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Materiality Assessment Implementation Guidance Cover Note

Objective

1. The objective of the session is to present to EFRAG SRB the updated MA IG, that reflects the comments received from SR TEG and SRB members on the version uploaded for the SRB on 23 August 2023.
2. **This is the last discussion before final approval, which is scheduled for the week of the 6 of November at TEG level and for 15 November at EFRAG SRB level.**
3. This meeting is expected to be focus on substance; further editorial comments are welcome in written if they arrive by 27 October 2023. As the next meeting on this document is to approve it, EFRAG SRB members are invited to present, if any, their remaining comments that could affect their intention to support the document, in this meeting.

Important information

4. EFRAG can only issue non-authoritative guidance in its role as technical advisor to the EC.
5. Furthermore, while drafting guidance, EFRAG cannot develop concepts or requirements that go beyond the content of the July 2023 delegated act. The guidance aims to illustrate the delegated act but not go beyond it. For new provisions, separate standard-setting activities in accordance with that process has to be concluded.
6. The content of the guidance presented for this meeting has not been validated by the ISSB, GRI or FISMA.
7. EFRAG is also in the process of establishing a process to answer questions from constituents (i.e., ESRS access point) that will complement the array of implementation activities being carried out.
8. Update on key changes since the last version discussed at the SRB meeting on the 23 August 2023:



a) Reorganisation of section 2 and 3

Version 23 August 2023	Version 25 October 2023
<p>2. What is the double materiality assessment</p> <p>2.1 Recap on the concept of double materiality</p> <p>2.2 The materiality assessment</p> <p>2.3 Understanding key concepts for the materiality assessment</p>	<p>2. The ESRS approach to materiality</p> <p>2.1 Implementing the concept of double materiality (<i>note 1</i>)</p> <p>2.2 Understanding key concepts</p> <p>2.3 Criteria for the identification of material information</p> <p>2.4 Scope of application of the materiality of information</p> <p>2.5 Datapoints derived from EU legislation</p> <p>2.6 Considerations for upstream/downstream value chain</p>
<p>3. Materiality assessment – why is it needed?</p> <p>3.1 Identification of all material IROs</p> <p>3.2 Criteria for identification of material information</p> <p>3.3 Scope of the application of the materiality of information</p> <p>3.4 Datapoints derived from EU legislation</p> <p>3.5 Considerations for upstream/downstream value chain</p>	<p>3. Materiality assessment -how is it performed?</p> <p>3.1 – 3.4. Steps of the Materiality assessment</p> <p>3.5 Role and approach to stakeholders in the materiality assessment process</p> <p>3.6 Deep dive on impact materiality</p> <p>3.7 Deep dive on financial materiality (<i>note 2</i>)</p>
<p>4. Materiality assessment- how is it performed?</p> <p>4.1 – 4.4. Steps of the Materiality assessment</p> <p>4.5 Role and approach to stakeholders in the materiality assessment process</p> <p>4.6 Setting the thresholds for impact materiality.</p>	

Note 1: Section 3 from the 4 September 2023 version has been moved and streamlined into section 1 within the heading the ESRS approach to materiality that summarises the rationale for conducting the materiality assessment exercise.

Note 2: FAQ 7 How should the undertaking set thresholds for financial materiality? From the 4 September 2023 version has been moved to Section 3 and the additional guidance from impact and financial materiality on thresholds will be located together.

- b) Deletion of FAQ 18 *How to involve/consult stakeholders?*
- c) Redrafting of FAQ 25 *When an undertaking has already put in place actions to avoid, minimise mitigate or rehabilitate impacts, shall it nevertheless report on the impacts before those actions?* (This is now FAQ 23)



- d) Deletion of FAQ 27 *Is there a recommended format or matrix to graphically present the material matters?*
- e) New question included for EU Art 8 taxonomy. FAQ 25 *What is the relationship between taxonomy eligible activities and materiality?*

Amendments agreed in SR TEG on 17 October 2023

9. The SR TEG discussed the content and changes to the MA IG on the 17 October 2023 meeting. Members were invited to present their remaining red flags and other comments of substance that could affect the intention to approve the guidance at the next meeting. A number of amendments were agreed in the meeting. These are summarised below. Please note that agenda paper 03-02 does not contain these amendments.

<p>Chapter 2 and 3 may still be streamlined in terms of language and logical sequence of sentences. This includes:</p> <ul style="list-style-type: none">(a) a clearer cut off between Step B and C of the MA process whereby step B does not cover material matters;(b) signposting that materiality of information follows the materiality assessment on IROs which is described later on in the Guidance.
<p>FAQ 22. Two points were raised:</p> <ul style="list-style-type: none">(a) Once a matter is material, the metrics normally cover the entire group, however approximations are possible if they help and are compatible with the characteristics of quality;(b) Entity specific Metrics in value chain could be limited to parts of the value chain where the impact is material. Exporting this by analogy to own operations would be exceeding the scope of a guidance. So, this could sit in the VC guidance and cross-refer to FAQ 22 of this guidance
<p>Section 2.2 Figure 2 the last box in grey in the bottom seems to imply that the company always has the information about the most granular level (I-R-O). In the value chain, e.g., in the case of investments, we have information about the topic on the basis of sector information but the information at a more granular level may be missing in some cases. To include a disclaimer that the figure is the target for granularity or update language accordingly.</p>
<p>Section 3.6. Figure 5 on impact materiality conflicts with paragraph 45 of ESRS 1, where severity takes precedence only for HR and not in general. Add a disclaimer at paragraph 113 'in another circumstance the conclusion could be different; while paragraph 45 is explicit for Human rights, for environment matters catastrophic events would be in category 5 and severity would take precedence over likelihood'</p>



FAQ 25 Art 8 Taxonomy. To soften the linkages between the two regulations, i.e., this may inform MA (instead of being an indication), however, and you could have different conclusions as the frameworks are based on different criteria.
Stakeholder engagement
(a) In para. 7 move the mention to not mandating a behaviour at the end of the paragraph
(b) Include a reference SBM-2
(c) To clarify ongoing dialogue with affected stakeholders is part of the DD, where applicable, but it can also be an ad hoc process for reporting purposes
(d) Affected stakeholders in all the document instead of stakeholders
(e) Dialogue has to be complemented by other sources (e.g., scientific evidence)
(f) Do not prescribe in which step the engagement should take place (remove emphasis on step C)
Proportionality - Paragraph 57: ‘process that fit for purpose, including in terms of depth of assessment’ to reinforce proportionality
FAQ 19. Para 193: to replace not appropriate by “it is not the starting point”
FAQ 23. Updating the response to further split the phases between actual and potential impacts and streamline where possible.

Next steps

10. The EFRAG SRB envisages releasing the guidance in draft for public comment for a period of four weeks and then issuing the final document after approval.

Additional agenda papers

11. In addition to this paper, the EFRAG Secretariat presents the following additional papers:
 - a. Agenda paper 03-02 Updated MA IG (clean); and
 - b. Agenda paper 03-03 Updated MA IG (in tracked changes)



Questions for EFRAG SRB on agenda paper 03-02

12. Do EFRAG SRB member agree with the recommendations and comments by SR TEG summarised in paragraph 8 above? These points will be incorporated in the draft for approval in the next and final iteration of this Guidance.
13. Do EFRAG SRB members have any remaining comments of substance that could affect their vote on the document in the next meeting?

