondent (civil society) noted that par. 37(a) should refer to “*indigenous peoples*” not “*indigenous’ people.*”
169. One respondent (standard setter) noted that par. 36 is overly complex and moreover should not include the words “practical” or “process” so as not to imply that undertakings need to put such detailed processes in place.
170. One respondent (preparer) argued par. 36(c) is too complex and difficult to understand.
171. Another respondent (civil society) commented that similarly to par. 36, par. 35 should encourage undertakings to start the materiality assessment from impacts, especially in the last sentence of par. 35, which currently states that “*Material risks and opportunities generally derive from impacts and dependencies.*”
172. Two respondents (preparers) requested timeframes to be included in the example in par. 37.
173. One respondent (standard setter) suggested to delete par. 38, since implementation guidance should not become an academic paper on the inter-relations between impacts and risks.
174. One respondent (standard setter) recommended to revise par. 39 and use language consistent with the ESRS and avoid IFRS-related language (“*...Sustainability-related regulatory developments that address systemic risks may affect the prospects of the undertaking’s business*”).

*Editorial comments and rephrasing – Visuals (Figure 1 a, b, c)*

175. One respondent (user) commented on the caveat in Figure 1(a), suggesting reconfiguring the graph as three-dimensional to depict the passing of time.
176. Two respondents (assurance providers) found Figure 1(b) too complex and suggested to paraphrase the diagram’s key message (ideally in one clearly defined process like Steps A-D), to clarify that entities must first determine what the material IROs/matters are to report on, and then determine which information to report. Another respondent (assurance provider) [Mazars] found Figure 1(b) unclear and recommended to remove it (or simplify and review the arrows).
177. Sixteen respondents (preparers, standard setters, users, consultant, civil society, assurance providers) noted that the second arrow in the legend does not align with the diagram in Figure 1(b).
178. Two respondents (user, assurance provider) requested an introductory text for Figure 1(b). Another respondent (standard setter) requested to delete the arrow from the box “material risks and opportunities.”
179. Three respondents (standard setter, assurance provider, preparer) also pointed out that the thick black arrow should not be used in the “IRO universe” section of Figure 1(b). Another respondent (preparer) suggested to include explanations for the arrows. Another suggestion (assurance provider) was to incorporate the “impacts” and “financial” lens of double materiality graphically in Figure 1(b) for further clarity.
180. One respondent (user) suggested to change the phrase “IRO universe” to “IRO governance.”
181. One respondent (other) suggested to move Figure 1(c) to the end of Section 2.2. Another respondent (standard setter) commented that the legend in Figure 1(c) is unclear. One

respondent (standard setter) asked to refer to the exception of climate change in the left orange box.

182. Two respondents (preparers) requested to re-introduce the introductory text with reference to ESRS 1 AR 16 for Figure 1(c).
183. One respondent (assurance provider) considered that the green box in Figure 1(c) could suggest that the materiality of a matter triggered only by impact materiality or financial materiality also results in a disclosure obligation vice versa (the green box should be split).

### ***Comments on 2.2 Understanding key concepts for the materiality assessment***

#### *General Comments*

184. One respondent (assurance provider) noted the difficulty of reconciling which data point relates to which sub-topic/sub-sub-topic as identified by ESRS 1 AR 16 (IG should highlight these practical difficulties).
185. Two respondents (preparers) requested to re-introduce a deleted paragraph (“[...] AR 18 of ESRS 2 allows to aggregate individual material impacts, risks and opportunities into groups, when this provides more relevant information and does not obscure material information”).
186. One respondent (preparer) requested that Section 2.2. should be more explicit that it is not necessary to provide disclosures on all sub-sub-topics if a sub-topic is considered materially, but only on the sub-sub topics that are considered material.
187. Regarding the structure of the Guidance, one respondent (assurance provider) recommended to move Section 2.2 (to follow par. 32).

#### *Level of granularity*

188. Two respondents (consultant, assurance provider) requested further guidance on how to define the appropriate level of granularity (one suggestion was to provide clarification on the requirements of ESRS 1 par. 33, 34). Another respondent (user) recommended to provide further guidance on the concept of “sufficient granularity” (par. 47).
189. One respondent (user) requested further information on par. 47 and how ESRS may not sufficiently cover a topic and which information to provide as entity-specific disclosures.
190. One respondent (user) asked for further clarification that if a sub-topic (e.g., Microplastics) is deemed immaterial, but the overarching topic (e.g., Pollution) is considered material, the undertaking may conclude not to disclose actions, policies, and targets at the sub-topic level. In response to Figure 2, three respondents (preparers, assurance provider), requested specification that the impact could also be identified at topic, sub-topic or sub-sub-topic level, depending on the relevant circumstances (e.g. the more distant in the value chain, the less granular information available).
191. One respondent (preparer) asked for further clarification of par. 44, specifically why IROs have to be mapped to sustainability matters after deriving the long list of IROs based on ESRS AR 16 (“The undertaking shall disclose its material IROs..., which are in turn mapped to sustainability matters...”).

#### *Outcome of materiality assessment*

192. One respondent (preparer) argued that par. 4 is inaccurate when it comes to the aggregation of the outcome of the materiality assessment (“the outcome of the materiality assessment (ESRS 2 SBM-3) is to be disclosed at the level of impacts, risks and opportunities (or groups of them”).
193. Two respondents (preparer, consultant) commented that par. 48 (“the information to be disclosed is identified at matter level”) is unclear and seems to suggest that all impacts related to for example, air pollution have to be reported, which would include even the

impacts previously determined as non-material. Another respondent (preparer) requested clarity on par. 45 and 48, if an undertaking concludes a topic (e.g., "biodiversity and ecosystems") is immaterial following their materiality assessment, then the undertaking is not also required to conduct the materiality assessment at the sub-topic or sub-sub-topic level.

194. Two respondents (standard setters) noted that further guidance may be required for par. 48 (groups of IROs).

*Example requests*

195. One respondent (consultant) commented that par. 45 and 48 should be supplemented with relevant examples.
196. Two respondents (user, assurance provider) requested further guidance on the examples in par. 46 and to incorporate the materiality of datapoints and the consideration of "meeting objective of disclosure requirement".

*Editorial comments and rephrasing*

197. One respondent (other) suggested to revise the section heading, since it implies a review of key concepts, while in practice the section is on sustainability matters (to change to "Sustainability matters for the materiality assessment").
198. One respondent (assurance provider) asked to include the sustainability factors in par. 41 defined in article 2, point (24) SFDR.
199. Two respondents (standard setter, other) noted that "sustainability matters" should be defined earlier than in par. 41. Another respondent (standard setter) [Ministry of Finance Estonia] commented that the explanations in par. 41 and 43 on sustainability matters should be combined. One respondent (preparer) requested a specific reference to ESRS in par. 41.
200. One respondent (assurance provider) suggested to revise par. 43(c) and include the ESRS reference for entity-specific information.
201. Two respondents (preparers) requested to include a flowchart for par. 46 with specific references to ESRS requirements. Another respondent (preparer) suggested to shorten and simplify par. 46.
202. One respondent (civil society) suggested the following edit of par. 47: "In addition, as specified in par. 31, (in some situations where a sustainability matter is identified as material but is not covered by an ESRS (see ESRS 1 AR 16 for a full list of matters) or is not covered with sufficient granularity, the undertaking shall provide additional entity-specific disclosures] [..]."
203. One respondent (consultant) suggested to add a caption for the table on page 15 (otherwise it might be mistaken for Figure 3).

***Comments on 2.3 Criteria to determine the materiality of information***

*Criteria Materiality of information*

204. Three respondents (preparers, consultant) requested a definition of "decision-usefulness" and "significance" (par. 50); one further request was to explain how companies could define and set boundaries regarding the decision-usefulness of information. Another respondent (preparer) suggested to clarify "significance" and provide further guidance, for example a list of criteria to determine significance and/or an example.
205. One respondent (assurance provider) suggested to explain the relationship between "significant" and "material" and to provide an example of a case where information that is not "significant" is material to the user (or vice versa).

206. One respondent (preparer) requested a clear definition of “relative significance” to be provided (if it relates to capex, the same thresholds should be used as for financial risks).
207. One respondent (assurance provider) requested further information on which factors or criteria make information significant (ESRS 1 par. 31(a)) and how information entails the capacity of meeting the decision-making needs of users (ESRS 1, par. 31 (b)).
208. Two respondents (assurance providers) disagreed with par. 50 (“when a matter is material from both an impact and a financial perspective, the information needs of the two groups of users (investors and others) will highly likely be the same in practice”). One respondent (assurance provider) noted that par. 50 states that primary users of general-purpose financial information are financial materiality focused, which is not in line with Recital 9 CSRD (investors have a double materiality perspective). Furthermore, one respondent (standard setter) requested clarification of why “affected users” are not referenced in par. 50.
209. One respondent (preparer) commented that further guidance is needed to implement Appendix B of ESRS regarding the qualitative characteristics of information (par. 51).
210. One respondent (preparer) found par. 52 unclear.

*Example requests*

211. One respondent (preparer) requested examples on the implementation of the criteria to determine the materiality of information (par. 50).
212. One respondent (consultant) proposed to include examples in par. 50 of when a matter is material from both an impact and a financial perspective.
213. Four respondents (two assurance providers, user, preparer) asked to include an example of par. 50 (“cases where a piece of information is significant to depict the impacts of the undertaking on people or the environment, without necessarily being a relevant input for the users of the sustainability statement in its decision-making”).

*Editorial comments and rephrasing*

214. One respondent (assurance provider) requested to amend par. 49 to emphasise that the 'leading to the identification of material matters' is referring to the outcome of the MA and not to the outcome of the intended 'determining the materiality of information' (the sentence should read "Determining the materiality of information is a step that follows on from the identification - through the MA - of material matters to be reported on...").
215. One respondent (assurance provider) proposed a revision of par. 50 to clarify the information needs are "When a matter is material from both an impact and a financial perspective, the information needs of the two groups of users (investors and others) will highly likely be the same in practice." Delete "information needs" and replace it with "information necessary to allow users to understand its impacts on sustainability matters, and how sustainability matters affect the undertaking's development, performance and position".
216. One respondent (assurance provider) inquired about the connection between the capacity of information to be decision-useful and the qualitative characteristics of information. Furthermore, in par. 57 it should be explained that IRO-1 of each of the topical ESRS shall be reported irrespective of the outcome of the materiality assessment process.
217. Two respondents (preparers) proposed to include a definition of “general requirements on fundamental qualitative characteristics” and “enhancing qualitative characteristics of information” (par. 51). Another respondent (consultant) requested to add the definitions of relevance, faithful representation, verifiability and understandability.



**Comments on 2.4 Scope of application of the materiality of information**

*Filter of materiality information*

218. Three respondents (users, preparer) requested further guidance on the meaning of “filter of materiality information” and noted that this concept does not derive from ESRS (par. 30 of ESRS 1 does not ask company to apply a materiality filter when disclosing information on policies, actions and targets).
219. Two further respondents (preparer, consultant) also requested clarity on how the filter of materiality of information should be applied.

*Example requests*

220. Two respondents (preparer) requested to include practical examples on the definition of the materiality of datapoints (both in the standards and in the guideline, there is a paragraph stating that individual datapoints are not necessarily material even though the topic is material, without however clarifying any criteria or examples).
221. One respondent (assurance provider) proposed to emphasise that the definition of materiality of the various datapoints is independent from the materiality assessment of the topic and requested examples.

*Editorial comments and rephrasing*

222. One respondent (preparer) suggested to rephrase par. 53 to emphasise the MAIG’s non-binding nature (instead of “the following paragraphs illustrate how the undertaking shall apply...”, “illustrate how an undertaking may choose to apply”).
223. One respondent (user) noted that par. 54 should refer to “the filter of materiality information” not “filter of materiality information.”
224. For further clarity, one respondent (preparer) suggested to add in par. 54 (“If the undertaking has not adopted policies, actions or targets to manage a given material matter, it has to state this, but no additional information is required”): “The information is not required for topics, sub-topics or sub-sub-topics that are not deemed material.”
225. One respondent (assurance provider) requested to add an explanation in par. 57 that IRO-1 of each topical ESRS shall be reported irrespective of the outcome of the materiality process (ESRS 1 par. 29).
226. One respondent (assurance provider) advised to revise footnote 3 to cover all the topical standards that include datapoints related to metrics in their Application Requirements, to ensure consistency with IG 3.

**Comments on 2.5 Datapoints derived from EU legislation**

*Relevance for different stakeholders*

227. Two respondents (preparer, user) recommended to emphasise that datapoints derived from EU legislation may be relevant for significant stakeholders, such as investors or analysts (par. 58-59 states that the datapoints in ESRS 2 Appendix B, are treated similarly to other datapoints for the purpose of assessing the information to be reported on a material matter, i.e., those related to policies, targets and actions (ESRS 1 par. 33), and those related to metrics are omitted if they are not material (ESRS 1 par. 34).

**Comments on 2.6 Considerations for upstream/downstream value chain**

*Further Guidance*

228. One respondent (preparer) requested further guidance on the granularity and scope of value chain information (such as an infographic with examples of which value chain data and

at which granularity a company might need to consider determining the materiality of a specific matter).

### Question 3

*Do you have comments on Chapter 3: How is the materiality assessment performed?*

#### *Summary of constituents' comments*

##### *General Comments*

229. One respondent (user) suggested further guidance on how undertakings can translate their reporting on the ESRS into reporting that would be in compliance with the ISSB Standards (or vice versa), to help improving the interoperability with international sustainability reporting standards.
230. One respondent (preparer) suggested including simple examples (like those in par. 38) in parts 3.1 STEP A, 3.2 STEP B and 3.3 STEP C. Similarly, another three respondents (civil society) suggested adding clear explanation and examples as to how specific requirements should be applied, such as examples of the appropriate level of mapping of the value chain; overview of priority sector-specific matters for consideration by companies operating in high-impact and high-risk sectors; in the general process, concrete examples of meaningful and effective engagement of affected stakeholders, and the parts in the process where engagement is likely to be relevant; concrete examples of application of thresholds; a comprehensive overview of useful methodologies, processes, and sources of information on material matters, alongside explanation of their purpose.
231. One respondent (consultant) suggested further clarification on how to approach a sustainability matter that has both negative and positive impacts, applying particularly to potential sustainability matters, which could oftentimes be viewed from both angles (e.g., diversity in the short- or medium-term vs. long-term).
232. Two respondents (civil society, consultant) raised the question how the application of the LEAP methodology, recommended in the application requirements of the environmental ESRS, and in the TNFD, correspond to the materiality assessment process and principles described in the MAIG, and how the application of LEAP should be documented in the context of ESRS disclosure requirements.
233. One respondent (assurance provider) suggested that the guidance insists more on the fact that assessing and determining the material IROs should be done in a way that ensures that no material IROs are left aside and that, ultimately, the information to be reported covers all material IROs.

*Alignment with ESRS and CSRD*

234. Seven respondents (six preparers, assurance provider) requested consistency with regard to the terminology used in the ESRS and the MAIG, in particular referring to “sustainability matters” as opposed to “the full scope of environmental, social and governance matters” as the latter would broaden the scope of sustainability matters that undertakings would need to report on (par. 62).
235. One respondent (assurance provider) requested a review of the scope of entity specific sustainability matters (par. 62 and 72), as Article 29b (2) of the Accounting Directive (2013/34/EU) includes three exhaustive lists of ESG matters ('the following'). They call for a clear expression in the MAIG of whether the transitional provision in ESRS 1, chapter 10.4 (with the list of phased-in Disclosure Requirements in ESRS 1, Appendix C), take precedence over the requirement in ESRS 1, par. 11, to provide additional entity-specific disclosures.
236. One respondent (assurance provider) requested to clarify how to move from a materiality issue to a material datapoint, including clear examples on how to report the datapoint selected once the material IROs are available. Further, they raised the question what happens if the indicators included in the standard do not consider the management of the identified IROs.

*Impact vs. financial materiality*

237. Regarding the differences and interconnections of the process to establish impact and financially material topics, one respondent (other) suggested to clarify that even if the undertaking does not need to perform two separate and independent processes to establish impact and financially material topics, however, the information/data on financial risks and opportunities being distinct to that on the undertakings impacts, there is necessarily a step or series of actions that are specific to financial materiality assessment. Therefore, they suggested to reformulate the respective par. 63 to avoid obscuring the distinct nature of financial materiality considerations.

*Steps in the materiality assessment*

238. One respondent (standard setter) welcomed the illustration outlining the steps that the materiality process aligned with the ESRS could follow. To align MAIG with IG 2 – Value chain, they suggested adding a description of the business model of the undertaking, where relevant, prior to Step A, as well as a paragraph describing that a useful approach may be for the undertaking to first define its own reporting entity (including operationally controlled entities) and its specific business model and subsequently defining its value chain, assess its gross list of sustainability matters and finally conclude on double materiality based on its own circumstances.
239. Similarly, another respondent (preparer) also noted that IG1 and IG2 are closely interdependent on each other as the outlining of the value chain and the identification of the gross list of IRO's leads to and final materiality assessment. The full extend of the dependencies is however unclear to the respondent. They therefore suggest including a separate step before getting to Step A, determining the value chain.
240. Another respondent (assurance provider) noted some differences and inconsistencies regarding the steps specified in ESRS 1 AR 9 and therefore requested to align the MAIG with ESRS 1 with additional explanations where necessary (e.g., how should the undertaking apply the outcome of the process to the identification of material information to be reported).
241. One respondent (assurance provider) commented that further guidance on how to identify, assess and report on “risks and opportunities” (opportunities in particular and if they could qualify as sensitive information under ESRS 1 Section 7.7) would be useful.

### *Individuality of the materiality assessment process*

242. While one respondent (preparer) welcomed the possibility the MAIG outlines for companies to use a tailor-made approach in their materiality assessment, they raised a concern regarding the comparability of data on material IROs which should be ensured.
243. One respondent (standard setter) proposed to underline the proportionality principle as the ESRS do not mandate how the materiality assessment process shall be designed or conducted by an undertaking. Therefore, they proposed to adapt the depth of the process and documentation of the materiality assessment as described in the guidance to the specific facts and circumstances of the reporting entity (such as size, impacts and locations), while at the same time keeping sufficient documentation in order to be correctly audited.

### *IROS in the value chain*

244. Relating to step B, one respondent (consultant) highlighted the risk of excluding relevant sustainability matters in the value chain when screening the 'long list' of matters consisting of ESRS 1 AR 16 together with entity-specific sustainability matters by assuming that they do not apply to the undertaking's business model. The respondent assumed that such matters would then not have to be assessed further in step C.

### *Visuals: Figure 3*

245. Three respondents provided comments related to Figure 3:
246. One respondent (preparer) suggests that illustrative examples would be useful to show how the process in Figure 3 might be documented in practice.
247. One respondent (assurance provider) welcomes the illustration in Figure 3 but suggests reiterating that the process is only illustrative and not intended as a "one-size fits all" approach at the end of par. 64 (or right after Figure 3).
248. One respondent (user) suggest adding an explanation how the illustrations in Figure 1b) relate to the steps in Figure 3 to help preparers 'stitch' the individual graphics into the 'whole picture'.
249. Additional four editorial comments are considered in the revision of the MAIG.

### *Example requests*

250. Two respondents (assurance provider, civil society) requested examples on how to incorporate the value chain in the MA process, e.g. how to map the value chain, or on determining its limits.
251. One respondent (assurance provider) would appreciate examples establishing criteria of how to integrate stakeholders in the evaluation of impacts, considering a potentially long list of impacts.
252. Two respondents (assurance provider, preparer) requested further guidance and examples for determining the materiality of social issues, as well as governance.

### *Editorial amendments*

253. One respondent (standard setter) noted that the language of the MAIG in certain areas is hard to understand, in particular in the descriptions of financial materiality in section 3.3.2, par. 87 – 94, and section 5.2., par. 154 – 158. They suggested to review these sections, and consider the language carefully, also keeping in mind the difference between financial materiality, cf. ESRS 1, section 3.5, par. 47-51, and anticipated financial effect related to opportunities, cf. ESRS 1, section 7.8, par. 109 to avoid confusion.
254. Another respondent (assurance provider) suggested to amend par. 63: The reason for this is that material impacts *can* trigger ~~in most cases~~ material risks and opportunities. This is due

to the concern that the description could be read in a way that an entity should assume that an impact that is material for one group of stakeholders will always have a sufficient effect on an entity's prospects to influence investors decisions (and hence be considered financially material). Similarly, one respondent (consultant) suggested clarifying that material impacts do not necessarily lead to financial risks, however these need to be reported, addressed and managed.

*Disregarded comments*

- 255. Comments on the CSDDD were disregarded as the Directive is not enacted.
- 256. Two editorial comments were disregarded as they refer to an old version of the MAIG. The suggested amendments are already part of the current version of the MAIG.
- 257. Additional editorial comments are considered in the revision of the MAIG.

***Comments on 3.1 Step A: Understanding the context***

*Alignment with ESRS*

- 258. One respondent (assurance provider) suggested to adapt the wording of par. 67 to better reflect that the requirements of ESRS 2 SBM-1 do not apply to the process of the materiality assessment but address general disclosure requirements.
- 259. One respondent (preparer) highlighted the importance to align the use of terms in chapter 3.1 to the requirements of the ESRS. According to ESRS 2 SBM-1 par. 39, it is necessary to describe the "key elements of the undertaking's business model and value chain", whereas in chapter 3.1 of the guidance, terms such as "business relationships", "affected stakeholder" and "key affected stakeholder" are used. Another respondent (preparer) recommended to remain consistent when referring to "key affected stakeholders" (par. 66), since throughout the guidance "affected stakeholders" is also used.

*Contextual information*

- 260. Two respondents (civil society) find that Figure 3 and par. 68 reduce the relevance of contextual information by referring to it as "other contextual information" and therefore suggest rewording (e.g. by deleting 'other'). In addition, one respondent (civil society) suggested to further explain the relevance of contextual environmental and social information in sustainability reporting.
- 261. Two respondents (civil society) suggested to extend the list of examples of sources for contextual information by, e.g., adding reports and studies by civil society organisations, human rights bodies, international organisations, and others.

*Affected stakeholders*

- 262. One respondent (civil society) requested to include children as vulnerable group who are at heightened risks of negative impact by business. The respondent explained that children are often not considered as a standalone category in companies' materiality assessment, thus leading to companies failing to assess the risks they pose to children and report adequately on material topics relevant to children's rights. The current MAIG does not incorporate the reference to ESRS 1 AR 6 which specifies that "persons in vulnerable situations" are among common categories of stakeholder to be considered the materiality assessment. The respondent therefore suggested two editorial changes in par. 69 and 69 (b).
- 263. One respondent (preparer) suggested to elaborate further on how to map stakeholders that are affected from an environmental perspective, as they tend to be more scattered and potentially more difficult to reach than, e.g., workers.
- 264. One respondent (civil society) suggested to clarify how to understand which stakeholders are or are likely to be affected and aligning the paragraphs in the MAIG which explain the

concept of key affected stakeholders (e.g., par. 69, 190). Further, it was unclear on what basis undertaking should prioritise stakeholders to avoid an early and arbitrary prioritisation that leaves out individual or groups that could be relevant in the subsequent steps.

#### *Value chain*

265. One respondent (consultant) suggested to provide further guidance on how to achieve increased visibility in the value chain (referring to ESRS 1 par. 132-133), e.g., by pointing to sector and industry body guidance on increasing traceability. Further, they suggested a tabular illustration of which steps outlined in par. 67-69 apply to which parts of the value chain.
266. Similarly, another two respondents (civil society) pointed out that a foundational step for the entire materiality process is the mapping of business activities and the value chain(s). In this regard, they suggest further guidance on the granularity of value chain mapping, illustrated on concrete examples. In particular, they suggest clarifying how to address traceability of materials and production processes, where and how to apply assumptions, and the circumstances or examples where quantified information is necessary for materiality assessment.

#### *Financial and other tertiary undertakings*

267. One respondent (other) pointed out the bias of the MAIG towards primary and secondary sectors as well as upstream and operations, especially regarding the treatment of affected stakeholders and the treatment of materiality assessment criteria and setting thresholds. Given the large proportion of undertakings that do not fall in this category, they suggested to introduce a cross-reference to IG 2 – Value chain in the corresponding sections (Sections 3.1 (par. 69), 3.3.1 (par. 85), 3.5 and 3.6) as a basis for more detailed treatment in the sector-specific standards. A similar comment was made by another respondent (preparer), who pointed out that in relation to financial institutions specifically, engaging with stakeholders is not practical (and often impossible) given the extremely high number of potential stakeholders and the nature of those relationships. They therefore requested clarifying in the guidance that in certain cases (particularly including in relation to large financial institutions), engagement with stakeholders is not always necessary, depending on the type of reporting undertaking, the nature of its services and relationships.

#### *Explanation and clarification requests*

268. One respondent (civil society) suggested to clarify what is meant by "the type and nature of the business relationship" in par. 67.
269. To enhance clarity and facilitate implementation, one respondent (other) suggested to also consider positive impacts on affected stakeholders, as the guidance is only focused on the consideration of how stakeholders might be negatively affected. According to the respondent, omitting the positive dimension has a knock-on effect on the subsequent financial materiality analysis, as most opportunities require a positive impact component – much less opportunities will be found if only negative impacts are considered. They therefore suggest adding "negatively or positively" [affected] in the texts of Sections 3.1 and 3.5 which would act as a helpful reminder that impacts can be positive and/or negative, that stakeholders can be engaged to identify both types, and ultimately to incentivize/enable reflection on business model development.
270. Related to par. 73, two respondents (preparers) commented that a checklist of ESRS datapoints in addition to [Draft] EFRAG IG 3 – List of ESRS Datapoints would be helpful.

## Comments on 3.2 Step B: Identification of the actual and potential IROs related to sustainability matters

### Explanation and clarification requests

271. Two respondents (preparers) suggest clarifying if *for each sustainability impact* the undertaking shall disclose whether it relates to own operations, upstream or downstream value chain (e.g., regarding CO<sub>2</sub> emissions from transport).
272. One respondent (standard setter) requested clarification regarding the content in par 74 which relates to ESRS 1 Chapter 6.4 Definition of short-, medium- and long-term for reporting purposes as it was not clear why undertakings are required to disclose '*for each identified IRO*' whether it relates to own operations, upstream or downstream value chain and the relevant time horizon. Further, two respondents (preparers) pointed out that it should be clarified that the disclosure is only required '*for each identified material IRO*' and not '*for each identified IRO*'.
273. Another respondent (preparer) requested clarification regarding the content of par. 74 and par. 83. They interpret that according to par. 83, the criterion of time horizon is not required for *actual negative impacts* as well as *positive impacts* (as opposed to *potential negative impacts*). However, par. 74 states that the relevant time horizon is to be mentioned for each IRO, regardless of their positive/negative or potential/actual nature.
274. One respondent (consultant) needed clarification if the MAIG suggests using the 'long list' throughout the whole process as opposed to a 'short list' and asked for further recommendations on the procedure or criteria to reduce the list of sustainability matters to get to a 'short list'.
275. One respondent (consultant) asked for clarification and examples of the terms "facts and circumstances" in par. 78.
276. Two respondents (standard setters) question par. 78 stating that the undertaking needs to relate the names of the sustainability matters when these differ from the list in ESRS 1 AR16. One respondent (standard setter) requested to redraft par. 78 saying that the undertaking *does not* need to relate the names as they remain free, and the relationship does not have to be published.

### Additional guidance requests

277. One respondent (consultant) raised a concern that a 'long list' of entity-specific IROs may be challenging to assess and prioritise for undertakings before the sector-specific ESRS are in place. They suggest referencing IFRS and GRI sector-specific guidance as well as other sector-specific standards and guidance to support this process (e.g., set of publications collected by Business for Nature).
278. Another respondent (preparer) welcomes the MAIG, but suggested adding further guidance on how to use the list of sustainability matters in ESRS AR 16 in terms of granularity. The respondent found it unclear how to consider the list in the MA, i.e. if companies should evaluate all the sub-sub-topics or if they can be aggregated at higher levels of topics. As the list of IROs shall be considered as the basis for consulting stakeholders, as well as for assessing the financial risks and opportunities, a long list could add complexity to the process. The MAIG could therefore include guidance on how to reduce the list. Similarly, another respondent (preparer) [EnBW] requested guidance as to if the minimum requirement regarding the granularity of the IROs is the evaluation based on the sub-topics or sub-sub-topics according to ESRS 1 AR 16. As a starting point and if not contradicting the issues mentioned in FAQ 19, they suggested that IROs could be identified on segment level according to IFRS 8.

279. One respondent (preparer) suggested including an overview of potential impacts by sector, together with where they might originate in the value chain (e.g., tiers), as well as references to industry benchmarks and sectorial databases, such as OECD Sectorial Guidance. Further, another respondent (preparer) suggested adding a description of how far to go in defining the value chain and looking for sustainability matters to include in the gross list.
280. One respondent (preparer) suggested to include additional guidance to clarify the extent to which “entity-specific disclosures” are required in cases where there is a lack of or insufficient DR (par. 72). The respondent noted it may be disproportionate to expect sector sustainability matters to be identified and assessed as entity-specific in the implementation of the sector-agnostic standards.
281. Another respondent (civil society) asked for further guidance on which matters an undertaking should consider in high-impact sectors and suggested providing an illustrative list of such topics for high-impact and high-risk sectors.
282. One respondent (consultant) asked for further guidance on screening approaches, e.g. a definition of “screening”, and complementary, business-relevant examples of the two approaches suggested in par. 75 and 76.

*Editorial amendments*

283. Five respondents (four assurance providers, standard setter) pointed out a necessary editorial amendment relating to par. 71 and suggested to replace “material IROs” by “actual and potential IROs” or “potentially material IROs” as the assessment and determination of material IROs is made under Step C.
284. Another respondent (other) suggested an editorial amendment regarding the use of “actual” and “potential/current” impacts. As the use of the word “actual” indicates “confirmed” impacts (which may or may not be the case depending on whether direct measurement or proxies were used), and the word “potential” by itself could be used precisely to consider such “unconfirmed” impacts, they suggest switching to “current impacts” and “potential future impacts”, or at a minimum, adding a clear definition to avoid ambiguity, (e.g., in a glossary).
285. Three respondents (two assurance providers, standard setter) suggested editorial amendments related to par. 72, i.e.:
- removing the reference “to ensure completeness” as the use of the list contained in ESRS 1 AR16 is considered a starting point for the assessment of sustainability matters;
  - using “should start from” rather than “use” the list of the sustainability matters in ESRS 1 AR16
  - adding a sentence saying that sustainability matters may be structured differently from the list in ESRS 1 AR16.
286. One respondent (standard setter) suggested deleting the reference to ESRS 1 AR 16 in par. 76 as they consider the structure not being best practice.
287. Related to par. 72, two respondents (academic, consultant) raised a concern that users may potentially overlook the importance of sector sustainability matters for identifying actual and potential IROs related to sustainability matters. To prevent a potential misunderstanding, they recommend addressing this issue either within the 'Summary in 13 Key Points' or in the Introduction section. Further, they suggest integrating this consideration into the visual illustrations, e.g. in Figure 3 and Figure 1c by referring to par. 72. In addition, one respondent (consultant) suggested to amend par. 72 by adding the following: “It is equally important for the undertaking to consider entity-specific *and sector* sustainability matters not covered in that list, if any”.



288. Two respondents' editorial comment (academic) was partially disregarded as the proposed amendments is already part of the current version of the MAIG.

### ***Comments on 3.3 Step C: Assessment and determination of material IROs related to sustainability matters***

#### *Financial materiality assessment*

289. Related to par. 87, two respondents (preparer, consultant) found it unclear if the MAIG suggests that all the mentioned parameters have to be considered to determine the financial magnitude or if they constitute a list that the undertaking could choose the most appropriate ones from. Further, two respondents (preparers) noted to be important that the assessment of financial risks and opportunities must be aligned with risk management principles an undertaking has already defined, which is particularly relevant in order to ensure stringency between the sustainability statement and risks that are reported, e.g., in risk reporting.
290. One respondent (preparer) requested more guidance regarding par. 92 which states that "[...] the undertaking determines the information to be reported based on its materiality [...]". Another respondent (assurance provider) considers par. 92 incomplete by only expressing financial materiality to be based on the decision-usefulness of the information (ESRS 1, par. 48). According to the respondent, the paragraph lacks the second criteria by which a sustainability matter is material from a financial perspective when it triggers or is reasonably expected to trigger material financial effects on the undertaking, i.e. current and anticipated financial effects (ESRS 1, par. 49).
291. One respondent (assurance provider) noted that chapter 3.3.2 lacks a paragraph on the restrictions on reporting on opportunities as per ESRS 1 par. 109. Consolidating impact and financial materiality outcomes
292. Another respondent (assurance provider) pointed out that the connection between IROs and the topic/sub-topic or sub-sub-topic is already addressed in par. 75 and 76 of the MAIG and therefore requested an explanation of the circumstances in which this connection has not already been made in the subsequent phases (i.e., the identification of material IROs). This is echoed by another respondent (civil society) who found the text in par. 95 and 96 unclear, including that the "analysis performed at material topic/sub-topic or sub-sub-topic level is to be converted to IROs if this has not been done yet".
293. Three respondents (standard setter, preparer, assurance provider) consider the consolidation as challenging for undertakings and therefore suggest further guidance on the process of consolidation and an example of methodology, e.g., on the steps that need to be followed to assess whether potential matters are material when aggregated even though the individual items were not identified as being material, or the intersection between due diligence obligations and the CSRD.
294. Further, two respondents (assurance provider) suggested further guidance on the process how to determine the final matters for reporting, including the linkages between the process of defining materiality in IROs, sustainability matters, and the final data points.
295. One respondent (preparer) found par. 95 to be unclear and suggested further guidance as well as a practical example. Another respondent (consultant) added that the title of chapter 3.3.3 would not match the content of par. 95 and 96. They also suggested to remove the last sentence of par. 95 (Analysis performed at material topic/sub-topic or sub-sub-topic level) as they consider the sentence contradicting the before instructions as the analysis of IROs related to sustainability matters is crucial in the whole process.
296. One respondent (assurance provider) found par. 95 and 96 difficult to understand, particularly the designated role of management to assess and validate the completeness of

the list of material IROs. They requested further guidance on which basis and by which criteria the management should perform such assessment and validation of IROs.

297. Similarly, another respondent (civil society) consider the governance involvement in the materiality assessment process not to be sufficiently covered, even though they regard the involvement of Boards of Directors and Management Committees as crucial to the success of the materiality assessment. They therefore recommend including that the auditor's opinion on the materiality assessment process and outcome should systematically be presented by the auditors to the Audit Committee and Board of Directors. Another respondent (standard setter) also highlighted the need for explicit references to governance involvement into the materiality assessment process and proposed defining a step "zero" devoted to governance issues. In this step, organisations should be suggested to set up of an adequate governance structure and processes to build, validate, sign off, and use the insights from the materiality assessment.
298. At the same time, one respondent (assurance provider) to strengthen the second sentence in par. 96 for an internal validation of the assessment process and the double materiality results, stating that "Those in charge of this activity ~~may~~ *should* also validate the aggregated double materiality results with the management to assess and validate the completeness of the list of material IROs". According to the respondent, this would be in line with the approach of the standards of the governance bodies with respect to the responsibilities of governance bodies to conduct an analysis of the IROs, as well as with the need for an internal review process that is an integral part of the system of internal controls over sustainability reporting. Moreover, given the responsibilities of the assurance provider under the CSRD, a final validation by a governance body would be needed as an integral part of the assurance process.

#### *Explanation and clarification requests*

299. One respondent (assurance provider) suggested that it might be helpful to explain whether impacts should be assessed in absolute or relative terms, e.g., in comparison to impacts of other undertakings in the same or different sectors.
300. Related to par. 83, one respondent (consultant) asked if the difference in wording between „potential negative impacts" and „future positive impacts" implies a difference in meaning that would need to be explained.
301. In par. 88, two respondents (consultant, standard setter) requested clarification what is meant by the "nature for the effects of the identified risks and opportunities".
302. Further, one respondent (consultant) considers the sentence to be misleading, as it may seem to imply that the likelihood and potential magnitude needs to be evaluated three separate times for each of the three-time horizons.
303. Relating to par. 90, two respondents (preparers) raised the question if the requirement was mandatory according to the ESRS, whereas another respondent (standard setter) suggested to make the guidance more directive by replacing "may" with "shall" to overcome a potential issue that undertakings are working with two risk registers, one on sustainability matters and one on other matters that are not linked to one another. Further, another respondent (preparer) suggested that it may be useful to explain how the result of the risk management process can be integrated in the double materiality process, as the two processes have a positive synergy.
304. One respondent (assurance provider) suggested to align par. 91 with par. 108 and 109, as par. 91 refers to engagement with investors and other financial counterparts (e.g., banks) and seems to suggest they are the only user categories, whereas the other paragraphs also refer to stakeholders "other than investors". This is echoed by another respondent (user), who suggests for the guidance to be more prescriptive in par. 91, 108 and 127 on the

importance of engaging with reporting users, including investors, to determining decision-usefulness of information and meet investor needs, which should be presented as a critical step of the materiality assessment.

#### Example requests

305. Two respondents (preparers) asked for an example of an impact that is material based on an established scientific consensus about the severity of a particular kind of global and localised environmental impact, and for which the undertaking can conclude that it is material without an in-depth analysis of scale, scope and irremediability. Such an IRO Statement as example would show options of presentation in the reporting and increase understanding of corporates and auditors. Three additional respondents (user, standard setter, assurance provider) asked for examples of “established scientific consensus”.
306. One respondent (consultant) raised a concern that the approach in par. 84 may leave room for interpretation which could make it more difficult to further sort, compare, or prioritise material topics, if some of them have not received a materiality score based on the severity and likelihood parameters.

#### Editorial amendments

307. One respondent (standard setter) suggested an editorial amendment in par. 82 by substituting the term “current impacts” with “*actual* impacts” in line with the language of the ESRS.
308. Relating to par. 85, two respondents (civil society) suggested to change the term 'key stakeholders' to 'key *affected* stakeholders *and their legitimate representatives*', which would also bring about consistency with par. 99. Another editorial comment (standard setter) relating to par. 85 was disregarded as the reference is already included in the current version of the MAIG.
309. One respondent (preparer) pointed out a difference between par. 87 ("appropriate quantitative and/or qualitative thresholds based upon financial effects in terms of performance, financial position, cash flows, access to *and* cost of capital are used") par. 142 (financial materiality focusses on the effects of sustainability matters on the undertaking's cash flows, financial performance and position, access to finance *or* cost of capital) and asked to align the terminology.
310. In par. 89, one respondent (standard setter) suggested to substitute the expression 'financial risks and opportunities' with 'risks and opportunities that are financially material'.
311. One respondent (assurance provider) suggested to move par. 92 to chapter 3.4 (Step D) that covers reporting, whereas another respondent (assurance provider) recommended removing the paragraph as the first part refers to a subsequent phase of the process, and the second part refers to impact materiality which has already been addressed in a footnote in par. 34.
312. Another respondent (assurance provider) suggested the following editorial amendment in par. 92 to make it clear that the paragraph is only covering the financial materiality: "~~In both~~ *in both* cases, information is considered *financially* material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports take on the basis of the undertaking's sustainability statement, relating to providing resources to the undertaking'.
313. One respondent (assurance provider) suggested to also add a reference to chapter “3.7 Deep dive on financial materiality: Setting thresholds” in par. 94.
314. One respondent (assurance provider) recommended adding "material" in the following sentence under par. 96: "Once the undertaking has assessed individual *material* IROs based on appropriate thresholds [...]".

## Comments on 3.4 Step D: Reporting

### Example requests

315. One respondent (user) proposed to incorporate specific examples of what constitutes "material information" in chapter 3.4 Step D: Reporting, supplementing the FAQs in chapter 5.6, and providing a more illustrative and practical understanding. In addition, they suggested including more guidance and examples to clarify the distinction between "material matters" and "material information".
316. Under par. 97, one respondent (assurance provider) suggested to include Disclosure Requirement IRO-1 of each topical ESRS. Another respondent (preparer) suggested adding more emphasis on how to apply SBM-3, as this disclosure helps the undertaking understand the basis of its impacts, informs the due diligence process and contributes to continuous improvement.
317. Related to par. 97, one respondent (assurance provider) suggested to add examples to the three mandatory disclosures required by ESRS 2, e.g., presenting "Double Materiality" in a single tabular and/or matrix format (including the IROs associated with a specific topic) and, or alternatively, "Impact Materiality" tables in combination with "Financial Materiality" tables.
318. One respondent (assurance provider) suggested to include examples on what is considered "material information to disclose" as per ESRS 1 par. 31, e.g., by further expanding par. 97 and 98 in chapter 3.4 Step D: Reporting.

## Comments on 3.5 Role and approach to stakeholders in the materiality assessment process

### Affected stakeholder groups

319. Two respondents (civil society) recommended to include a specific reference and clarification of the importance of consultation and engagement with stakeholders in vulnerable situations such as children, as well as the need to explain how the reporting entity has taken into consideration specific barriers to engagement as well as safeguards for the protection of their human rights in line with ESRS DR S1-2, S2-2, and S3-2. One respondent suggested (civil society) therefore adding the following to par. 102: *"In engaging with affected stakeholders, where applicable, the undertaking should also take steps to engage with those who find themselves in vulnerable situations, such as children and/or their representatives. These are individuals and groups who face particular barriers in accessing information and participation and require specific safeguards to protect their rights and needs. As such the undertaking should take action to put in place measures to remove barriers and ensure protection of their human rights when engaging with them."*
320. Similarly, the respondent (civil society) suggested adding the following example of engagement with affected stakeholders who are in vulnerable situations such as children in par. 1013 to highlight the importance of looking at their specific views into the undertaking's materiality assessment, for example: *"For online gaming companies and other digital service providers, it would be important to consult appropriately and safely with children as key consumers about the impact of their products. Such engagement should include feedback about the effectiveness and accessibility of tools to report inappropriate or harmful content, contact, and conduct. Understanding children's views and those of their representatives will enable companies to understand children's barriers to reporting and generate insights on how to address these through the design of reporting tools."*
321. One respondent (preparer) noted that the relationship between both affected stakeholders and users of the sustainability statement, including potential conflicting

interests, is not sufficiently addressed in the MAIG. They suggest further explanation of how affected stakeholders as well as users of the sustainability statement are expected to be considered in the assessment of the impact materiality and/or financial materiality, and how conflicts of interest are to be resolved.

322. One respondent (civil society) found that the MAIG recommends consulting only the affected stakeholders. As far as climate is concerned, they recommend that the guidance should stress the necessity to consult NGOs as well. The guidance should also recommend the establishment of an organised dialogue with stakeholder.

323. Another respondent (civil society) provided several comments on chapter 3.5. First, suggest clarifying how to understand the main groups of stakeholders. Second, they consider it to be important to hone in on the role of affected stakeholder engagement in the materiality assessment process, referring to section 3.1 of ESRS 1 which outlines the role of engagement with affected stakeholders in the materiality assessment process. Third, they suggest that the guidance clarifies the different purposes of stakeholder engagement in the ESRS, while understanding that the MAIG focuses on the materiality assessment. Nevertheless, they consider reference to other uses of stakeholder engagement helpful.

#### *Prioritisation of affected stakeholders for engagement*

324. Regarding par. 105, one respondent (civil society) suggested to align the part about prioritisation with par. 69 which highlights that the prioritisation of affected stakeholders has to do with, e.g., their relevance to specific business activities, and not, e.g., their perceived importance to the company or their potential power. They regard this important to avoid the possibility that certain affected groups perceived to be less important are deprioritised in consultations despite potentially being affected by severe impacts.

325. Similarly, two respondents (preparer) asked to clarify what is the methodology needed for defining the weight / the priority of an affected stakeholder.

#### *Forms of stakeholder engagement*

326. Six respondents (assurance provider, five preparers) found that the wording in par. 106 might imply that consultation is the preferred method for stakeholder engagement and that alternatives are only permitted if consultation is not possible. They therefore suggested to clarify that such a hierarchy does not exist in the ESRS, e.g. by only referring to “stakeholder engagement/engagement of stakeholders” rather than using different terms such as “consultation, input, feedback” etc.

327. Another respondent (standard setter) pointed out that alternatives to direct stakeholder consultation should be considered not only in situations where stakeholder consultation is not feasible, but also when the undertaking opts for alternatives either because other sources of qualitative information can be used or due to cost constraints, choosing instead to leverage existing engagement processes. They therefore suggest deleting the following part of the first sentence in par. 106: "~~*In situations when consultation with stakeholders is not possible (for instance, because such engagement would put them at risk) [...]*~~".

#### *Stakeholder engagement and financial materiality assessment*

328. With regard to par. 108, five respondents (preparers) raised a concern that the paragraph indicates that the financial materiality assessment is also linked to engagement with users [of the sustainability statement] which they do not consider to be the case under the ESRS (ESRS 1 par. 22(b) and AR 13). They therefore propose to ensure that the wording in the MAIG does not suggest that the financial materiality assessment is linked to stakeholder engagement.

329. Another respondent (assurance provider) found the view of users too limited in par. 108, which states that the role of users is to support the assessment of financial materiality. They

therefore call for a more logical association of each of the two groups of stakeholders to each step of the materiality assessment process.

330. One respondent (preparer) suggested to clarify the rationale for considering external users' views (par. 108). While external users' views can provide valuable insights, they should not overshadow the importance of presenting accurate and unbiased information.

*Due diligence and stakeholder engagement*

331. One respondent (preparer) suggested further guidance on the interconnection between the due diligence process and the reporting process (as addressed in par. 63; chapter 4.3 Leveraging international instruments of due diligence), by adding an infographic on the different materiality assessment steps and how the stakeholder engagement and the due diligence process could feed into those.
332. Another respondent (civil society) suggested making a clearer connection with the usefulness of conducting human rights due diligence in par. 105 as they consider the involvement of affected stakeholders in the assessment of severity and likelihood of severe impacts essential. They raised a concern that the use of the word "may" defeats that purpose.

*Explanation and clarification requests*

333. One respondent (preparer) noted that providing a definition of "workers' representatives" (par. 102) may be helpful. It is necessary to understand whether only the requirement for consultation with European Works Councils (EWC) is included, or if other forms of representation should also be considered.
334. Two respondents (preparers) suggested to clarify in par. 105 that engagement of stakeholders in Step C is not required if a topic is already deemed material (e.g., climate change if material based on scientific consensus).
335. Another respondent (assurance provider) asked for further explanation why ESRS 1 par. 22 defines two groups of stakeholders: affected stakeholders and users of sustainability statements. Similarly, one respondent asked for practical examples explaining the meaning of "individuals or groups whose interests are affected or could be affected".
336. Two respondents (assurance provider, civil society) suggested clarifying that the impact materiality assessment should not be based solely on affected stakeholders, but to also ensure that the relevant users of the sustainability report are included in the various groups of stakeholders considered during the process. In addition, they requested more guidance and illustrative examples on stakeholder engagement, including, the extent a preparer can or should rely on stakeholder engagement; how to select stakeholders in a way that ensures an unbiased outcome of the outreach and analysis; whether there are any trade-offs between views and interests of different stakeholders; any references to other initiatives/literature that may be instructive for the process.
337. One respondent (standard setter) suggested evaluating whether it would be useful to include examples in the guidance on how to engage stakeholders and on the contribution that the dialogue with stakeholders can give in the different steps of the materiality assessment process.
338. When identifying affected stakeholder, one respondent (consultant) raised a question on the minimum amount of external and internal stakeholders to include into, e.g., an online survey to have a significant amount of stakeholders per stakeholder group and asked for further guidance on the most relevant stakeholder groups to include in the process.
339. One respondent (preparer) noted that assessing the financial materiality of impacts that will occur in different time horizons, in some cases, long term, implies that the concept of financial materiality differs from that considered for the purposes of financial statements,

which cover past events and a period of 12 months. In the case of financial materiality, although IFRS does not say how it should be calculated, due to audit practice, it is calculated as a % of BAI. In the case of financial information, there is no guide in this regard. They therefore suggested clarifying in par. 108 how financial materiality is different from financial statements and provide guidance for companies on this point.

340. Three respondents considered par. 109 unclear:
341. One respondent (assurance provider) missed the link between the dialogue with stakeholders other than investors and the assessment how the entity manages its material impacts.
342. Another respondent (assurance provider) considered the last part of the sentence to not fit properly, as the materiality assessment concerns the way the undertaking manages material IROs. They assumed that the meaning of the sentence might be that the undertaking should consider stakeholders other than investors when assessing material impacts, since it is them who may use sustainability-related financial information in their own assessment of how the undertaking manages its material impacts.
343. Lastly, one respondent (assurance provider) suggested deleting the entire paragraph as they consider it not providing any useful operating indications, as well as potentially contradicting par. 91 to which it refers.

*Editorial amendments*

344. Two respondents (civil society) suggested changing stakeholders to “affected stakeholders” in the last sentence of par. 103.
345. One respondent (standard setter) suggested adding an example of ongoing stakeholder engagement in the second sentence of par. 105: “[...] as undertakings may already have ongoing engagement with them to use (*such as customer or employees satisfaction surveys or dialogue with employees representatives*)”.
346. One respondent (standard setter) suggested to delete “to consult”, as they regard science as a source for materiality assessment, not for stakeholders' consultation. “A source ~~to consult~~ for impact materiality is the scientific research; in particular, for environmental matters, where credible scientific reports and other sources may be key to objectively assess the severity and/or likelihood of impacts”.
347. One respondent (assurance provider) found the sentence in par. 108 unclear, which states that “This is aligned with current practice for the financial reporting materiality processes, where notes to the financial statements and presentations to investors are adjusted regularly to reflect emerging issues and other matters of interest to investors”. They therefore suggest deleting it as they do not consider it providing the necessary information for those who perform the materiality assessment for sustainability reporting purposes.
348. Regarding par. 102 and 136, one respondent (user) noted that the OECD Guidelines for Multinational Enterprises are mentioned before in par. 18, but no acronym is introduced at the first use, as well as italic format is being used. In addition, they recommended to mention that “the workers' representatives' opinion shall be communicated, where applicable, to the relevant administrative, management or supervisory bodies” according to Directive (EU) 2022/2464 (52).
349. One respondent (civil society) suggested to amend the following sentence: “The outcome of the undertaking’s ongoing due diligence processes that are in place are *generally* useful to inform the materiality assessment”.
350. One respondent’s comments were disregarded (civil society) as their suggested amendments are already included in the current MAIG.

## **Comments on 3.6 Deep dive on impact materiality: Setting thresholds**

### *General comments regarding chapter 3.6 and 3.7*

351. Four respondents (standard setter, user, two civil society organisations) pointed out the need for practical examples for setting quantitative and/or qualitative thresholds to illustrate how the MAIG can be put into practice by companies (e.g., how to determine whether scope is high/medium/low, how substantiated those thresholds need to be). One respondent (civil society) suggested that the examples should address both the issues that may not require deep assessment (e.g. GHG emissions and workforce data) as well as those that do.
352. Two respondents (civil society) raised a question regarding the connection of disclosure requirements IRO-1 par. 53(b)(iv) and 53 (c)(ii) (disclosure of thresholds and other criteria used) and SBM-3 par. 48) (disclosure on the outcomes of materiality assessments in terms of specific impacts, risks and opportunities). They suggest clarifying that the disclosure of threshold should be related to specific impacts, risks and opportunities or their categories.
353. One respondent (assurance provider) appreciated the details provided on the process of setting thresholds in the impact and financial materiality assessment process. Regarding the subject of ranking impacts, risks and opportunities they understand that this would be done for managerial purposes and therefore give the readers of the report an indication how they should look at the presentation of targets, strategies and measures as well as associated metrics. They therefore consider it helpful to clarify that where ranking is used, this is only used for managerial purposes and has no impact on the applicability of the ESRS and their content covered in the sustainability information.
354. One respondent (civil society) raised a concern that by not establishing thresholds due to the difficulty of determining possible common thresholds, the process may differ significantly between companies with similar activities and the possibility of comparison may be lost. Regarding comparability, another respondent (preparer) raised a concern that the impact materiality assessments will depend more on individual judgement than the assessment of materiality for financial reporting. They noted that the high degree of judgement in the not yet developed consistency in undertakings' practice and impact materiality analysis will lead to divergent reporting results in the first few years of ESRS application, even in case of the same industry sector, similar sustainability topics or similar economic activities.
355. One respondent (civil society) suggested clarifying what additional key considerations for undertakings would be appropriate once the impact materiality assessment has been conducted (after the assessment of scale, scope, remediability). This is because the assessment will yield a variety of results for severity, but the ESRS do not set specific qualitative or quantitative thresholds for deciding which matters will make the "cut" for inclusion in reporting.
356. One respondent (consultant) raised the question how a threshold is set for impacts for which there are legally stipulated norms, e.g., air emissions. If the entity has legally stipulated norm for its activity, can the impact be screened out as material just because the entity is below the legal norms?

### *General comments regarding chapter 3.6*

357. Two respondents (assurance provider, civil society) suggested including additional examples/illustrations in order to further help companies and their assurance providers to understand how to apply the criteria and how to set thresholds in practice. Similarly, another respondent (preparer) believes that it would be convenient to give more concrete indications to make sure different entities apply thresholds in a comparable and robust way.



358. In addition, another respondent (assurance provider) pointed out that the MAIG does not refer to common calculation methods to be used to assign values to the intensity scales (1 to 5) for each factor of impact severity. Moreover, they raised a concern how the overall values of impacts determined from intensity scales can be compared with each other across different sustainability aspects such as the environmental to the social one. They therefore recommended to publish some case studies and practical examples on how to conduct the double materiality assessment process with a focus on the assessment and determination of material IROs to clarify the above-mentioned aspects.
359. Two respondents (preparer, standard setter) pointed out that the chapter does not clarify the use of thresholds, nor includes any reference on how those can be set.
360. Two respondents (standard setter, preparer) agreed with the flexible approach followed by the guidance on setting thresholds but requested providing more precise indications on determining such thresholds in the sector-specific standards to favour, at least at sector level, greater comparability in the materiality assessments.
361. One respondent (assurance provider) suggested to include further guidance and examples for determining the materiality of social issues.
362. One respondent (preparer) suggested to provide examples for severity and likelihood assessment of impacts and the respective reasoning. They also raised a question if standard values for irremediability for certain impacts as reference will be provided (e.g., GHG emissions), to be able to assess preventability instead of irremediability. They further suggested examples which demonstrate how highly regulated and well-managed sustainability matters can be material (e.g. ecosystem damage in chemical industry), as they consider it being "impossible" for these negative impacts to occur due to the high standards in place (e.g., at the own production sites). Lastly, suggested providing the mathematic formulas to calculate an overall score for an impact and / or risk / chance, as they find it difficult to mathematically represent 1) high ratings on either dimension of severity shall result in overall score no less than threshold 2) probability rating shall be integrated in a reasonable way.

*Considering affected stakeholder groups*

363. One respondent (civil society) suggested adding to par. 113 that in addressing the severity of actual or potential impacts, the undertaking should consider how these impacts affect individuals and groups differently. Individuals and groups in vulnerable situations, such as children, might be vulnerable in specific circumstances and require specific protections different from adults. The effects of some impacts on them can be irreversible and result in lifelong damage, such as in the case of exposure to pesticides.

*Alignment with international due diligence frameworks*

364. One respondent (civil society) suggested precisising the use of the severity terminology to align the MAIG with the OECD MNE Guidelines and UNGPs. Concretely, they propose amending the parenthesis in par. 113 (a) to provide a more meaningful explanation of gravity: "[...] (i.e., the extent *or seriousness* of infringement, e.g., in the context of social impacts on rights to life, health, liberty, security, or in the context of environment, e.g. threats of extinction etc.)".

*Green example box (p. 27)*

365. Seven respondents provided comments regarding the examples in chapter 3.6.2 Potential impacts:
366. Four respondents (preparers) suggested adding a more nuanced example, considering what would influence changes in material outcomes due to changes in circumstances such

as acquisitions, i.e. what is material at a standalone company level might not hold the same materiality in a group setting, given, for example, higher thresholds of materiality.

367. Two respondents (assurance providers) suggested to clarify whether a matter that is assessed as material from an impact perspective at a subsidiary level would also always be considered material at a higher consolidated group level. For instance, it is particularly unclear to the respondent (assurance provider) whether changes in the scoring of the scope (depending on whether a smaller or larger lens within a group is applied) could change the overall assessment of the scoring of the severity of the matter. Further, there is unclarity in which circumstances the disclosure for different assessments of IROs for subsidiaries vs. the group should be made and disclosed (as required by ESRS 1 par. 103). To clarify how the materiality assessment at an individual company level relates to materiality at the consolidated group level, they suggested, as a minimum, referencing FAQ 13 in Section 3.6.2 to introduce the concept of establishing an appropriate level of consistency and defining thresholds for the entire group (e.g. establish a level of judgement from an entity's perspective, as it relates to reporting potential and/or material impacts of a subsidiary (pending the severity assessment)).
368. Similarly, one respondent (preparer) suggested clarifying the way the group or entity perspectives can be aligned. Another respondent (preparer) called for further guidance on handling materiality assessments conducted at the subsidiary level when reporting at the group level. This includes addressing scenarios where the group level represents a majority shareholder in a large, listed entity and discussing related issues such as transparency limitations.
369. Another respondent (standard setter) considered the identification of IROs at the subsidiary and group level to remain confusing even with the elements provided in the FAQ13. They requested additional guidance on that point either in the MAIG or a specific explanation on this topic. Moreover, they suggested providing additional guidance about the consultation of subsidiaries on the materiality assessment process (e.g., should the management of subsidiaries be involved in the MA process and the validation of its results?).
370. Another respondent (assurance provider) suggested clarifying whether a material impact assessed and determined as such at the level of a site, subsidiary, activity, etc. should automatically be considered as being material at group level which would mean that the impact materiality has to be assessed on an absolute basis (for instance when a material negative impact with respect to biodiversity has been identified for one site only whereas the group has thousands of sites worldwide without any biodiversity issue).
371. Another respondent (assurance provider) raised a concern that the example provided might be taken to suggest that the size of the entity should not be a consideration in assessing impact materiality. They suggest clarifying that the materiality assessment should always be conducted at the group-level rather than at the level of each standalone entity within the group. They further suggest clarifying that while scope has changed with the acquisition, scale and irremediability have not. In the absence of such clarification, the respondent's concern is that the example may create expectations that preparers would provide information about any impact that was identified and considered at the standalone entity level irrespective of scale relative to the group entity's activities. Lastly, they consider the example to be contradictory to par. 181, which could be interpreted that the impacts from subsidiaries should be aggregated and weighted against revenues.
372. Another respondent (civil society) found that the example is not easily understood. They suggested to clarify that the severity assessment may not change, but the pollution matter may not make the impact materiality threshold of group B, while it may have been the case for undertaking A. Severity does not change, but inclusion in the reporting may, depending on all of the other matters that B has to consider in its materiality assessment.

*Explanation and clarification requests*

373. Regarding par. 113., two respondents (preparer, standard setter) suggested adding more explanations and examples on scale, scope, irremediable character, time horizons, as well as more clarity/examples on positive impacts which would help readers. Examples could be collected from the practitioners. Similarly, one respondent found the example in par. 113 (b) to be unclear as one might assume that the example provided refers to the 'scale', instead of the 'scope', and suggested adding further environmental examples in both par. 113 (a) and (b), especially for silent stakeholders. Another respondent (preparer) [amfori] suggested more examples of qualitative and quantitative criteria in par. 117 and 121.
374. One respondent (preparer) requested to clarify in par. 114 if relative risks (as compared to all risks an enterprise might face) should be considered.
375. One respondent suggested (civil society) to clarify how an analysis of severity is different from risk prioritisation in the ESRS.
376. One respondent (consultant) considered par. 115 to be stated vaguely and suggested rephrasing to make clear that the best and most robust available evidence should be used when setting thresholds.
377. Related to par. 116, two respondents (preparers) requested an explanation on how companies can ensure that all essential points have been included in the report.
378. Regarding potential impacts in par. 120, one respondent (consultant) suggested adding further guidance on how to calculate the likelihood of material impacts, illustrated by business-relevant examples.

*Approach to actual vs. potential impacts*

379. As for potential impacts par. 119 states that "to simplify its representation, the three factors within severity would be combined altogether", one respondent (preparer) suggested that this approach should be pursued for actual impact as well. They therefore suggest adding the following clarification to par. 117: "To simplify its representation, the three factors within severity can be combined altogether".

*Figure 4*

380. Seven respondents (four preparers, standard setter, assurance provider, other) considered Figure 4 as potentially misleading since it (visually) suggests that a classification of a single category as "High" leads to an overall categorisation of an impact as material ("Yes"), whereas ESRS 1 AR 11 states that "Any of the three characteristics (scale, scope, and irremediable character) can make a negative impact severe", with the understanding of the word "can" leading to the assumption that there can also be situations where this is not necessarily the case. They therefore suggest clarifying whether this wording ("can") is to be interpreted as an automatism or whether a case-by-case assessment is appropriate in such cases. They further suggest revising the visual presentation, among others revising or clarifying the threshold in this figure (average as suggested in par. 119).
381. Another respondent (consultant) requested an explanation of how the severity assessment component ratings are combined to give the overall Yes/No answer in the final column.
382. One respondent (preparer) suggests adding a case with two "mediums" and one "between low and medium" in Figure 4, so that it is clear what levels 3+3+2 lead to (materiality vs. no materiality). Similarly, another respondent (assurance provider) suggested adding an example in which only one of the criteria is above the materiality threshold (high or medium-high).

383. One respondent (civil society) requested to explain the colour coding for "low", "medium" and "high". They consider it confusing because of the lack of narrative explanation for the decision to define an impact as material (e.g., two browns and a yellow is a no, but a yellow, a brown and a red is a yes).
384. Another respondent (preparer) suggested clarifying the approach stipulated in Figure 4, as they consider the implicitly assumed scalability of the factors scale, scope and irremediable character as methodologically and practically untenable. Together with other two respondents (assurance provider, civil society) they suggested emphasising more clearly that the representation in Figure 4 is only one of many possibilities. One respondent (civil society) suggested including more than one visual representation, representing different thresholds, to make even more clear that the setting of thresholds is defined by the company, and not by these visuals.

*Figure 5*

385. Two respondents (standard setter, preparer) raised a concern that Figure 5 suggests to the reader an asymmetrical treatment of severity and likelihood (e.g., while on a five-point scale a likelihood of 5 is classified as medium (orange), a severity of 5 would lead to a classification as high (red). They suggest clarifying that these classifications are only examples, but do not represent a general approach to thresholds.
386. In addition, two respondents (preparers) raised a concern that Figure 5 could lead to the impression that a scale and scoring with 5x5 is mandatory, however 3x3 can be sufficient as well. No other ESRS requirement states explicitly that the qualitative assessment needs to be done 5x5.
387. Another respondent (assurance provider) found it unclear why potential impacts to a higher degree are material than actual impacts, given the same severity. They draw the conclusion based on the example of impact 1 in Figure 4, which is deemed not material with the higher level of scale, scope and irremediability being medium, whereas in Figure 5 the medium severity level (level 3) is coloured red, i.e. material, when the likelihood is high (level 4 and 5). In Figure 5, even severity at the lower end (level 2) is considered material at likelihood level 5.
388. Four respondents (standard setter, two preparers, other) raised a concern regarding the alignment of Figure 5 with the ESRS. As ESRS 1 par. 45 states that „in the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood“, likelihood does matter for all topics, sub-topics, etc., other than human rights. More precisely, there are circumstances in which a very severe impact may be considered a potential impact that is not material in accordance with the ESRS because it is the least likely to occur. However, Figure 5 suggests that a potential impact shall be considered material even if its occurrence is remote. Therefore, the respondent believes that Figure 5 is misleading as it does not consider this case.
389. Another respondent (assurance provider) also found that the matrix illustration does not fully align with the ESRS. Moreover, they raised a concern that the color-coding suggests triggering a reporting obligation which does not align with the principle of materiality of information (e.g., impacts that are very unlikely but highly or even medium severe; impacts that are very likely but low in severity). They therefore suggest removing the matrix as it raises many open questions rather than providing additional implementation guidance.
390. One respondent (standard setter) suggested to replace "and" by "or" in Figure 4 and 5. Alternatively, they suggest deleting the full last sentence in the disclaimer to both Figures, or the word "also" which they consider misleading.
391. Two respondents (preparer, consultant) noted that Figures 4 and 5 use different color-coding – namely, for orange, there is a different color-coding, suggesting that the two figures

are not fully linked/aligned although both relate to impacts (current vs. potential). They therefore suggested alignment and adding a key for the colour coding to avoid misinterpretation.

*Editorial amendments*

392. For a consistent use of terminology, one respondent (standard setter) suggested using scale instead of gravity in par. 116. Similarly, another respondent (civil society) noted that gravity and scale are synonymous concepts and suggested changing the term to “scale or scope”.
393. One respondent’s comments were disregarded (civil society) as their suggested amendments are already included in the current MAIG.

***Comments on 3.7 Deep dive on financial materiality: Setting thresholds***

*Explanation and clarification requests*

394. Two respondents (assurance providers) found that the guidance lacks concrete examples, as well as recommendations in terms of criteria to consider assessing financial and impact materiality, and to define the thresholds process. Another respondent raised a concern that the MAIG does not provide much guidance on the nature nor the level of "objective thresholds for likelihood and magnitude", leaving it to the undertaking to set its own thresholds. They also noted that the MAIG suggests that companies can compare material risks and opportunities with the results of the existing risk management process, e.g. ERM inventory (provided they consider sustainability-related risks and opportunities).
395. Another respondent (preparer) found that it is not expressly clarified in the MAIG whether financial relevance for sustainability reporting only concerns potential or also actual risks and opportunities. Further, they suggested to provide concrete examples of phenomena with potential financial effects over a time span (beyond one year) such that they should be reported in the sustainability report but not in the balance sheet.
396. Regarding par. 122, one respondent (preparer) requested to clarify how a risk differs from a financial effect.
397. Another respondent (preparer) suggested further guidance on the thresholds for financial materiality, e.g. on the alignment with the established approach in traditional risk management.
398. One respondent (preparer) asked for more clarity and guidance on the assessment of financial materiality as it was unclear to the respondent what the combination of (i) the likelihood of occurrence and (ii) the potential magnitude of financial effects means for the differentiation btw. "current" and "anticipated" effects. They asked to clarify how current and anticipated are to be defined and suggested a clear guidance like for the impact materiality (3.6.1/3.6.2).
399. Related to par. 123, one respondent (consultant) suggests referring to specific methods that could be used to assess financial materiality (e.g., TNFD methods of asset tagging and scenario analysis).
400. One respondent (assurance provider) suggested to remove the references to the management commentary in par. 123 and 156(a) as this is separate from the financial statements.
401. One respondent (assurance provider) suggested to further clarify that there is a significant difference in the scope of financial materiality in the financial statements and in sustainability reporting despite the definition being the same.

402. Two respondents suggested to provide examples on the financial effects associated with dependencies on natural and social resources that do not meet (or do not yet meet) the criteria for accounting recognition in par. 124, as well as on the process of setting adequate thresholds. Similarly, another respondent asked to provide information on how to consider effects that are not known/accounted for yet. Additionally, one respondent requested clarification on how the link to natural and social resources should be established. Another respondent (standard setter) suggested to clarify what is meant by “the scope of financial effects” in par. 124 in order for the MAIG to be more practical.
403. One respondent (consultant) suggested including guidance on relevant accounting approaches that can help undertakings account for effects stemming from dependencies on ecosystem services (e.g., environmental accounting (emerging ecosystem-centred accounting methods) and valuation methods (e.g., by the Capitals Coalition)). Another respondent (preparer) suggested to provide concrete examples to clarify, in the double materiality process, how undertakings should consider that dependencies will affect them financially.
404. One respondent (assurance provider) requested to add further guidance in par. 125 as there are no concrete examples to identify the circumstances referred to in the paragraph. In addition, they suggest deleting the last sentence of par. 125 as they consider it being unclear.

#### *Time horizon for financial materiality assessment*

405. Related to par. 122, one respondent (assurance provider) pointed out that the concept of timing is a key component of financial materiality considerations, e.g., under IFRS accounting and sustainability standards (as IFRS S1.B24) because it enables the discounting of effects on the entity's prospects. They requested to clarify whether discounting is a factor to be considered in determining financial materiality under ESRS as it is implied in the assertion that financial materiality is aligned between the ISSB Standards and ESRS.
406. Similarly, another respondent (assurance provider) also noted that the factors to be considered when determining financial materiality do not include consideration of the time horizon in par. 122, which is a key factor for considering financial materiality under the IFRS as it enables discounting the effects on the company's prospective performance. Given that the calculation of financial materiality is based both on quantitative thresholds and the time horizon in which the effects will materialise, they recommended to include examples (including in the form of graphs), especially to emphasise the importance of the time aspect when determining materiality.
407. In par. 123, one respondent (standard setter) suggested to slightly change the wording with the following on the time horizon for financial materiality assessment as they do not consider it true for, e.g., climate-related risks in the financial statements: “However, the undertaking shall consider that the time horizon for financial materiality assessment in sustainability reporting *is can be* longer than the typical time horizon factored in financial statements and management commentary”. Similarly, another respondent (assurance provider) suggested to articulate par. 123 more clearly as they consider the description not consistent with the requirements of the IFRS Accounting Standards which do not constrain the assessment of materiality to a particular time horizon.

#### *Monetary thresholds*

408. One respondent (assurance provider) considered the sentence on monetary thresholds in par. 123 not to be aligned with ESRS 1 and the respective guidance. They suggested to clarify that the thresholds referred to are derived based on user's decision-making needs and proposed to include references to ESRS 1 par. 31(b) and ESRS 1 par. 48 stating that one of the criteria to determine the materiality of information is based on decision usefulness.

409. As the reporting of the monetary/financial effect of material risks and opportunities are part of the phase-in options over the first 3 years, one respondent (preparer) noted that in these first 3 years it should be possible to assess risk and opportunities qualitatively (e.g. high, medium, low magnitude of financial effect) or non-monetary quantitatively (e.g. magnitude of financial effect on a scale of 1-4), which the MAIG does not include in par. 123. They also suggest considering their comment with respect to par. 125.

#### Question 4

*Do you have comments on Chapter 4: How to leverage other sources?*

#### *Summary of constituents' comments*

##### *General comments on Chapter 4 How to leverage other sources?*

410. One respondent (assurance provider) requested further alignment with ISSB and GRI.

##### *Alignment with more standards*

411. One respondent (standard setter) recommended to include another section in Chapter 4 on leveraging the CEN/ISO standards (as referenced in ESRS AR 2, undertakings may disclose whether they rely on any European standards as approved by the European Standardisation System).

##### *Identification of material matters*

412. Two respondents (civil society) suggested to include sources that can support the identification of material matters (such as TNFD, LEAP, TCFD, SBTN, SBTI).
413. Two respondents (civil society) recommended to include a list of references to sources of potentially material matters (e.g. TCFD, SBTI).
414. One respondent (consultant) also suggested to include references to key frameworks such as TNFD and SBTN (to also highlight the commonalities between mapping exercises). Another two respondent (academic, consultant) also recommended to include the LEAP approach as a tool for the materiality assessment (since it is already integrated into ESRS E2 to E5).
415. One respondent (consultant) requested to address public sources for threshold identification for the financial materiality assessment as well as sources for the identification of climate risks and opportunities (such as meteorological data, country-specific data, geodata).

##### *Comments on 4.1 Leveraging the GRI standards*

416. Two respondents (preparer, assurance provider) commented that further guidance is needed on the differences (if any) between an impact materiality assessment performed in accordance with GRI and ESRS.

##### *Comments on 4.2 Leveraging the ISSB standards*

417. One respondent (assurance provider) requested it to be made clearer in par. 132 that the approach to financial materiality is aligned (e.g. by adding a footnote clarifying that the ISSB standards do not have a definition of "financial materiality", however the definition of materiality under ISSB standards is aligned with EFRAG's definition of financial materiality). Another respondent (assurance provider) proposed to add "and vice versa" to par. 133 to reflect this element of reciprocity.
418. One respondent (standard setter) pointed out that the footnote should be revised, as it is not consistent with IFRS S1 (reference: "In addition, IFRS S1 requires to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium

or long term. Under ESRS 2 SBM-3, the undertaking shall disclose its material impacts, risks and opportunities”). The respondent suggested to include an example of how (financial) materiality in ISSB and ESRS is aligned and leads to the same result.

419. One respondent (consultant) proposed to specify if SASB sectoral standards are recommended for ESRS reporting and to outline potential alignment with ESRS sector-specific standards.

420. One respondent (preparer) commented that references to IFRS S1 and SASB (MAIG par. 135) as part of sector-specific reporting are not necessary (since sector-specific standards are not yet developed, nor is there an obligation for ESRS reporters to use IFRS or SASB).

#### *Decision-usefulness*

421. One respondent (user) advised to extent the term “investors” to include those who currently provide or may potentially provide resources to the undertaking in the future (to align with ESRS 1 par. 22 and the wording of MAIG par. 115).

422. One respondent (preparer) suggested to specifically clarify that par. 134 does not apply to impact materiality (where significance is the other criterion). Editorial comments and rephrasing

One respondent (user) noted that par. 133 was missing a preposition (“Because the criteria for financial materiality in the two frameworks are aligned”).

423. Another respondent (standard setter) suggested to use the term “standard”, rather than “framework” in par. 133.

424. One respondent (user) recommended to clarify how the concept and definition of anticipated financial effect differs in the ISSB standard and in the ESRS.

#### *Comments on 4.3 Leveraging international instruments of due diligence*

425. One respondent (civil society) disagreed with par. 139, as it should be clear that engaging with affected stakeholders is central to due diligence (suggestion: “through this due diligence process the undertaking should identify and engage with affected stakeholders. Such efforts can inform the materiality assessment of IRO.”)

426. Two respondents (preparer, consultant) requested an additional reference to the CSDDD.

427. Another respondent (user) suggested to include a reference to Directive 2022/2464 in par. 136 (and note that the workers representatives’ opinion shall be communicated, where applicable, to the relevant administrative, management or supervisory bodies”).

428. One respondent (standard setter) recommended to include a cross-reference to par. 102 instead of repeating the same information (par. 102, Chapter 4.3).



## Question 5

*Do you have comments on Chapter 5.1: FAQs on impact materiality?*

### *Summary of constituents' comments*

429. A total of 98 comments was recorded with regard to Chapter 5.2.
430. 36% of respondents provided comments related to technical corrections and clarifications on the Implementation Guidance, while 17% of the comments concerned requests for practical examples and illustrations to clarify given aspects, and 14% were suggestions on methodology with regards to materiality and impact assessments.
431. Eight respondents (two preparers, four assurance providers, standard setter, other) noted a numbering issue in the FAQ in pages 33-34.
432. One respondent (preparer) requested further clarification on handling different time horizons in the financial and sustainability statements and advised a consistent time horizon to strengthen comparability and consistency.
433. One respondent (other) claimed that the inclusion of the whole value chain in the scope carries a bias towards impacts generated by undertakings' direct operations and their upstream activities. It is suggested to introduce balancing elements in the text to better include undertakings from the tertiary sector, such as financial institutions. Further practical examples are expected for the banking sector. Addressing FAQ 2 in the main body of MAIG was also recommended.
434. One respondent (assurance provider) suggested better alignment of FAQ 2 (par. 151-153) and FAQ 23 to ensure the differentiation between an action and a positive impact throughout the explanations and associated examples.
435. One respondent (assurance provider) requested further examples on the integration of value chain and the determination of its limits in the double materiality process.
436. One respondent (civil society) advised to require transparency from large groups on their efforts to help suppliers progress.
437. One respondent (other) recommended to provide as much illustrative examples as possible: "the answers would be more complete with a fictitious example that, although it will not be applicable to all of them, may illustrate how to carry it out according to their business reality". Further guidance is also expected regarding FAQ1 to enhance understanding.
438. One respondent (assurance provider) suggested to complement MAIG with the publication of case studies and practical examples on the methodology for the double materiality assessment process, addressing both the assessment and the determination of material IROs.
439. One respondent (preparer) encouraged the publication of further guidance on impact materiality following concerns of implementation in the early years for both preparers, auditors, and assurance providers.
- FAQ 1 (par. 140-143)*
440. One respondent (preparer) suggested to remove 'consider' within par. 140.
441. Three respondents (preparers) suggested to include a clear definition of the boundaries of 'own operations' concerning 'portfolio organizations' with independent board and management.

442. One respondent (assurance provider) proposed to remove par. 140 as it is considered to lack clarity and par. 141 is deemed sufficient to introduce the answer to this FAQ.
443. One respondent (preparer) recommended to follow the terminology used within the ESRS as much as possible. Hence, it is suggested to state that stakeholder engagement is 'useful', rather than 'critical'.
444. One respondent (user) proposed to define more clearly the notion of 'interest' of primary users of financial statements and other users in relation to the undertaking's impacts.
445. One respondent (assurance provider) recommended putting: "greater emphasis on the fact that the assessment of impact materiality is performed by an undertaking's management, who also considers inputs and feedback from stakeholders.
446. One respondent (preparer) suggested better alignment of par. 187 and par. 142 to either clarify differences or ensure consistency in terminology.

*FAQ 2 (par. 144-149)*

447. One respondent (civil society) suggested moving the example on child labour from page 41 to par. 146 as it is likely to be more illustrative of contribution. The wording proposed is the following: "For example, irresponsible purchasing practices, especially around price, cost and time, can lead to an increased risk of child labour as suppliers might react to such pressures by implementing strategies that lead to decent work deficits, such as paying low wages or not paying overtime. When parents' income drops, the likelihood of children getting involved in child labour is greater as there is increased dependence on the extra income children may generate."
448. One respondent (preparer) asked for clarification regarding par. 146 on the methodology to handle substances and activities not considered harmful but having an effect as a whole. It was also requested to include an example in par. 149 for clarification.
449. Six respondents (standard setter, three assurance providers, preparer, consultant) shared concerns on the example in par. 146. In particular, one respondent (standard setter) was concerned with its alignment with ESRS 1 par. 43 as the undertaking in question is not linked to another entity by a business relationship. It is stated: "If confirmed, this would be an interpretation that goes beyond the content and the spirit of the standard as it would require to consider material also situations in which business relationships do not exist [...] it would create an excessive and indeterminable expansion of the impacts to be reported, with negative consequences also in terms of comparability." One respondent (assurance provider) supports it would be contrary to the requirements in the Delegated Act. Besides, another two respondents (assurance providers) requested clarification on the example of par. 146 as it could be misinterpreted by suggesting that: "an undertaking must take into account the impacts caused by other undertakings in assessing its own impacts, without taking into account the extent of its own contribution." Perceived issues include the practicality of this interpretation as an undertaking may not be in a position to determine the emissions of all such other undertakings in a geographical area in a reliable manner. Furthermore, one respondent (preparer) asked whether: "a service organization not having significant CO2 emissions in its own operations and value chain, but whose office is located close to an industrial company emitting significant amounts of CO2" should assess CO2 emissions as a material impact in link with the understanding of par. 146. Lastly, one respondent (consultant) was concerned about the methodology to perform such an assessment and the availability of information, as well as the ways to address those impacts an undertaking contributed to but is not single responsible. It was proposed to refer to engagement with local authorities or to other impact contributors.
450. One respondent (preparer) suggested to expand examples provided in par. 146-147 to include impacts made by an entity in the service or consultancy sectors.

451. Two respondents (assurance provider) addressed the interoperability of par. 147 with OECD Due Diligence Guidance for Responsible Business Conduct. On the one hand, one respondent demanded to further explain whether ‘contribute to an impact’ in par. 147 is intended to override the explanation in OECD Due Diligence Guidance for Responsible Business Conduct which includes a materiality threshold (page 70, Q29). On the other hand, (assurance provider) one respondent suggested to align their definitions by amending ‘cause or contribute’ to ‘cause, facilitate or incentivize’ to enhance interoperability. It was further proposed to include an example of a substantial contribution in the illustration provided in par. 146 if the concept of threshold introduced by OECD is deemed applicable to ESRS.
452. Three respondents (consultants, preparer) requested clarification on the approach described in par. 149: “Does this mean that a negative impact the company only contributes to through distant business relationships is to be ranked lower in severity than an impact the company has direct control over? If so, what criterion of severity is to be ‘reduced’ in this regard (scale, scope, irremediable character)?” One respondent (consultant) also questioned the compatibility with the leverage dimension of VCIG. One respondent requested further guidance on the link between the type of involvement and the negative impact assessment.
453. Two respondents (assurance provider, civil society) suggested to clarify the categorization of negative impacts based on the type of involvement as: “ESRS do not differentiate between the type of involvement.” and it is not clear how the type of involvement is deemed important. Concerns were raised on the difference between ESRS 1 43 AR12, stating an undertaking is either connected with or not, and FAQ 2, which implies a ‘degree of connectedness’ to be determined.
454. One respondent (assurance provider) requested more explicit alignment with international due diligence instruments under par. 144.
455. Three respondents (assurance provider, preparer, standard setter) suggested to cover both negative and positive impacts in par. 149. Further precisions are expected on the way the assessment could be affected by the type of involvement: while it is likely that scale and scope would not be influenced by the type of involvement, it may be the case for the irremediable character.
456. One respondent (civil society) suggested to add to par. 148 as a footnote or reference the following from Annex 2: “Business relationships include any other non-state or State entity directly linked to an undertaking’s business operations, products or services.” Furthermore, it is proposed to nuance the example chosen by adding the following at the end of the last sentence: “and despite adequate due diligence.”
457. One respondent (user) asked for practical examples on the assessment of impacts directly linked to the undertaking’s operations, products, and services caused by other tiers in the value chain of a business relationship as this matter is not addressed in the referred OECD Guidelines for Multinational Enterprises and OECD Due Diligence Guidance for Responsible Business Conduct.
458. Two respondents (civil society) noted, regarding par. 149, that the term ‘directly’ should be removed as it is inconsistent with the terminology of the international due diligence guidelines. To avoid misinterpretation, it was suggested to complement par. 149 with the following sentence: “However, this does not imply that impacts that are directly linked are necessarily less material than those caused. As illustrated in section 3.6, the materiality of impacts is to be assessed by a consideration of their severity.”
459. One respondent (preparer) requested clarification on the concepts of ‘leverage’ or ‘causation’ and their role in the materiality assessment.

*FAQ 3 (par. 150)*

460. One respondent (preparer) considered the reference to VCIG FAQ3 not helpful as it requires switching between two files.

*FAQ 4 (par. 151-153)*

461. One respondent (assurance provider) recommended to consider specific situations in regions or jurisdictions where legislative measures have already netted impacts or financial risks. Further clarification is expected regarding the approach chosen for materiality assessment being on a gross or net basis, and whether to base it on actual or potential risks. It was suggested to better define the term 'gross' and its application across all reporting pillars.

462. One respondent (assurance provider) proposed to modify current version of par. 151 with the following: "Impacts are to be considered on their own, i.e. without taking into account any other impacts." to avoid any confusion between positive impacts and mitigation actions. It was suggested to amend par. 153 by removing the last sentence to prevent misunderstanding between netting and reporting, while clarifications were requested to ensure that: "although netting and compensation/offsetting are conceptually different things, both are not allowed to be considered in the assessment of impact materiality."

463. One respondent (assurance provider) suggested not to use the term 'gross basis' in par. 151 as it may be confusing with the issue addressed in FAQ23.

464. Two respondents (preparer, assurance provider) noted some inconsistencies in par. 152 (a) "This contradicts ESRS 1 par. 56" to be replaced by "This in line/consistent with", as well as "qualitative characteristics of quality" which was probably intended as: "qualitative characteristics of information."

465. One respondent (preparer) requested to remove the bracket following 'value chain' in par. 152.

466. Three respondents (two preparers, assurance provider) asked to elaborate on the extent to which ESRS E1 and ESRS E4 require special reporting requirements in par. 153, apart from the gross basis general principle.

467. Two respondents (assurance provider) mentioned par. 153 seems to suggest that measures to compensate negative impacts (such as carbon credits) may be netted against negative impacts, which contradicts FAQ23.

468. One respondent (civil society) advised a stronger formulation than 'avoided' in par. 153 to better reflect that: "social impacts can never be offset with unrelated actions, they can only be mitigated or prevented through adequate due diligence.

469. One respondent (preparer) requested clarification on the difference between compensation and offsetting, along with the need for practical examples and illustrations on carbon and biodiversity credits.

**Question 6**

*Do you have comments on Chapter 5.2: FAQs on financial materiality?*

*Summary of constituents' comments*

470. A total of 48 comments was recorded with regard to Chapter 5.2.

471. 44% of respondents provided comments related to technical corrections and clarifications on the Implementation Guidance, while 19% of the comments referred to suggestions on

methodology with regards to materiality and impact assessments, and 19% were requests for practical examples and illustrations to clarify given aspects.

472. One respondent (standard setter) outlined that understandability could be enhanced in Chapter 5.2, especially by reviewing the language used and keeping in mind the difference between financial materiality (cf. ESRS 1, section 3.5, par. 47-51) and anticipated financial effects related to opportunities (cf. ESRS 1, section 7.8, par. 109) to prevent any confusion.

*FAQ 5 (par. 154-156)*

473. One respondent (assurance provider) suggested to redraft the entire answer to the FAQ to enhance understandability, along with the inclusion of graphical illustration to precise the scope of information financially material to be included in the sustainability statement and the one to be included in the financial statements. Concerns were raised on the term: "disclosure of potential financial effects" in par. 156 (a), while "anticipated financial effects" shall be disclosed according to the DR of ESRS. Clarification was requested in par. 156 (c) as to why future events only may trigger anticipated sustainability-related risks and opportunities: past events are also considered to trigger financial effects in the future (as stated in par. 158).
474. One respondent (assurance provider) proposed to add a sentence acknowledging that information on impacts may result in financial material information. It was also suggested to amend the title of FAQ3 into the following: "Is the type of information that is material for the financial statements the same as for the sustainability statement?" Further explanation is expected in par. 155, in relation with ESRS 1 par. 47, on 'expansion of scope' to emphasize that: "although the approach to assessing financial materiality is aligned, it is the objective of the report (sustainability or financial) that results in the disclosure of different information. It was suggested to replace 'the financial planning horizon or by the historical cost convention' in par. 156 (d) with: "horizons used in financial statements (such as useful life of assets)' as it is considered more clearly understood as affecting financial statements.
475. One respondent (assurance provider) asked for clarification on the formulation: "inspiration could be drawn" in par. 155 as it is considered questionable how to be handled in practice.
476. Three respondents (two preparers, standard setter) raised concerns regarding par. 156a highlighting the complexity of including potential financial effects of material risks or opportunities in sustainability reporting. It was mentioned that some financial indicators regarding risks are not fully implemented in risk management yet: this may lead to inconsistencies between financial risk & opportunity statement and sustainability statement. Further guidance is expected with practical examples to grasp the interplay for when information needs to be included both in financial and sustainability statements.
477. One respondent (standard setter) suggested to amend the phrasing of par. 156 with the following proposed version: "The differences between information that is likely to be financially materiality material for the financial statements and the information that is likely to be financially materiality material for the sustainability statement relate to the following aspects:" Par. 156 (b) is considered not valid as management commentary also covers risks in the value chain.
478. One respondent (preparer) recommended to clarify the term 'financial statement' to determine whether it includes the risk report or it is intended the financial report in the narrower sense.
479. One respondent (standard setter) recommended to modify the formulation in par. 154 as information does not have an 'objective'.

480. Three respondents (preparers) requested clarification on financial and sustainability materiality. One respondent (preparer) seeks further guidance on par. 156 (c) with regard to the recommended time horizons to be used for CSRD reporting, including a time limit for the long-term time horizon, taking into account how far an undertaking may estimate its future sustainability risks and opportunities. One respondent (preparer) asked for precisions in terms of time horizons, methodology and alignment to financial statements for the financial materiality assessment. Another respondent (preparer) proposed to implement a consistent time horizon for risks and opportunities in the financial and sustainability statements to ensure comparability and consistency, along with a request for clarification on the meaning of financial statement (whether it is meant to include the risk report or it is meant in the narrower sense).
481. One respondent (assurance provider) suggested to review the formulation of the FAQ as it was considered that it may conflict with the scope and outcome of the IASB upcoming project on Climate-related and Other Uncertainties in the Financial Statements.
482. One respondent (assurance provider) requested to further clarify the significant difference in the scope of financial materiality in the financial statements and in sustainability reporting. It was also deemed clearer to remove references to management commentary in par. 156 (a) as it is separate from the financial statements.

*FAQ 6 (par. 157-158)*

483. One respondent (assurance provider) suggested amendments in par. 158 to include examples for (a): “These may include impairments that could arise as a result of closure of plants in an area of water shortage” and (b): “Impacts of a new rule recognising gig economy workers as employees with a right to the minimum wage, sick leave and other benefits.”
484. Three respondents (two assurance providers, consultant) requested further example in par. 158 of information (beyond internally generated intangibles) likely to have financial effects to be reported in the sustainability statement but not meeting the criteria for inclusion in the financial statements. One respondent (consultant) also asked for examples on financial effects derived from past or future events.
485. One respondent (assurance provider) raised concerns on par. 158 as the phrasing is considered to contradict ESRS 1 BC 73, BC 75 and ESRS 1 AR 14(b) stating that: “information included in the financial statement is not meant to be assessed and reported again in the sustainability statement”. Further examples are expected to better illustrate risks and opportunities addressed.
486. One respondent (assurance provider) asked for clarification on par. 158 (c) regarding ‘factors of value creation’.
487. One respondent (standard setter) proposed to add the precision in par. 158 that it addresses sustainability risks and opportunities. Further examples are expected on the matter.
488. One respondent (assurance provider) considered par. 158 was not fully in line with the ESRS and FAQ 5 of MAIG.

**Question 7**

*Do you have comments on Chapter 5.3: FAQs on the materiality assessment process?*

*Summary of constituents’ comments*

489. A total of 115 comments was recorded regarding Chapter 5.3.

490. 34% of respondents provided comments related to technical corrections and clarifications on the Implementation Guidance, while 28% of the comments were requests for further explanation on the reporting standards and going beyond SET 1 of ESRS, and 13% concerned examples and illustrations to clarify given aspects.
491. One respondent requested further guidance on the materiality assessment information needed to comply with third party assurance requirements.
492. One respondent (assurance provider) asked for clarification on whether sanctions could be considered in the impact analysis and whether severity of emissions could not indeed be compared with global emissions for impacts of different nature.
493. One respondent (preparer) asked for examples of relevant thresholds for each of the thematic ESRS, taking specific sectors into account, to define materiality of impacts and financial materiality.
494. One respondent (preparer) proposed to provide a clear definition of the term 'likely to be' over this FAQ.
495. One respondent (standard setter) suggested adding a specific FAQ dedicated to the need to set up an adequate governance structure and processes to build, validate, sign off, and use the insights from the materiality assessment.

*FAQ 7 (par. 159-161)*

496. One respondent suggested to add a maximum number of years for an undertaking to renew its materiality assessment regardless of its situation: 3 years was considered appropriate.
497. One respondent (civil society) recommended a systematic annual review in the case climate impact has not been deemed material in the previous reporting period due to climate stakes increase as 2030 approaches.
498. One respondent (consultant) asked for a definition of the term 'M&A' in par. 160.
499. One respondent (civil society) suggested moving the example of a 'new business relationship' in par. 160 (c) to par. 160 (a), while adding another illustration (e): "entering into a new geographical context with significant contextual risks (e.g. conflict zone, indigenous peoples' land, etc.)" to highlight that some impacts are bound to geographical context.
500. Three respondents (two assurance providers, preparer) shared conflicting views on the adequate frequency of the materiality assessment. On the one hand, one respondent (assurance provider) considered the precision 'needs to be updated on an ongoing basis' in par. 161 inconsistent with par. 160 and not achievable in practice. Clarification was requested in this regard, as well as a review of the phrasing. Another respondent (assurance provider) suggested further guidance and examples on the 'need to be updated on an ongoing basis' phrasing as well. On the other hand, one respondent (preparer) welcomed the continuous improvement approach to present the materiality assessment as a continuous exercise.
501. One respondent (assurance provider) suggested to clarify the definition of 'reporting date' and the way to deal with information received after the end of the reporting period but before the issuance of the management report.
502. One respondent (assurance provider) suggested to include in par. 160 that the conclusions of the previous reporting period should, as a minimum requirement, state that formal approval from the governance or management bodies of the undertaking is needed to verify the inexistence of material changes.
503. Two respondents (assurance providers) considered that par. 161 is contradicting par. 160.

*FAQ 8 (par. 162-165)*

504. One respondent (preparer) suggested to remove par. 163 as it is limited to the quotation of ESRS 1 AR 16.
505. Two respondents (assurance provider, preparer) suggested editorial amendments. One respondent (assurance provider) proposed to replace ‘as long as’ by ‘until’ in par. 165 while the other respondent (preparer) mentioned it was missing ‘not’ to rephrase as follows: “as long as the sector standards are not released”.
506. One respondent (academic) recommended clarification on the utilisation of sector-specific standards and entity-specific standards to emphasize that while these factors can individually inform the process, none should be considered in isolation from the others.
507. One respondent (consultant) suggested editorial modification to emphasize that undertakings should leverage sector-specific standards and entity-specific standards as starting points to inform their materiality assessment, in addition to the list in ESRS 1 AR 16.
508. One respondent (assurance provider) shared concerns on the lack of limits to sustainability matters and information to be considered in the attempt to meeting the comprehensive requirements of ESRS.
509. Two respondents asked for clarification on the materiality process to be followed until the sector standards are finalized and recommended at least including a reference to the methodology likely to be presented in the sector standards. It is expected from [Eni SpA] that some topics would be considered material by default following the release of sector-specific standards.

*FAQ 9 (par. 166-167)*

510. One respondent (other) suggested including the treatment of those concepts in the main body of the document.
511. One respondent (consultant) requested clarification regarding par. 167 on whether the fact that: “time horizons do not have to be integrated in the scoring of thresholds but can serve as a valuable information for the assessment” holds true. Besides, they asked for further guidance on sustainability matters that cannot be assigned a time horizon. The example given is the following: “health and safety, violence and harassment, and other social topics might always be at risk of having some negative impacts in the workforce, as it could be argued they can never be fully eliminated.” It was suggested to add clarity that time horizons only apply to potential IROs, as those actual already occurred but remain material for a number of years: though briefly mentioned in par. 83 and par. 88, it is deemed relevant to emphasize it in FAQ 9.
512. One respondent (assurance provider) suggested amending or removing the example as it may give the impression that impairment judgements would not take account of management’s expectations of future developments.
513. One respondent (preparer) proposed to complement FAQ9 with a definition and examples of dynamic materiality to make the guidance more comprehensive and intelligible.

*FAQ 10 (par. 168-172)*

514. One respondent (consultant) suggested to further explain what is meant by ‘level of comfort’ in par. 169.
515. Seven respondents (preparers, standard setter, assurance provider) suggested to align with ESRS that do not explicitly give a preference between quantitative and qualitative assessment approaches, thus removing the term ‘if possible’. One respondent (standard setter) proposed to redraft the sentence as follows: “Even if quantitative information is the



most objective evidence of their materiality, qualitative information can be used in the process of materiality assessment." Another respondent (assurance provider) suggested the following: "Where available, quantitative measures of IROs provide objective evidence of materiality."

516. One respondent (assurance provider) requested clarification on the comparability of impacts provided by impact valuation, as specified in par. 171.
517. One respondent (other) shared concerns on the inclusion of impact valuation in MAIG. They advised not to reference impact valuation as a confirmed tool in the current early stages of development of the practice as strong risks of inaccuracy exist in attributing the same units of measure to inherently different impact categories and their incomparable indicators, and the materiality perspective of these methodologies may be limited to financial materiality.
518. One respondent (user) proposed to explore the monetary quantification of impact valuation.
519. One respondent (preparer) requested further clarification on the intended approach regarding quantitative information as it would always be associated with costs: "would qualitative information always be considered as sufficient, even where quantitative information would add value (and could be made available at reasonable costs)?"
520. One respondent (assurance provider) requested further clarification regarding financial materiality in relation with the definition of thresholds, along with associated examples.
521. One respondent (assurance provider) shared concerns on the quantitative assessment of the materiality of IROs for entities less familiar with the IRO scoring process. It was suggested to provide further illustrations and examples of this IRO scoring process, as well as considering further development within the sector standards.
522. One respondent (preparer) shared concerns on comparability of thresholds set out in par. 171 based on previous experience in members reporting on climate change in the value chain. An alignment at sectorial level was suggested with the aim of bringing harmonisation.

*FAQ 11 (par. 173-175)*

523. One respondent (standard setter) asked for clarification on aggregation: "Should the impact and financial materiality IRO dimensions of a sustainability matter be aggregated for the materiality assessment?"
524. One respondent (preparer) shared concerns on the alignment between the impact materiality approach followed in the CSDDD and the double materiality approach taken in the CSRD and requested clarification as to how the two approaches may be combined.

*FAQ 12 (par. 176-177)*

525. Two respondents (civil society, assurance provider) suggested further explanation not to allow succinct documentation to be used in the materiality assessment as documentation is considered key to the audit and traceability of the materiality analysis. One respondent (assurance provider) reaffirmed the need to prepare sufficient documentation on the DMA for assurance purposes.
526. One respondent (user) recommended clarifying that it is advisable to retain supporting documentation and evidence for both internal use and to facilitate the process of obtaining assurance beyond what is 'reasonable to expect'.
527. Six respondents (preparers) mentioned answers to FAQ12 are beyond the requirements set out in the CSRD and the ESRS. It suggested to limit the guidance on the fact that they are no documentation obligations, so the methodology to document the DMA process is left to undertakings.

528. One respondent (assurance provider) recommended adding illustrations to enhance understanding as challenges may arise with respect to documenting the MA that builds on the knowledge and the understanding of one's own value chain.
529. Four respondents (consultant, users) seek further clarification on expectations regarding assurance. One respondent (consultant) asked about methodology expected on the evaluation of the materiality assessment process for assurance providers: "Will they evaluate only the quality of the process or also the resulting material topics (for example depending on the sector or geography where the company operates)?" Besides, two respondents (users) [French Banking Federation, European Association of Cooperative Banks] suggested to engage with auditors to enhance understanding of what they should expect from reporting entities. Lastly, one respondent (user) asked for further explanation of expectations towards undertakings.
530. Two respondents (preparer, assurance provider) proposed to amend the phrasing of par. 176 to better reflect the principles of flexibility and proportionality of the CSRD and the ESRS. One respondent (preparer) suggested a new version as the following: "The ESRS do not prescribe specific documentation. In some cases, it might be reasonable to expect a certain level of documentation to be needed for internal purposes. Such documentation could inform those in charge of the governance over the process of sustainability reporting (see ESRS 2 GOV- 5), to prepare the ESRS 2 IRO-1 disclosures." Another respondent (preparer) agreed that a certain level of documentation is necessary for internal purposes and requested additional guidance on the documentation process.
531. Two respondents (preparer, standard setter) suggested to expand guidance on evidence and documentation in par. 176, keeping in mind not to prioritize 'form over substance' so that auditors do not only check a long list of requirements and get lost in the first stage of the reporting journey.
- FAQ 13 (par. 178-182)*
532. Four respondents (civil society, other, standard setter, preparers) requested further guidance on the specificity by activity, while maintaining a group wide overview as the issue is to prioritize stakes in the case of multiple sectors within a group. One respondent (other) considered the answer not comprehensive enough to understand the complexity. One respondent (standard setter) asked: "how are results of an analysis summarized at the local subsidiary level and then consolidated at the group level?". Further examples are expected on the matter. One respondent (preparer) requested clarification on the alignment of group level and entity perspectives, while another respondent shared concerns on practical implementation regarding the approach to materiality analysis.
533. Similarly, one respondent (assurance provider) recommended the publication of further guidance on requirements set out in ESRS 1 Chapter 7.6, par. 103 to complement par. 180 of MAIG as a material risk or opportunity at subsidiary level may rarely also be material at group level, given the different thresholds. Another respondent (assurance provider) recommended clarification on whether material impacts at a subsidiary level are expected to be also material at group level, as well as on impacts being assessed in absolute or relative terms to other impacts within a group. Besides, par. 181 is deemed contradicting the example in Chapter 3.6.2, as it establishes a trade-off an undertaking could face in performing its materiality assessment at group level.
534. Three respondents (standard setter, user, two preparers) requested further illustration and examples of top-down and bottom-up approaches set out in par. 180.
535. One respondent (user) requested additional guidance and illustrative examples on the practical implementation for the assessment of 'significant differences' between material IROs at group level and those of one or more subsidiaries (cf. ESRS 1 par. 103). Besides,

further guidance was requested in par. 179 for the interpretation of the aggregation and disaggregation principles regarding the identification of material IROs.

536. Three respondents (user, assurance providers) asked for further explanation and illustrations on the interpretation of the term ‘appropriate level of consistency in methodologies and thresholds across the entire group’ in par. 181. Example in par. 119 is considered to add confusion to this concept.
537. Four respondents (three assurance providers, preparer) requested clarification on the meaning and implementation of ‘thresholds’. Two respondents (assurance providers) wanted to understand whether they relate to the categorisation of scale, scope, irremediability and likelihood or to the determination of material IROs. One respondent (preparer) [amfori] seek further guidance on how time horizons would affect thresholds and how to set them accordingly in relation with par. 167. Lastly, one respondent (assurance provider) asked for further details on the relationship between time horizons and thresholds: “An impact can change over time, is it necessary to consider each impact in the 3-time horizons? If so, over what time horizon should the threshold be defined? How can real impacts be assessed and compared with established thresholds?”
538. Three respondents (preparers) suggested to further nuance the FAQ by emphasizing that the IROs identified in the double materiality for diversified global undertaking’s assessment should ultimately reflect the business model of the parent company, and that there should be a balance between top-down and bottom-up approaches. It was also proposed to include additional examples of top-down approaches in conducting the materiality assessment, especially in investment holding companies.
539. One respondent (standard setter) suggested to add a paragraph on not obscuring the sustainability statements. Clarification was requested on the fact that: “materiality assessment for undertakings operating in diverse sectors is not a mere aggregation of all material matters and information from subsidiaries. Instead, it involves hierarchical prioritisation to prevent information obscurity.” Additionally, it was suggested to provide additional guidance on the consultation of subsidiaries regarding the materiality assessment process: “Should the management of subsidiaries be involved in the MA process and the validation of its results?”
540. One respondent (preparer) suggested to amend par. 179 to better recognize that, as set out in the Accounting Directive and ESRS 1 par. 62, a reporting undertaking may prepare consolidated sustainability reporting without a matching financial consolidation. The materiality assessment shall thus cover the entities in the consolidated sustainability reporting.
541. One respondent (preparer) shared concerns on the alignment between the impact materiality approach followed in the CSDDD and the double materiality approach taken in the CSRD and requested clarification as to how the two approaches may be combined.

*FAQ 14 (par. 183-185)*

542. One respondent (assurance provider) requested clarification in par. 185 on the benefit of the transitional provision related to entity-specific disclosures as no minimum mandatory scope of reporting is set out during the transitional period.
543. One respondent (preparer) suggested further clarification on how an undertaking should account for the expected sector-specific standards in the materiality assessment process.
544. One respondent (standard setter) requested clarification on the treatment of sub-topics, notably in the upstream value chain, as well as additional references to cross-cutting standards in MAIG and to the KPIs listed in the ESRS for individual sub-topics.

545. One respondent (assurance provider) proposed to mention that Article 29b (2) of the Accounting Directive sets a limit to the scope of ESG-factors for which ESRS shall specify the information that undertakings are to report in accordance with Article 19a and 29a. This would limit the scope of entity-specific disclosures.
546. One respondent (preparer) shared concerns on the publication of sector-specific standards as not to overload reporting companies with an excessive increase in the number of sector-specific sub-topics. Consistency and timely communication were considered essential: publication was advised to be done shortly after completion of the last reporting phase and before the start of a new reporting phase.

### Question 8

*Do you have comments on Chapter 5.4: FAQs on stakeholder engagement?*

#### *Summary of constituents' comments*

547. Three respondents (consultant, civil society, preparer) [Nordic Sustainability, ECONSENSE, Confindustria] requested further guidance by, e.g.:
- including best practices for engaging with stakeholders,
  - determining the appropriate number of stakeholders to engage with,
  - addressing if only the interests and views of stakeholders are sufficient, and
  - clarifying that stakeholders can be assessed with varying degrees of importance depending on the context.
548. Two respondents (assurance provider, preparer) establishing criteria and providing examples of how to integrate stakeholders in evaluating impacts.
549. Two respondents (preparers) considered that it is important for companies to have a strong profile when selecting stakeholder categories and individual topics for their reporting systems. The recommendation is for MAIG to enhance these profiles by explicitly allowing companies to choose both expert stakeholder categories and specific topics to be included in each category.
550. One respondent (civil society) addressed that 'a cross-reference to comments should be assigned on' stakeholder engagement.'
551. One respondent (assurance provider) requested to clearly define and differentiate between stakeholder engagement, consultation and dialogue, e.g., par. 107 seems to imply that consultation with a scientific source is a form of stakeholder engagement and/or consultation; in contrast with ESRS 2 par. 53 (g) implies that using a source is not part of stakeholder engagement.
552. One respondent (standard setter) considered the MAIG imprecise and unclear. The descriptions in ESRS 1 (par. 22-24) leave room for interpretation, and the MAIG is rather brief in this matter. Consequently, they suggested expanding the MAIG regarding the internal materiality assessment and following the generally accepted materiality assessment process for financial reporting.
553. One respondent (user) noted that the MAIG does not prescribe a specific process for materiality assessment and suggests using a combination of stakeholder engagement and quantitative information. Impact valuation can quantitatively measure material impacts' severity and potential financial effects and help undertakings prioritise their sustainability risks and opportunities.

554. One respondent (preparer) claimed that, in addition to the question of reliability and usefulness of direct engagement methods such as questionnaires, ‘they are creating a burden on both the private and non-governmental sectors, which should not be underestimated.’

*FAQ 15 (paragraphs 186-188)*

555. One respondent (civil society) requested replacing ‘stakeholders’ with ‘affected stakeholders.’

556. One respondent (standard setter) suggested that in par. 186, the word ‘materiality’ should be added near the term ‘assessment’ to specify which assessment is being referred to.

557. One respondent (assurance provider) noted that there remains a degree of uncertainty in the practical application concerning the scope of the concept of ‘affected stakeholders’ and whether to base the assessment of being ‘affected’ on the double materiality concept. Furthermore, it requested to clarify the frequency of the undertaking’s update of its assessment of the ‘affected stakeholders.’

558. Three respondents (assurance provider, preparer, civil society, standard setter) pointed out the need to determine the concept of ‘stakeholders’ and differentiate between the roles of affected stakeholders and users in the MA process in FAQ 15 and FAQ 16. The Danish Institute for Human Rights expressed that ‘the difference between consulting affected stakeholders and engagement with investors and other users as part of ‘traditional’ stakeholder engagement in past materiality assessment practices is unclear.’

*FAQ 16 (paragraphs 189-192)*

559. One respondent (civil society) noted that, as par. 190 refers to ‘affected stakeholders,’ it is important to clarify that these are what the ESRS called ‘persons in vulnerable situations’ in the ESRS. It would also be helpful to provide examples.

560. One respondent (standard setter) claimed that the answer to FAQ 16 was insufficient as it only discussed prioritising stakeholders during impact assessment. It is also important to address how different user groups should be prioritised when assessing the importance of information. The regulators have already identified the primary user groups as investors and civil society actors in Recital 9 of the CSRD. The answer to FAQ 16 should align with this prioritization and address investors' information needs regarding risks and opportunities.

*FAQ 17 (paragraphs 193-195)*

561. Two respondents (assurance provider, preparer) requested clarification of the definition of ‘silent stakeholders’ and the exact subject areas that need consideration.

562. Three respondents (preparers, assurance provider) requested a further explanation on gathering data regarding ‘silent stakeholders’ and more examples of engaging with or partnering with academic and scientific research.

563. One respondent (preparer) asked for further guidance on when each scope of the assessment should be applied, e.g., global vs local.

564. Two respondents (standard setter, preparer) recommended providing a list of risks and opportunities relevant to ‘silent stakeholders’ across sectors.

## Question 9

*Do you have comments on Chapter 5.5: FAQs on aggregation/disaggregation?*

### *FAQ 18 (paragraphs 196-199)*

565. One respondent (civil society) claimed that this paragraph seems incomplete since the ESRS disaggregation is not only required by country, site, or asset, e.g., ESRS S1 Disclosure Requirement related to ESRS 2 SBM-3, par. 16 requires disclosing information, if any, disaggregated by specific groups.
566. Two respondents (preparers) argued that, in par. 186, it should be clear that "significant" is not a defined term.
567. One respondent considered that 'disaggregating information for different IROs would be extremely challenging and complex in operating terms, and it would also compromise the comparability of sustainability information.'
568. One respondent (civil society) recommended using an example about maternity leave provisions in the box on page 41 instead of the one on child labour. UNICEF suggests that when reporting on the impacts of work-life balance, it may be necessary to consider the country-specific laws and regulations on family-related leave. Therefore, it would be useful to include a criterion for country-level disaggregation.
569. Two respondents (preparer, standard setter) suggested that an example given in par. 197 bullet three might be misinterpreted. 'The examples cite a garment manufacturing industry where a subsidiary in one country pays below fair wage. However, this non-compliance issue should not be considered as the trigger for materiality. Materiality should be determined earlier, based on the fact that the undertaking is involved in a vulnerable industry and in vulnerable countries. While non-compliance is still an issue to be reported, undertakings should not deem a topic material only in case of non-compliance.'

### *FAQ 19 (paragraphs 200-203)*

570. One respondent (preparer) requested clarification on whether the level of aggregation in the materiality analysis must be the same as the level of aggregation in the disclosure in par. 199.
571. Two respondents (assurance providers) requested EFRAG to provide guidance and examples on how to disaggregate as long as the absence of ESRS sector classification is not defined.
572. One respondent (standard setter) requested additional guidance and examples for multi-segment undertakings, particularly when a group includes undertakings operating in different business segments.
573. One respondent (assurance provider) suggested that financial reporting segments are unsuitable for materiality assessment, given their alignment with sector and geographical considerations. 'IG1.FAQ 19's interaction with ESRS 1 may require disaggregated information for the materiality assessment at a different level than required for reporting.'
574. One respondent (assurance provider) requested to clearly distinguish between the legal text and any non-binding addition of examples, as they noted that 'the quotation in par. 196 of ESRS 1 does not reflect the exact wording in the ESRS.' Furthermore, they do not sufficiently explain 'why the business segment is the starting point for disaggregation of at least disclosures related to risks and opportunities is inappropriate.' Finally, they recommend 'underlining in the answer that the determination of the appropriate level of disaggregation should be based on the undertaking's assessment of the users' needs of information to

understand the undertaking's impact on sustainability matters and the risks and opportunities of those to the undertaking.'

575. One respondent (preparer) considers that to adequately address the importance of segment reporting and its link to financial reporting, the FAQ should provide more detailed illustrations and support the linkages between the two lines of thinking, including a demonstration where segments under IFRS 8 and the sector standard approach could work in tandem.
576. One respondent (preparer) suggested deleting this question (FAQ 19) as 'they do not agree with the general negative wording.' They consider that segment reporting can be a good starting point for sustainability reporting if it makes sense. It can lead to better information and consistency in reporting. However, introducing a new approach may increase complexity, and evaluation elements should be avoided.
577. One respondent (assurance provider) underlined that several companies must comply with the ESRS that do not apply the EU Taxonomy Regulation. Therefore, they recommended including an introductory paragraph to present the key aspects of this regulation.

### Question 10

*Do you have comments on Chapter 5.6: FAQs on reporting?*

*Summary of constituents' comments*

#### *General Comments Chapter 5.6*

578. One respondent (assurance provider) requested examples on how to incorporate the value chain the double materiality document, especially to determine the limits of the value chain (with regard to Chapters 2, 3, 5.1 and 5.6).

#### *FAQ 20 – General Comments*

579. Two respondents (standard setter, preparer) requested further clarity on "expected" disclosures of the double materiality process.

#### *Thresholds*

580. One respondent (preparer) requested further guidance on how thresholds should be reported (par. 204: "The ESRS do not require disclosure of the detailed outcome per each criterion, however an appropriate explanation of criteria and thresholds used shall be included").

#### *Further Guidance*

581. One respondent (preparer) requested more concrete examples on how to present the IRO assessment in the sustainability statement.

#### *Editorial comments and rephrasing*

582. Two respondents (preparer, standard setter) noted that FAQ 20 should be answered more directly ("an appropriate explanation of criteria and thresholds used shall be included" should be more specific).
583. One respondent (assurance provider) requested to remove the reference to assurance providers (par. 205).

*FAQ 21 - General Comments*

584. One respondent (assurance provider) noted that par. 207 may be misleading; the Guidance should provide further information on metrics relevant from an impact materiality perspective and also provide a financial materiality perspective (“Hence, if a matter is material due to its impacts and there are no material risks and opportunities arising from the same matter, information disclosed on metrics may be limited to metrics that are relevant under the impact materiality perspective and the datapoints related to the risks and opportunities or financial effects are omitted”).

*Mapping ESRS*

585. One respondent (preparer) requested further guidance on the link between AR 16 and the datapoints in the topical Standards (mapping table). FAQ 21 should moreover clarify which metrics are relevant for impacts and which for risks and opportunities (and which for both).

*Further Guidance*

586. One respondent (assurance provider) commented that par. 208 suggests that all policies, actions and targets with regard to a material sustainability matter as well as all datapoints on policies, actions, targets in the MDR and topical standards need to be reported, irrespective of whether the material is material because of a positive or negative impact, risk or opportunity (“undertaking does not differentiate between information relevant from financial perspective and information relevant from impact perspective. The undertaking will describe the content of policies, actions and targets in place”). The connection between material IROs and PATs should be made clear in paragraph 208 by adding “The undertaking will describe the content of policies, actions and targets in place to manage and address its impacts, risks and/or opportunities depending on which of them is material.”

587. One respondent (preparer) proposed to add another paragraph to explain whether the undertaking needs to include information about financial matters for topics only deemed material from an impact perspective. Another respondent (assurance provider) recommended to also highlight that metric disclosures on impacts are not required if a matter is material from only the financial perspective (to cover both scenarios in par. 207).

588. One respondent (preparer) requested further guidance on how to disclose information according to the minimum disclosure requirements and in the topical standards (par. 208).

*Editorial comments and rephrasing*

589. One respondent (assurance provider) suggested to replace “may be limited” by “shall” or “should” in par. 207.

590. One respondent (preparer) recommended to expand on par. 208 (“Thus, if an entity for instance only has policies, actions and targets on the impact perspective in place for a given sustainability matter, the entity shall only describe these and does not have to address the financial perspective”).

591. One respondent (preparer) suggested to include further guidance on the link between “topics”, “sub-topics”, and “sub-sub-topics”, since undertakings are facing practical challenges in understanding what needs to be disclosed when for instance, only one or two sub-sub-topics are material.

*FAQ 22 - General Comments*

592. Two respondents (preparers) requested further examples on consolidation and disaggregation; FAQ 22 should emphasise that consolidation is not necessarily equal to the approach of financial consolidation (e.g. gender pay gap is more meaningful to report per company).



593. One respondent (assurance provider) suggested that par. 210 currently gives the impression that immaterial information about an activity in one part of the group might be required to be reported because information about a similar activity in another part of the group is material.

594. One respondent (standard setter) commented that it should be explained whether, if an entity's contribution to data is deemed insignificant, it can be excluded from the calculation (provided that this insignificance is justified, and methodological consistency is maintained over time).

#### *Metrics*

595. One respondent (assurance provider) requested clarification that when calculating metrics for the entire group, subsidiaries which are not consolidated because they are not material from a financial perspective should nonetheless be considered if their contribution on the related metric is material (when considering metrics related to impact materiality perspective).

596. One respondent (assurance provider) requested further guidance on par. 210, since the ESRS do not provide general rules on consolidation (ESRS 1 par. 62 is not sufficient to conclude that metrics in all cases shall include data for the entire group).

597. Another respondent (preparer) requested to add a sentence in paragraph 210 to emphasise that when a topic is material for only part of the group, there should be no disclosure of any related metrics for the whole group.

598. One respondent (assurance provider) commented that the approach in FAQ 22 of calculating metrics may limit the number of material impacts reported at group level (companies may not be willing to calculate metrics if the underlying material impact arises from a limited perimeter within the group).

#### *Sectors*

599. One respondent (standard setter) recommended to include an explanation that in the case of holdings conglomerates, multiple materiality assessments may be conducted for sector activities.

#### *Scope and disaggregation*

600. Three respondents (assurance provider, preparers) commented that the Guidance is not clear in distinguishing between issues of scope and disaggregation (the fact that topical ESRS partly allow for flexibility on disaggregation can and should not automatically be linked to the likely very common case in which materiality of a matter mainly stems from one subsidiary (or a group of subsidiaries) but not others). It should be possible to use estimates (e.g. to assume zero for subsidiaries for which there is robust evidence that that the metric would be immaterial).

#### *Gross vs. Net*

601. One respondent (preparer) requested par. 211 to be revised; it should recognise that a reporting undertaking can prepare consolidated sustainability reporting without a matching financial consolidation. The qualitative characteristics of information should guide the decision whether to report on a gross or a net basis.

#### *Editorial comments and rephrasing*

602. One respondent (assurance provider) noted that FAQ 22 could include an acknowledgment that in certain situations information about an impact that is material for one sector may not necessarily be material for other sectors or the group as a whole.

*FAQ 23 – General comments*

603. One respondent (preparer) noted that par. 215 (“environmental impacts are considered gross (i.e. before any mitigating actions)”) may be difficult to apply in practice, as it is too theoretical.

*Assessment of impacts vs reporting*

604. One respondent (assurance provider) commented that the assessment of impacts should not be conflated with the reporting of impacts (par. 215-218) and recommended to split questions of assessment and reporting (and clearly stating whether assessment of actual and potential impacts is based on gross impacts and whether reporting of the IROs is to be on a gross or net basis. Furthermore, it would be helpful to separate the guidance on the difference between mitigation that has already taken place and mitigation that is yet to take place in relation to each of assessment and reporting. The examples also do not clarify this).

*Gross vs. Net (Definitions)*

605. Three respondents (preparers, assurance provider) requested the provision of definitions for “gross” and “net.” Another respondent (preparer) requested further guidance on the meaning of the term “gross.”

606. Two respondents (preparers) suggested that gross and net impact definitions should be defined utilising risk management concepts that are already in use.

*Gross vs. Net*

607. Two respondents (assurance providers) suggested to include further guidance on the gross and net approach in general. Another respondent (standard setter) requested further guidance on the gross/net consideration of environmental impacts. Two respondents (assurance provider, preparer) suggested to further clarify whether risks or opportunities should be assessed on a gross or net basis.

608. Five respondents (preparers, standard setter) argued that undertakings should be able to decide whether to report on a gross or net basis (the identification of impacts should be based on a gross assessment; however, the qualitative characteristics of information as set out in Appendix B of ESRS 1 should guide the decision whether to report on a gross or a net basis). Another three respondents (preparers) commented that the reporting on impacts should be made on a net basis.

609. One respondent (preparer) requested further information on when to consider mitigating factors. Another respondent (assurance provider) commented that the FAQ should clearly state that the identification of material risks shall be made before any actions to prevent or limit such risks (i.e. gross approach).

610. One respondent (civil society) suggested to further clarify the relevance of mitigation actions in assessing impacts for the materiality assessment. Another respondent (preparer) commented that the Guidance should clarify how mitigation factors should be considered in the materiality assessment (impacts, risks and opportunities across E, S, G).

611. One respondent (assurance provider) noted that it is unclear whether planned and available and existing mitigation measures, compensating measures can or cannot be considered in the materiality assessment (par. 215, 218, FAQ 4) and requested clear definitions of these terms. The example in par. 218(a) should be revised since it is questionable whether an existing management process implementing the need for a continuous behaviour or for continuous actions is also an “existing” measure to reduce future potential impacts.

612. Two respondents (assurance provider, user) were unclear on whether impacts should be assessed on a gross or net basis (in particular regarding the gross assessment of impacts

where legislation is in place to prevent impacts, e.g. child labour in European countries). One respondent (assurance provider) suggested to clearly define the term “gross” and its application across all reporting areas (the gross value could be defined as a licence to operate for companies and their entities, if there is a regulatory environment defined for those topics). Another respondent (preparer) added that an assessment of impacts from a gross perspective should be equivalent to an assessment considering the legal measures implemented.

613. Two respondents (assurance providers) suggested to clarify whether the FAQ is applicable to impact materiality assessments as well as financial materiality assessment (par. 215).

#### *Potential impacts*

614. One respondent (preparer) found it unclear what the starting point for the identification of impact is and commented on the difficulty to assess all potential impacts if gross risks are to be considered before any mitigations. Another respondent (preparer) requested clarity on whether it is necessary to report on all potential impacts.
615. One respondent (standard setter) noted that impacts are identified before mitigation actions and metrics are presented after mitigation actions; thus, there is no need to distinguish actual from potential impacts. A requirement for gross impacts, mitigation policies and actions and net metrics is sufficient (par. 215 in particular should be redrafted: “therefore, the users of the sustainability statement will receive information on the actual impacts where no distinction is made between gross and net”).
616. One respondent (consultant) noted that while it is stated that information on gross impact, management of the impact, and net impact shall be disclosed, it remains unclear whether the materiality score should be determined based on a gross or net basis (par. 218 suggests the latter), when the impact is potential.

#### *Possible contradictions*

617. Three respondents (user, assurance provider, preparer) noted that par. 215 contradicts par. 217 (par. 215 states that “the users of the sustainability statement will receive information on the actual impacts where no distinction is made between gross and net”; while par. 217 states that actual impacts are always assessed before consideration of mitigation measures; furthermore par. 215 also states that environmental impacts are to be considered on a gross basis).
618. Three respondents (preparers, civil society) commented that FAQ 23 states that mitigation can be considered when assessing the materiality of actual impacts if it occurs before the incident; however, the example provided in par. 217 notes 'mitigation activities, such as pollution containment or immediate stop of operations that were put in place before the incident are considered when assessing the severity of the actual impact'.
619. For clarity, three respondents (preparers) suggested to include 'before and during the incident' within par. 217(a) when discussing how mitigation measures can be considered when assessing severity.
620. Five respondents (consultant, assurance providers, preparers) that par. 215 (mentions a gross assessment) conflicts with par. 218 (states: “The materiality assessment of potential impacts can also consider the effect of technical or other management measures for avoiding or mitigating impacts in the future.”). Five respondents (preparers, user) noted that the examples in par. 218 contradict the previous statement that mitigation action can be taken into consideration for the materiality assessment (as long as technical and economic feasibility is met and is accurately described).

621. Three respondents (preparers) suggested to include an example as to whether technical or other management measures to avoid or mitigate potential impacts in the future could be included within the materiality assessment.
622. Two respondents (assurance providers) noted that par. 218 suggests that the effect of actions or “measures” can be taken into account, while par. 215 refers to a “general principle” to consider gross impacts before any mitigating actions.

*Negative Impacts that have occurred in the past*

623. One respondent (assurance provider) requested further guidance on negative impacts in the past (in particular how the example in par. 217(b) should be understood regarding past impacts; furthermore how far back in time should the undertaking go in this consideration; what should be considered when assessing the severity and likelihood of impacts from the past (gross or net basis); do they also have to be reported on; and how should an undertaking fulfil the requirements if impacts from the past that are still present today, were not calculated or assessed in the past and can no longer be assessed today, e.g. GHG emissions from the past.
624. One respondent (preparer) suggested to clarify how to account for past events (particularly the social dimension in case or irremediable events) in par. 217(b).
625. One respondent (consultant) requested further guidance on how to consider actual impacts that have occurred in the past, for which mitigating factors have been put in place afterwards and which subsequently lessened the negative impact (par. 217(b)).

*Mitigation hierarchy*

626. One respondent (consultant) noted that the terminology for the steps in the mitigation hierarchy is slightly inconsistent with the ESRS (“avoidance, minimisation, restoration and rehabilitation of ecosystems, compensation or offsets”). The same respondent also noted that the prioritisation of steps is central to the appropriate application of the mitigation hierarchy, which is not made apparent.
627. The respondent (consultant) commented that it would be useful to emphasise that the mitigation hierarchy provides a robust conceptual framework for planning and implementing mitigation actions, however it is challenging to quantify impact mitigation from the avoidance steps directly.
628. The respondent (consultant) furthermore suggested to include definitions for each step in the mitigation hierarchy (highlighting the difference between restoration and rehabilitation/remediation); and to provide examples for each step. Another respondent (preparer) requested additional context for par. 219.
629. One respondent (standard setter) argued to delete the examples in par. 219 (they do not belong in FAQ 23).

*Guidance on Social (and Governance) Matters*

630. Eight respondents (preparers, user, assurance provider) requested further guidance on social matters (par. 220). Two respondents (preparers) requested clarity on the implications for the reporting period 2024.
631. Three respondents (preparer, assurance providers) asked for further guidance on IROs for social and governance matters (par. 215). One respondent (assurance provider) proposed that FAQ 23 should more broadly address if risks and opportunities are to be assessed on a gross or net basis and how the likelihood of a risk is taken into account in this assessment.
632. One respondent (preparer) proposed to include further information on how mitigating factors should be considered in the materiality assessment (impacts, risks and opportunities for environmental, social, governance).

633. Two respondents (preparers) noted that the Guidance suggests that it is not possible to offset social impacts; and requested clarity on this statement. Another respondent (preparer) suggested to delete par. 220, since gross reporting is only mandatory for environmental impacts (social and governance impacts can be reported net).

634. Three respondents (preparers, user) questioned whether the principles discussed in FAQ 23 overall only applies to environmental matters.

*Irremediable character*

635. One respondent (consultant) commented on the connection between par. 215 and the assessment of actual impacts (if the type of netting / future remediation measures should not be factored into the assessment of actual impacts, it becomes unclear what purpose the impact parameter of "irremediable character" serves).

*Editorial comments and rephrasing*

636. One respondent (assurance provider) suggested to include a reference to FAQ 4. Another respondent (assurance provider) suggested to highlight the connection with FAQ 13 and FAQ 2.

637. One respondent (assurance provider) noted that the ESRS reference in par. 215 needs to be more exact.

638. One respondent (preparer) requested to align the terms used in par. 215 with the mitigation hierarchy.

639. One respondent (preparer) suggested to include a specific reference to the application of a theoretical gross approach in the identification of environment related IROs, as the current reference is too general (par. 215).

640. One respondent (standard setter) commented on par. 217(a) and noted that the answer should reflect that the impact is inherent to the activities, not the accidents.

641. One respondent (standard setter) suggested to simplify par. 218 (the gross impact may not be disclosed only when the history has proven the efficiency of mitigation actions and when the impact is considered to be solved).

642. One respondent suggested to emphasise in par. 219 that compensation is a necessary activity but should be the last option.

643. One respondent (preparer) noted that a similar sentence should be included with regard to social and governance topics (par. 215: "As a general principle, environmental impacts are considered gross" and par. 220).

644. One respondent (assurance provider) commented that the definitions used in par. 219 are not used consistently (e.g. paragraph 215 uses the term "before any mitigating actions" implying that mitigation includes "avoidance" and "minimisation", whereas par. 218 uses the term "for avoiding or mitigation." This implies that the general principle does not apply to actions to avoid, restore, or compensate impacts).

*FAQ 24 - Editorial comments and rephrasing*

645. One respondent (standard setter) requested the example in FAQ 24 to be re-drafted (the impact is not the lack of training, but the health and safety matter in relation to the activities. The lack of training is a mitigation action that is not implemented).

## Question 11

*Do you have comments on Chapter 5.7: FAQs on art. 8 EU taxonomy?*

### *Summary of constituents' comments*

646. Three (preparers, civil society) requested further guidance on how taxonomy-related information should feed into companies' materiality assessment.
647. One respondent (preparer) outlined that any guidance on taxonomy also clearly distinguishes between gross and net assessments in line with their stance on transparency and comparability.
648. Six respondents (assurance providers, standard setter, preparers) underlined that several companies that must comply with ESRS do not yet apply the EU Taxonomy Regulation. Therefore, they recommended including an introductory paragraph to present the key aspects of this regulation or, generally speaking, improving the explanation as it is not so clear; if not, removing the section as conceptually the EU Taxonomy reporting and ESRS reporting are rather different – the preparers and assurance providers seem to be inclined to delete it.
649. Three respondents (preparers, user) addressed that the Taxonomy is not the only process amongst many that may inform the materiality assessment. Therefore, the EU taxonomy should be referenced only as one of the internal processes informing the ESRS materiality assessment.
650. One respondent (other) considers that 'including the treatment of these key concepts and positionings in the main body of the document, not just in the FAQs;' and explains the fact that having eligible activities following the Taxonomy can be an input to be considered within the framework of the materiality assessment process, both from the point of view of impact materiality and also financial materiality.
651. One respondent (standard setter) suggested including what is the case for companies that do not engage in eligible activities and having low eligible amounts. Furthermore, including 'a cross-reference or FAQ in relation to EU Taxonomy would be useful addition since the EU Taxonomy scope is expected to impact the materiality considerations.'
652. One respondent (consultant) requested to 'clarify and reference to the Q&As to the taxonomy' in order 'to avoid green-washing and false claims of taxonomy alignment, as well as disruption of fair competition, as the same activity has gone through the proper and full procedure as per SSCO and gone through its scrutiny has invested significantly more time, resources n it compared to the same activity which has not performed proper.'
653. One respondent (preparer) requested to add an additional FAQ on art. 18 of the EU Taxonomy, which should focus on clarifying the relationship between the minimum social safeguards and materiality.

## Appendix 2 – List of respondents

The responses analysed in this document (i.e. those received by 5 February 2024) are as follows:

ID	Name of entity	Country	Type of respondent
(1)	Deutsches Aktieninstitut e.V.	Germany	Preparer
59	Svarmi	Iceland	User
102	(2)		
107	(2)		
109	(2)		
122	(2)		
142	(2)		
165	(2)		
166	(2)		
184	DRSC	Germany	Standard setter
192	(2)		
196	(2)		
255	Metal Alliance for Responsible Sourcing (MARS)	Germany	Consultant
268	Austrian Association for Building Materials and Ceramic Industries	Austria	Preparer
272	Les Ateliers du Futur	France	Civil society
278	AECA	Spain	User
279	UNICEF	Belgium	Civil society
282	econsense - Forum for Sustainable Development of German Business e.V.	Germany	Preparer
286	Accenture	United Kingdom	Consultant
288	OIC - Organismo Italiano di Contabilità	Italy	Standard setter
292	Kammer der Steuerberater: innen und Wirtschaftsprüfer: innen (KSW)	Austria	Assurance provider
302	PRI	United Kingdom	User
305	ClimatePartner	Austria	Consultant
308	Deloitte	Denmark	Consultant
309	UN Global Compact Local Network Spain	Spain	Other
311	Danish Business Authority	Denmark	Preparer

*Draft IG 1: Materiality Assessment: feedback analysis*

<b>313</b>	mercedes-benz Group AG	Germany	Preparer
<b>316</b>	PGE Polska Grupa Energetyczna S.A.	Poland	Preparer
<b>318</b>	Bouygues Construction	France	Preparer
<b>319</b>	BAUM Consult	Germany	Preparer
<b>320</b>	Nordic Sustainability	Denmark	Consultant
<b>323</b>	BWD Strategic	USA	Consultant
<b>324</b>	Transport & Environment	Belgium	Civil society
<b>325</b>	CEN and CENELEC	Belgium	Standard setter
<b>326</b>	Frank Bold	Belgium	Civil society
<b>327</b>	The Biodiversity Consultancy	United Kingdom	Consultant
<b>328</b>	ASD europe	Belgium	Preparer
<b>330</b>	Cabinet of Transformations	United Kingdom	User
<b>331</b>	FoodDrinkEurope	Belgium	Preparer
<b>335</b>	Eurelectric	Belgium	Preparer
<b>336</b>	EPRA	Belgium	Preparer
<b>337</b>	Global Child Forum	Sweden	Civil society
<b>338</b>	PwC	Belgium	Assurance provider
<b>342</b>	KIRKBI A/S	Denmark	Preparer
<b>345</b>	Ministry of Finance	Estonia	Standard setter
<b>346</b>	Mazars	France	Assurance provider
<b>348</b>	O.I.B.R. Foundation	Italy	Standard setter
<b>349</b>	Collectibus Srl SB	Italy	Consultant
<b>350</b>	Assonime	Italy	Preparer
<b>355</b>	RINA Services SpA	Italy	Assurance provider
<b>356</b>	South Pole	Belgium	Consultant
<b>357</b>	Association for Financial Markets in Europe	United Kingdom	Preparer
<b>358</b>	Shift	USA	Civil society
<b>359</b>	Danish Institute for Human Rights	Denmark	Civil society
<b>361</b>	UNEP Finance Initiative (UN)	Switzerland	Standard setter
<b>364</b>	Association of German Public Insurers	Germany	Preparer



*Draft IG 1: Materiality Assessment: feedback analysis*

<b>365</b>	KPMG EMA DPP Limited	United Kingdom	Assurance provider
<b>368</b>	Repsol	Spain	Preparer
<b>369</b>	Austrian Financial Reporting Advisory Committee (AFRAC)	Austria	Standard setter
<b>370</b>	DIGITALEUROPE	Belgium	Preparer
<b>371</b>	Climate & Company	Germany	Academic
<b>372</b>	Novo Holdings A/S	Denmark	Preparer
<b>373</b>	Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)	Germany	Assurance provider
<b>375</b>	GIST Impact	Switzerland	User
<b>376</b>	FSR - Danish Auditors	Denmark	Assurance provider
<b>377</b>	Eurogas	Belgium	Preparer
<b>380</b>	Confederation of Danish Industry	Denmark	Preparer
<b>383</b>	Confindustria	Belgium	Preparer
<b>386</b>	Autorité des normes comptables (ANC)	France	Standard setter
<b>387</b>	VDMA e.V.	Germany	Preparer
<b>389</b>	Eni SpA	Italy	Preparer
<b>390</b>	DECATHLON	France	Preparer
<b>391</b>	American Chamber of Commerce to the European Union	Belgium	Preparer
<b>393</b>	Climate Focus	Germany	Consultant
<b>394</b>	EnBW	Germany	Preparer
<b>395</b>	Allianz SE	Germany	Preparer
<b>397</b>	WWF European Policy Office	Belgium	Civil society
<b>400</b>	Financial Executives Association	The Netherlands	Preparer
<b>401</b>	BMW AG	Germany	Preparer
<b>402</b>	Dutch Accounting Standards Board	The Netherlands	Standard setter
<b>403</b>	EuroCommerce	Belgium	Preparer
<b>405</b>	MSCI	United Kingdom	User
<b>406</b>	Austrian Federal Economic Chamber	Austria	Preparer
<b>408</b>	French Banking Federation	France	User
<b>409</b>	Henkel	Germany	Preparer

*Draft IG 1: Materiality Assessment: feedback analysis*

412	amfori	Belgium	Preparer
415	GeoMarine Ltd	Bulgaria	Consultant
363	European Banking Federation	Belgium	User
366	Danish National Funding Mechanism	Denmark	Standard setter
269	ICJCE	Spain	Assurance provider
317	ASSIREVI	Italy	Assurance provider
300	Confederation of German Employers' Associations	Germany	Preparer
303	European Federation of Accountants & Auditors for SMEs	Belgium	Assurance provider
312	ECIIA	Belgium	Assurance provider
329	APMH	Denmark	Preparer
339	WSBI-ESBG	Belgium	Preparer
341	Accountancy Europe	Belgium	Assurance provider
343	Cefic	Belgium	Preparer
352	GDV	Germany	Assurance provider
379	ONCE Foundation	Spain	Civil society
385	Malta Institute of Accountants	Malta	Assurance provider
388	Veolia	France	Preparer
407	Datamaran	United Kingdom	User
411	Deloitte	United Kingdom	Assurance provider
413	Schneider Electric	Belgium	Preparer
(1)	EcoDa	Belgium	Preparer
(1)	ICAC	Spain	Standard setter
(1)	EACB	Belgium	Preparer
(1)	Consejo de Economistas	Spain	Assurance provider
(1)	European Issuers	Belgium	Preparer
(1)	NBIM	Norway	Preparer

**Notes:** (1) Respondents that submitted comment letter only, (2) Respondents from the survey that remained anonymous.