

Double Materiality 5 challenging key aspects to consider

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Materiality Analysis

Sustainability topics meet the criteria of double materiality when they are material from the impact perspective or from the financial perspective or from both of these two perspectives.



On January 5, 2023 the **Corporate Sustainability Reporting Directive (CSRD)**¹ entered into force and expanding the reporting requirements for non-financial information. With the replacement of the Non-Financial Reporting Directive (NFRD) by the CSRD, the principle of **double materiality** is defined as the “**union of impact materiality and financial materiality**”. A sustainability topic or information meets therefore the criteria of double materiality if it is material from the impact perspective and/or from the financial perspective or from both of these two perspectives.

The **European Sustainability Reporting Standards (ESRS)** provide guidance on how double materiality should be assessed. The analysis is based on **impacts & dependencies**. Companies identify and assess their actual and potential **impacts, risks and opportunities** along the entire value chain in the short-, medium- and long-term time horizons.

The **revised GRI standards**, which are in effect for reporting since January 1, 2023, also require a Materiality Analysis according to actual and potential impacts. Although the analysis is limited to impact materiality, it serves as good preparation for the CSRD.

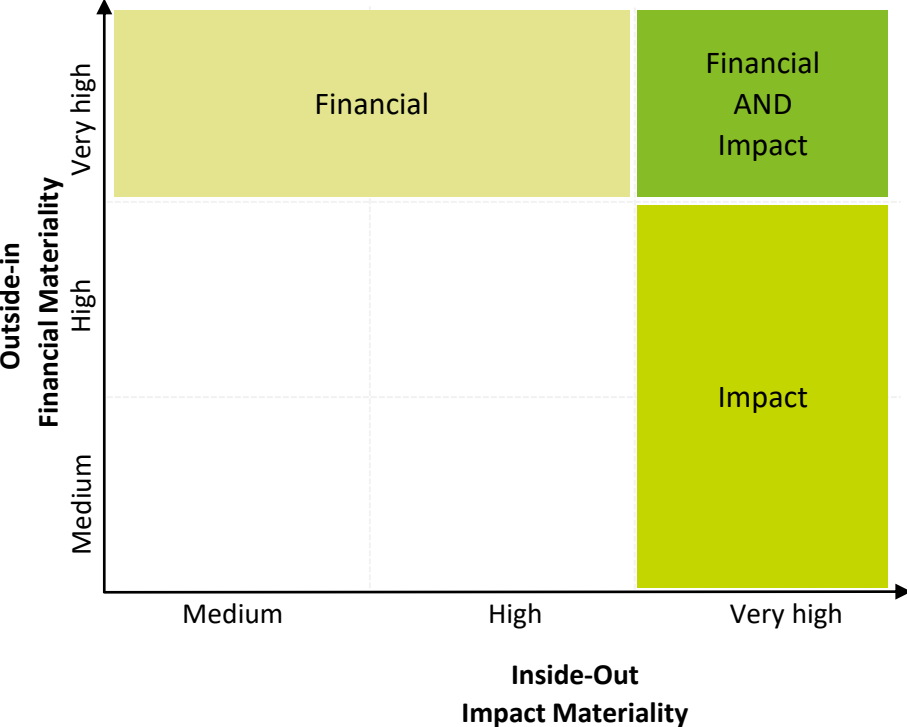
With this guide we want to provide you with the five key aspects that must be taken into account for a successful performance of the materiality analysis.

¹ The CSRD will affect all large companies, regardless of capital market orientation, as well as smaller companies (inside and outside the EU). It will apply in stages, starting on the January 1, 2024 with companies already subject to the NFRD.

Source: [Corporate Sustainability Reporting Directive](#), [Global Reporting Standards 2021](#), [First Set of draft ESRS](#)

Materiality Analysis

The result of the materiality analysis determines the relevant and thus reportable non-financial topics of a company as well as the strategic orientation.



The materiality analysis is used to **identify and prioritize opportunities and risks** along the entire value chain,

- that impact the environment and society (**Impact Materiality/Inside-Out**)

AND/OR

- that impact companies from the environment and society (**Financial Materiality/Outside-In**)

Current standards for preparing the materiality analysis are **CSR-RUG** and **GRI 2021**. With the **CSRD** in combination with **ESRS**, the methodology of the materiality analysis changes from FY24 onwards.

Impacts & Dependencies

In their materiality analysis, companies are required to identify the impacts they have on the environment and society, as well as the risks and opportunities they face as a result of their dependence on the environment and society.



Part of the Solution **OR** Part of the Problem?

Different materiality definitions

Materiality definitions differ between standards and regulation.

	CSR-RUG/ EU NFRD	EU CSRD / ESRS (FY24)*	GRI 2021	SASB**
Double Materiality	Impact & Financial Materiality	Impact OR Financial Materiality	Impact Materiality	Financial Materiality
Level of Assessment	Topic assessment	Actual or potential positive and negative Impacts, risks and opportunities	Actual or potential positive and negative Impacts	Actual or potential positive and negative Impacts
Time horizon	n/a	Short-, medium- & long-term (1y, 2-5y, >5y)	Short- & long-term	Short-, medium- & long-term
Stakeholder engagement	Optional	Optional (Affected or Users)	Optional <i>GRI 2016: Mandatory</i>	Optional
Scenario analysis in risk assessment	Not specified	Outside-in (1.5°) over different time horizons	Not specified	Not specified
Data quality	Not specified	Limited (from FY2024)	Not specified	Not specified

*ESRS drafted | **SASB Standards are now a part of the IFRS Foundation. The IFRS Foundation’s International Sustainability Standards Board (ISSB) encourages companies to keep using SASB Standards
Sources: [CSR-Richtlinie-Umsetzungsgesetz](#), [European Sustainability Reporting Standard ESRS 1](#), [GRI 2021 GRI 3: Material Topics](#), [SASB conceptual framework](#)

5 Key Aspects to consider

With this guide we want to provide you with the five key aspects that must be taken into account for a successful performance of the materiality analysis.



Aspect 2
Most material impacts on the society & environment



Aspect 4
Time horizons & Scenarios



Aspect 1
Understand Impact & Dependencies



Aspect 3
Most material financial risks and opportunities



Aspect 5
Stakeholder involvements

Aspect 1 Impacts & Dependencies



Materiality impacts and dependencies are identified on the basis of impacts, risks and opportunities.

Selected ESRS Disclosure Requirements

- ESRS 1 3.3: “Double materiality has two dimensions, namely: impact materiality and financial materiality”
- ESRS 1 3.3: Identification and assessment of the impacts, risks and opportunities in the undertaking’s value chain to determine their materiality



Challenges for businesses

- Materiality identification is taken **a level deeper**: Materiality determination is no longer based on topic assessment, but by evaluating impacts, opportunities and risks
- **Inside-out assessment** based on positive and negative impacts on the environment/society
- **Outside-in assessment** based on risks and opportunities for the company depending on the environment/society
- **Mandatory disclosure requirements** for all companies regardless of their analysis for ESRS2 (General disclosures), ESRS2 Appendix C (Datapoints that are required by EU law), ESRS E1 (Climate change) and partially ESRS S1 (Own workforce)

Aspect 2 Impact Materiality



The Impact Materiality describes the positive and negative effects that companies have with their business activities on the environment and society.

Selected ESRS Disclosure Requirements

- ESRS 1 3.4: A sustainability matter is material “when it pertains to the undertaking’s material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons”
- ESRS 1 3.4: Impact assessment is based on the likelihood and severity (scale, scope and irremediable character of the impact)



Challenges for businesses

- **Identification** of actual and potential positive and negative impacts along the entire value chain
- Decision between **high-level approach** or **granularity** of impacts
- Definition of a **methodology** for the assessment of gross impacts according to likelihood and severity
- Assessment of **human rights impacts**
- Definition of a **thresholds** to determine the material impacts

Aspect 3 Financial Materiality



The Financial Materiality considers the risks and opportunities that financially affect a company's business.

Selected ESRS Disclosure Requirements

- ESRS 1 3.5: A sustainability matter is material “if it triggers or may trigger material financial effects on the undertaking”. Risks or opportunities that have a material influence on cash flows, development, performance, position cost of capital or access to finance in the short-, medium- and long-term time horizons.
- ESRS 1 3.5: Impact assessment is based on the likelihood of occurrence and the size of the potential financial effects



Challenges for businesses

- **Identification** of actual and potential risks and opportunities along the entire value chain
- Decision between **high-level approach** or **granularity** of gross impacts
- Definition of an **assessment methodology** for the assessment according to likelihood of occurrence and the size of the potential financial effects
- Quantitative **financial assessment** of risks and opportunities
- Assessment of risks and opportunities based on their impact on **cash flows** and/or **product, natural, intellectual, human, social and relationship capitals**

Aspect 4 Time Horizon & Scenario Analysis



The CSRD requires the assessment of impacts, risks and opportunities along the value chain based on short-, medium- and long-term horizons

Selected Disclosure Requirements ESRS 1

- ESRS 1 3.3: Assessment of impacts, risks and opportunities in the short-, medium- and long-term time horizons
- ESRS 1 6.4: Definition of reporting periods
 - Short-term time horizon: “the period adopted by the undertaking as the reporting period in its financial statements”
 - Medium-term time horizon: “from the end of the short-term reporting period above to five years”
 - Long-term time horizon: “more than five years”



Challenges for businesses

- Complex **assessment of changing financial impacts over time** due to the connection with environmental or social impacts
- Usage of **scenario analyses and forecasts** in order to be able to carry out the evaluation along time horizons

Aspect 5 Stakeholder Engagement



Although stakeholder engagement is not mandatory in the materiality analysis, the involvement of stakeholder groups supports a more objective identification and assessment of impacts, risks and opportunities.

Selected Disclosure Requirements ESRS 1

- ESRS 1 3.1: Differentiation between two stakeholder groups: affected stakeholders and users of sustainability statements
- ESRS 1 Appendix B 3.3: “Materiality assessment is informed by the dialogue with affected stakeholders”
- ESRS 1 3.1: Inclusion of stakeholder in processes to identify and assess actual and potential impacts, risks and opportunities



Challenges for businesses

- **No mandatory guidelines** on stakeholder engagement in the materiality analysis
- Possibility of different **engagement options and formats** for stakeholders (e.g. identification of impacts, risks, opportunities, validation)

How can we help?

When updating your materiality analysis according to EU CSRD, you should consider the three key aspects.

How to start...

1 | Understand

Define ESG topics and derive their impacts, risks and opportunities

- Outside-in (Financial Materiality)
- Inside-Out (Impact Materiality)



2 | Assess

Assess the impacts, risks and opportunities based on the assessment methodology of the European Sustainability Reporting Standard

- Likelihood of occurrence and size of the potential financial effects
- Likelihood and severity
- Definition of a threshold



3 | Identify & Integrate

Identify material topics and design the Materiality Matrix

- ESG topics are identified as material if they are material from an Impact AND/OR Financial Materiality perspective
- Integrate results in ESG Strategy and reporting



ESG Roadmap & Strategy development

Materiality and stakeholder analysis

Governance & Corporate Due Diligence

Portfolio Management & Sustainable Innovation

ESG Impact Management
(Measurement, Valuation & Management)



ESG Reporting & Regulatory Readiness

ESG KPIs, Management & Steering
Performance & Implementation

ESG@GRC
(Governance, Risk, Controls)

ESG Rating Support
(CDP, SASB, ISS, EcoVadis, etc.)

ESG IPO Support & Assurance Readiness & ESG DDs

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