

ONE Sustainability

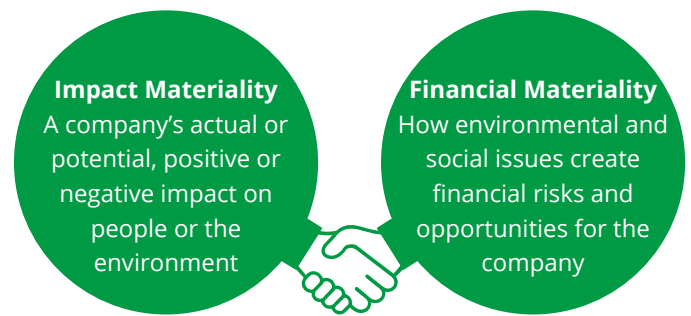
The What, Why, and How of Double Materiality Assessment?



Double Materiality Assessment

On 31 July 2023, the European Commission adopted a delegated regulation on the European Sustainability Reporting Standards (ESRS), which detail the requirements for companies within the scope of the EU Corporate Sustainability Reporting Directive (CSRD). Within this framework, from 2024 onwards, organisations are expected to not only include impact materiality perspectives (inside-out view), but also financial materiality perspectives (outside-in view) in their annual reports. This is driving many companies to revise and update their materiality assessment and underlying processes – but **where do you begin, and how do you go about it?**

Double materiality assessment approach involves evaluating impact materiality and financial materiality:



This approach ensures organisations consider both their external impacts and the internal financial implications of ESG-related risks and opportunities. It aims to identify sustainability matters that are financially material, helping organisations prioritise and address these to drive long-term strategic value and meet regulatory requirements. Hong Kong Exchanges and Clearing Limited (HKEx) currently does not mandate formal double materiality assessment, but it encourages companies to voluntarily adopt this approach.

Approach to Double Materiality Assessment

Phase 1

Understand the value chain impacts and relevant stakeholders

Identify stakeholders who have insights into the company's risks and opportunities, understand the business implications of ESG matters and can offer perspectives on financial matters.

Phase 2

Determine list of sustainability topics and consider the risk and opportunities for each topic

Impact Materiality Analysis (inside-out)

Determine the positive or negative impact that the organisation has or could have on a specific issue.

Financial Impact Analysis (outside-in)

Determine which triggers or developments could pose risks or opportunities for the organisation in relation to the issue. Consider the potential effects on financial results and valuation, looking at short, medium, and long-term risks.

Phase 3

Conduct stakeholder interviews and/or surveys

Conduct stakeholder engagement through surveys and/or interviews by considering the severity, scope, irremediability and likelihood of the impact. This involves looking at the scale of the issue, how many people it affects, the extent to which the impact can be remediated and the likelihood of the impact occurring.






Conduct stakeholder engagement through surveys and/or interviews by determining the likelihood of the risk or opportunity occurring and the financial effect if it materialises.

Phase 4

Integrate results into reporting and strategy

Analyse the results of stakeholder engagement to provide a clear view of the impacts and materiality of sustainability matters as perceived by the different selected stakeholder groups. Integrate these results into reporting and the shaping of Company strategy.

What are the current challenges facing the adoption of such assessment?

Challenge	Solution
 Engaging top management Difficulty in involving the C-suite due to the challenge of demonstrating business value.	Highlight the strategic benefits, such as risk management, opportunity identification and long-term value creation, and frame the assessment as a critical component of corporate strategy.
 Defining the right granularity level for material topics Difficulty in determining the appropriate level of detail for issues assessed.	Tailor the assessment to the specific context of the organisation and its stakeholders, ensuring relevance and practicality without losing necessary detail.
 Selecting the right stakeholders Identifying the correct stakeholders from numerous potential groups.	Use a criteria-based approach to select stakeholders who are most affected by, or can affect, the organisation's impacts and financial outcomes.
 Balancing impact and financial materiality Integrating the impact and financial perspectives can be complex.	Develop a clear framework that systematically evaluates both dimensions and identifies overlaps or trade-offs between them.
 Integrating results into reporting and strategy Effectively using outcomes to inform reporting and strategic decision-making.	Ensure the assessment is aligned with the organisation's goals and values, and that findings are translated into actionable insights for decision-makers.
 Maintaining a continuous materiality process Adopting a continuous approach requires ongoing commitment and resources.	Integrate materiality assessment into regular business processes and establish a cross-functional team to oversee the continuous evaluation and updating of material issues.

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