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Vision for Enhanced Double Materiality Assessment Through Impact Measurement and Valuation

2024

"Enhancing double materiality assessments with rigorous impact measurement and valuation is like giving businesses a sharper lens through which they can view their influence on the world. This clarity doesn't just benefit the corporate bottom line—it's a vital step towards responsible stewardship of our planet.“

Wim Bartels
European Sustainability Senior Partner @ Deloitte
Member Sustainability Reporting Board EFRAG

What's inside?

EXECUTIVE SUMMARY

Traditional Double Materiality Assessments (DMAs) often rely heavily on qualitative analysis, which can introduce ambiguities in identifying and prioritising sustainability issues critical to stakeholders and regulatory bodies. This uncertainty can potentially hinder clear decision-making and obscure the actual impact an organization creates.

This document outlines Deloitte's approach to enhancing DMAs by integrating Impact Measurement and Valuation (IMV). We propose enhancing DMAs by incorporating IMV into the approach to quantitatively measure economic, environmental and social impacts in monetary terms. This approach aims to reduce subjectivity by providing objective, transparent, and comparable metrics.

The enhanced DMA framework is designed to comply with and anticipate the requirements of emerging regulatory frameworks, including the Corporate Sustainability Reporting Directive (CSRD). A key driver for developing this enhanced framework is because we expect stakeholders will increasingly demand more data-driven quantified, and actionable sustainability reporting.

In this paper, we present two options to integrate IMV into DMA:

1. Quantitative Analysis First:

This option begins with a quantitative analysis that provides a solid, data-driven foundation, facilitating more informed and focused stakeholder discussions. It is particularly beneficial for organizations that require clear prioritization of environmental and social impacts before engaging with their diverse stakeholders.

2. Refine Stakeholder Inputs Based on IMV

Starting with qualitative inputs from stakeholders, this option enriches these outcomes by subsequently integrating quantified impact data of the identified topics. This method is advantageous for organizations that value diverse stakeholder perspectives and wish to refine these insights in a later stage with more precise, monetized data.

The integration of IMV into traditional DMA processes offers several distinct advantages. Primarily, it provides better insights into what is material for the organization, helping organizations communicate more effectively about what is important. This clarity fosters better discussions with stakeholders, leading to enhanced trust and partnerships. Additionally, the quantitative clarity provided by IMV enables enhanced decision-making, allowing businesses to make more informed, strategic decisions that promote long-term sustainability alongside business objectives.

The way forward

Although the concept of DMA may still be relatively new and potentially overwhelming for many organizations, we believe our framework can help organizations to simplify and enhance the outcomes of their DMAs by translating complex impacts into an easily understandable language.

Although the integration can require some initial effort, we believe that the long-term benefits are substantial. Organizations will be able to prioritize their impacts more effectively, focusing their resources on the sustainability areas where they can make the most significant difference, so they can **make an impact that matters**.

4

1. Introduction

As the public increasingly demands concrete actions toward sustainability, organizations are being urged to offer clear and transparent accounts of how their operations affect society and the environment.

The double materiality concept serves as a crucial framework in this context, reflecting a dual focus on how environmental and social issues affect a company's financial health and how the company, in turn, impacts the world. As global regulations and reporting standards evolve to mandate this concept, companies are seeking clear guidance to meet these requirements in an accurate but also effective manner. This paper provides guidance on how organizations, both corporates and financial institutions, can enhance their current Double Materiality Assessments (DMAs) by incorporating Impact Measurement and Valuation (IMV). This integration aims to enrich the assessment framework with more data-driven insights, offering a clearer and more quantifiable understanding of impacts resulting in insights which can support organizations to funnel capital and efforts to impacts beyond compliance.

This document outlines Deloitte's approach to enhancing the commonly conducted stakeholder informed DMA by integrating IMV into it. We've obtained input from some leading experts to share our vision on what this improved DMA could look like.

The Double Materiality concept can be challenging since organizations are required to assess which issues truly matter — those that influence people and planet and/or the bottom line. A more objective, quantifiable approach could, reduce ambiguity, add transparency and enhance comparability across assessments. This could ultimately lead to refining sustainability strategies and therefore helping organizations to focus on the issues that matter most.

Impact measurement and valuation allows companies to quantify their impacts in monetary terms — translating diverse impacts into a common, understandable language. Although the concept is still in development, the uptake of this concept has significantly increased due to the development of several standards and protocols including the EU (European Union) Transparent Project and materials developed by the Value Balancing Alliance, the International Foundation for Valuing Impacts and the Capitals Coalition. Furthermore, tooling and databases have been developed by several firms to automate and facilitate the process. Some leading organizations are using the approach beyond reporting by integrating the concept into several decision-making processes such as the investment process to enable them to make more impact with their limited resources.

The approach we outline in this paper is both quantitative and qualitative, designed to fit seamlessly within a company's DMA. Applying the approach can enhance the transparency and objectivity of the DMA process. This methodology, which is grounded in science, facilitates a more structured and transparent evaluation of impacts. By leveraging this approach, companies can achieve a higher degree of clarity and comparability in their assessments, facilitating better communication to stakeholders. Through this enhanced DMA-process, organizations can better identify priority areas for action.

2. Challenges in a ‘stakeholder-based’ DMA

In recent conversations with organizations, we have learned that they encounter several challenges that can complicate the effectiveness of their Double Materiality Assessments (DMA). These challenges typically include:

Weighing diverse stakeholder inputs

Managing and integrating stakeholder inputs can be particularly challenging as different stakeholders may have varying priorities and perspectives on what is material to the organization. Stakeholders ranging from investors to local community members each bring their unique viewpoint, influenced by their relationship to the organization and their personal or collective interests. Balancing these inputs in a way that respects all parties' views of material impacts while still maintaining a clear, objective path forward in the assessment can be a delicate task.

Aggregating impacts across different domains and scales

Aggregating qualitative impacts from various domains (such as environmental, social, and governance) and across different scales of operation (from local to global) adds another layer of complexity.

Comparing impacts

In a traditional stakeholder-based DMA, the results of the assessment are influenced by the choice of stakeholders involved. For example, a supplier might downplay the materiality of the environmental impact of their products to maintain business relations, whereas environmental NGOs might emphasize these impacts. Assessing the significance of the information without a uniform metric complicates decision-making and prioritization of the sustainability impacts. This lack of comparability becomes even more challenging when trying to align internal assessments with external expectations and benchmarks. Without clear, quantifiable standards, organizations may struggle to effectively prioritize actions and justify their sustainability strategies to stakeholders who seek transparency and accountability.

Consistency in assessments

Ensuring consistency across DMAs within and between organizations poses a significant challenge, particularly when different assessments are conducted under varying conditions or with different teams. This lack of consistency can lead to discrepancies in how impacts are evaluated and reported, ultimately affecting the comparability of the assessments.

These challenges underscore the need for methodologies that can introduce more quantifiable, objective elements into the Double Materiality Assessment process.

“Sustainable value creation for all requires the allocation of limited resources to the most impactful measures. A common unit to compare material topics is a precondition.”

Christian Heller
CEO @ Value Balancing Alliance

3. Proposed framework

To address the challenges described in the previous chapter, our proposed framework integrates IMV into the DMA process[1]. This framework offers a way to enrich and clarify assessments, focusing specifically on impact materiality[2].

Whereas traditional stakeholder-based DMAs provide stakeholder inputs on the importance of topics, IMV transforms economic, environmental and social data, into quantifiable, monetary terms. This quantification provides a clear, consistent, and communicable framework, making it possible for businesses to articulate their sustainability performance in financial terms—a language that is understandable and comparable.

This method not only enhances transparency and accountability but also allows organizations to approach the DMA with a more structured and objective lens. By converting impact data into quantifiable metrics, companies can mitigate the judgmental angle inherent in qualitative assessments, thereby focusing more precisely on assessing and communicating the materiality of impacts.

Our three-step approach incorporates impact measurement and valuation into the DMA, transforming it into a more data-driven methodology. This adaptation serves as an additional lens to assess materiality with more objective, quantifiable inputs, with the overall aim of enhancing the precision of the assessments. The approach can have two starting points. One option is to begin with a quantitative analysis, which can serve as a solid basis for integrating and evaluating stakeholder inputs. Alternatively, the process can start with gathering stakeholder inputs first, and then refining these results based on the monetization of these impacts.

This flexibility allows organizations to tailor the assessment process to their specific needs and contexts, ensuring that the focus remains on accurately identifying and evaluating the material impacts.

Box 1. What is Impact Measurement and Valuation (IMV)?

Impact Measurement and Valuation (IMV) is a structured approach used by organizations to assess the broader impacts of their operations, projects, or products on society, the economy, and the environment. This approach quantifies and monetizes the positive and negative externalities that might not be captured through traditional financial accounting. The goal of IMV is to provide a holistic view of the value created or diminished by an entity's activities, supporting enhanced reporting, more informed decision-making and strategic planning.

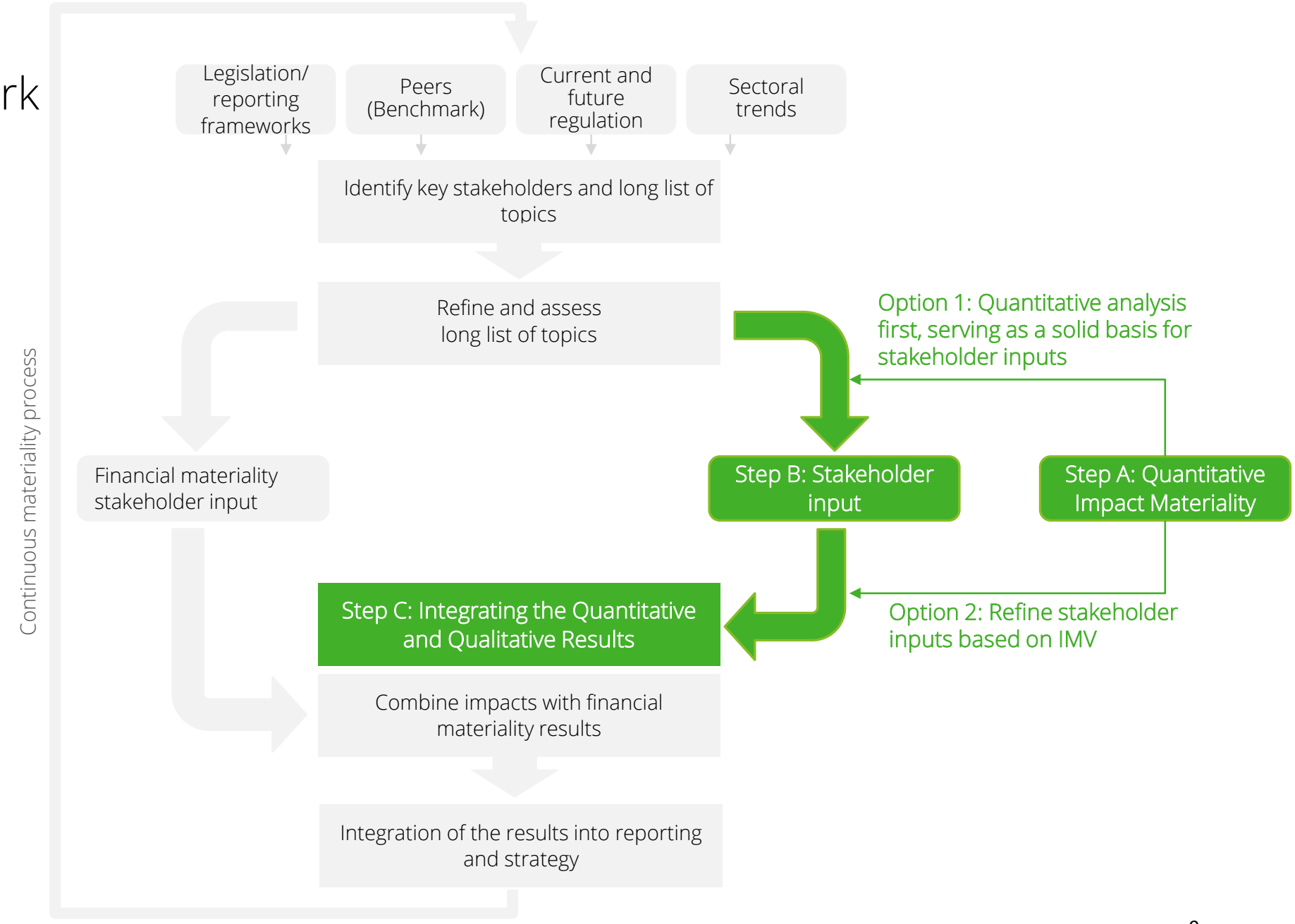
1) While DMAs are integral to various reporting frameworks and requirements, we have chosen the European Sustainability Reporting Standards (ESRS) as the foundation to build upon. Other DMA processes may exhibit slight nuances that differ from this approach.
2) In this framework, we do not address financial materiality and financial effects (outside-in perspective). See A practical approach to assess financial materiality | Deloitte Netherlands for more insights on how this can be done.

3. Proposed framework

Integration of IMV into the overall DMA process

On the right, we share our insights into where in the overall DMA process the quantitative analysis from IMV can be integrated in two ways.

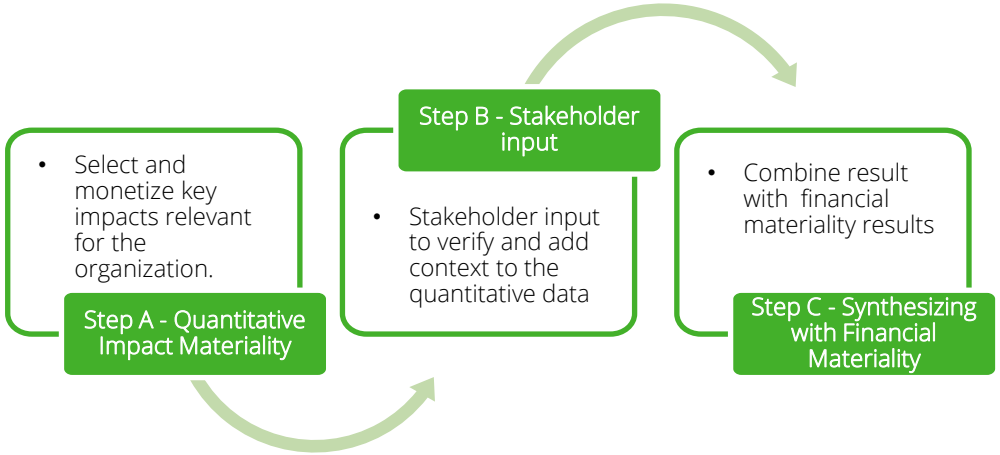
Both approaches within this framework can be advantageous depending on specific organizational challenges and needs



3. Proposed framework

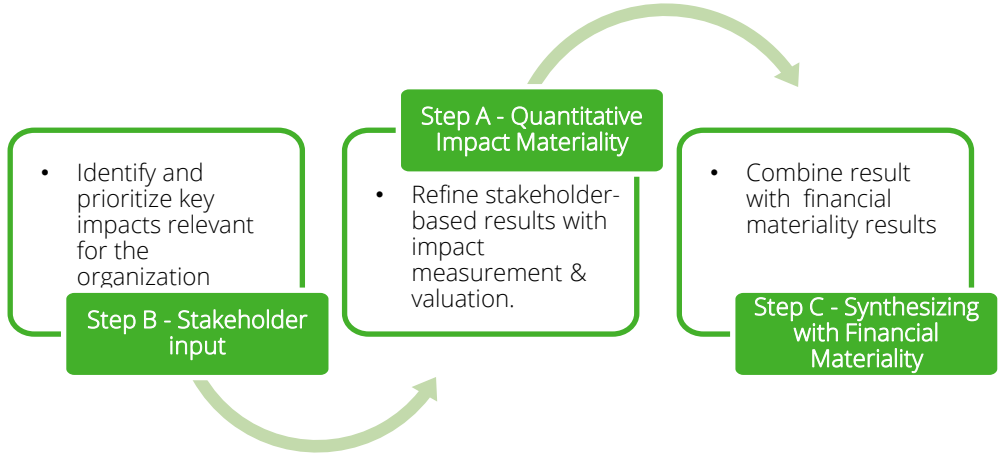
Option 1: Quantitative analysis first, serving as a solid basis for stakeholder inputs

Option 1, which starts with a quantitative analysis, can be especially beneficial for organizations that find it challenging to engage in meaningful conversations with stakeholders about what is important regarding environmental and social impacts. This approach provides a solid, data-driven foundation that can help clarify and prioritize issues before they are presented to stakeholders, thereby facilitating more focused and productive discussions. This can also support organizations to better select the stakeholders they would like to request input for their DMA.



Option 2: Refine stakeholder inputs based on IMV

Option 2, which begins with gathering stakeholder inputs first, may be more advantageous for organizations that struggle to consolidate the input of stakeholder which provide a broad range of perspectives on what they believe is material to the organization. Starting with qualitative inputs can help capture a wide array of viewpoints and concerns early in the process. Following this with the monetization of these impacts allows the organization to refine these insights into a structured, quantifiable format, making it easier to integrate and evaluate these diverse inputs effectively.



Each option is designed to complement specific organizational contexts and challenges, ensuring that the DMA process is not only comprehensive but also adaptable to the organization's operational and strategic needs.

4. Details of the steps taken in our framework

In this section, further details are provided on step A, B and C which we have introduced in previous section.

Step A: Quantitative Impact Materiality

For the quantitative impact materiality assessment process, existing impact valuation and accounting methodologies can be used, for instance the methodologies developed by the Value Balancing Alliance and the International Foundation for Valuing Impacts. Such methodologies aim to quantify and monetize an organization's impacts across generally three dimensions and across the value chain (own operations, upstream and downstream):

- Environmental impacts: e.g. greenhouse gas emissions, air pollution and water consumption
- Social impacts: e.g. occupational (health and) safety incidents, adequate wages and training
- Economic impacts: e.g. profits, taxes and subsidies

For each of these dimensions, impacts are selected from across the value chain. Although many reporting standards include also Governance topics, these are typically seen in the IMV field as drivers and a precondition to enhance the Environmental, Social and/or Economic impacts. To ensure alignment, below table shows how each impact can be mapped to topics in regulatory sustainability standards, such as the European Sustainability Reporting Standards (ESRS).

Organizations often aspire to create a fully comprehensive monetary assessment of all impacts relevant to them. However, achieving this can be hindered by several challenges, including limited data availability, insufficient knowledge of IMV, and lack of management buy-in. For organizations keen on integrating IMV into their DMA process, but facing obstacles in one or more of these areas, a practical approach would be to start on a smaller scale. This allows them to initially focus on selected segments of the value chain and/or assess a limited set of impacts, with the possibility of expanding the scope in subsequent phases. The figure on the right illustrates three levels of scope in incorporating impacts into the IMV assessment, ranging from more comprehensive to less comprehensive.

Three levels of applying the framework

Comprehensive: Assess complete value chain

Apply IMV throughout the entire value chain, using both upstream and downstream modelling. Aids in understanding the wider effects on society.

Pragmatic: Assess direct impacts (own organisation)

Cover all direct impacts from an organization's operations. Helps to verify the significance of these impacts, whilst being pragmatic.

Quick: Assess small selection of key impacts

Start by confirming the top 3-5 issues using IMV or use as a starting point with stakeholder discussions to showcase relevance on certain topics.

4. Details of the steps taken in our framework

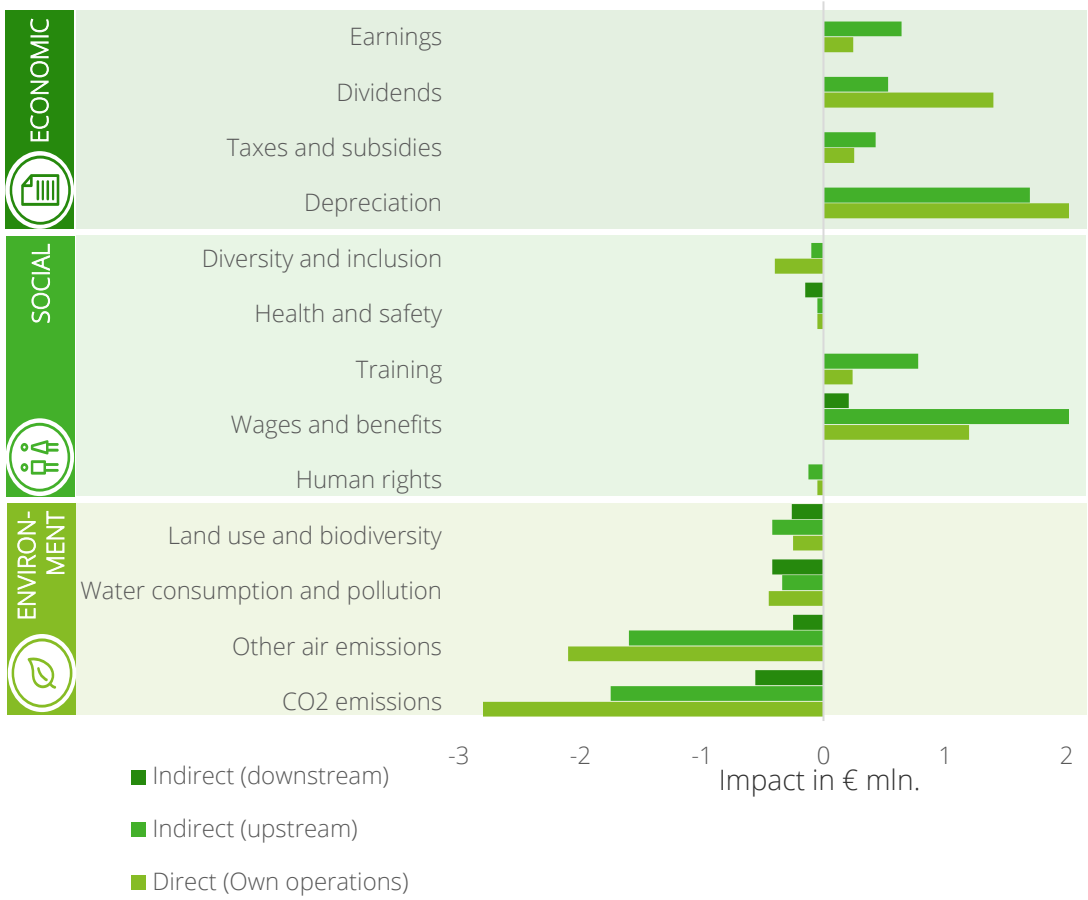
For the selected impacts, data should be collected and can come from different data sources depending on where these impacts occur in the value chain. For example, greenhouse gas emissions (measured in e.g. tons CO_2 emitted) and training hours (measured in e.g. total hours of training per employee). Next, the impacts can be monetized by multiplying the impact volume with a value factor, resulting in a monetary value for each impact.

Preferably, a bottom-up approach should be adopted for the impact materiality assessment process. This means that the assessment should start with quantifying and monetizing impacts at a granular level, such as sub-sub-topics of the ESRS. The monetization ideally incorporates context-specific information, such as local water availability or air quality, to improve accuracy of the impact value and enable comparability across topics. Next, these granular results can be aggregated in for instance a list of the monetized impacts from highest to lowest or an overview showcasing the results for each impact across the value chain.

In the example on the right, the organization's CO_2 and air emissions are most material (negative), specifically generated by its own operations (scope 1). Meanwhile the supply chain accounts for most of the positive social impact, specifically wages and benefits provided in the supply chain.

Impact volume	×	Value factor	=	Monetized Impact
e.g. 10 kg of pollutant	×	e.g. €100/kg of pollutant	=	e.g. €1000

Monetized impacts of a hypothetical organization across the value chain



4. Details of the steps taken in our framework

The consolidated results facilitate understanding the relative magnitude of each impact throughout the value chain. By valuing impact drivers consistently in monetary terms, comparisons can be drawn across all impacts, potentially revealing, for instance, that air emissions may be less material than land use. Furthermore, the use of "intensity figures" to link impact values with financial input factors (e.g., GHG/total costs or occupational health/total personnel costs) enhances comparability across different organizations, like scoring methods. However, this approach requires detailed information from peers, which may not always be readily accessible.

In certain situations, such as for financial market participants with extensive portfolios or companies with varied supply chains, it can be challenging to understand the significance of certain impacts because there are no clear benchmarks for comparison. For example, in the case on the previous page, the impact value for 'other air emissions' in the supply chain does not provide insight into how "material" this impact is compared to other organizations in the supply chain.

Employing impact valuation prior to stakeholder engagement can foster more informed discussions with stakeholders, addressing the relevance of each impact from both data-driven and stakeholder perspectives. These discussions will primarily focus on refining and complementing the results with impacts that have not been or cannot be monetized (yet).

Conversely, applying impact valuation after engaging with stakeholders can help refine the significance of the feedback provided by stakeholders, offering greater clarity on what is truly material for the organization. This enhances understanding of the relative importance of various impact drivers along the value chain.

Box 2. What is Impact Materiality in ESRS?

Impact materiality within the European Sustainability Reporting Standards (ESRS) framework involves a comprehensive evaluation of an organization's impacts on the environment and society. This assessment addresses several critical dimensions

- Scale: Refers to the magnitude of the impact and its potential to cause harm or create benefit. Specifically on this dimension, IMV can be a powerful method to measure the magnitude of each impact.
- Scope: Considers the breadth of the impact, including how many people are affected and the extent of environmental influence. Although the final monetized impacts do not show how many stakeholders incur certain costs of benefits, impact pathways (used to measure each impact), can be helpful to get insights into which and how many stakeholders incur each impact.
- Irremediability: Examines the ability to reverse the impact, assessing whether any damage can be remedied or if it is permanent. This dimension is less included in current IMV methodologies than the other two dimensions.

Additionally, ESRS requires organizations to consider their entire value chain, which means assessing impacts not just from direct operations but also from upstream suppliers and downstream activities. IMV standards by VBA, IFVI and others are developed such that they can be applicable along the entire value chain.

Time Horizons: ESRS encourages organizations to consider both short-term and long-term impacts, allowing for a more dynamic understanding of sustainability consequences over time.

Actual vs. Potential Impacts:

- Actual impacts are those that have already occurred or are currently occurring because of the organization's activities.
- Potential impacts refer to those that could occur based on projected future activities or planned business expansions.

Dealing with potential impacts involves a degree of forecasting and scenario analysis, which can be challenging as it requires assumptions about future business conditions and external factors. Organizations often struggle to balance the focus between immediate, tangible impacts and these potential, less certain effects.

To enhance the assessment of impact materiality, integrating IMV can provide an additional lens through which organizations can view their impacts by offering a quantified perspective, helping to clarify both actual and potential impacts across different scales and scopes. While organizations are required to assess their impacts considering dimensions such as scale, scope, and irremediability for compliance with ESRS, IMV serves as an additional lens to quantify some of these dimensions.

4. Details of the steps taken in our framework

In this step of the framework, stakeholders are engaged to obtain input on which impacts are most material for the organizations. Input of stakeholders can either be used as a starting point for IMV or can be used to refine and complement the outcomes of the IMV.

Step B: Stakeholder input

Option 1: Quantitative analysis first (A), serving as a solid basis for stakeholder inputs (B)

In this approach, the organization begins by conducting a Quantitative Impact Materiality assessment. This initial step sets a robust quantitative foundation, offering stakeholders clear, data-driven insights into the organization's environmental and social impacts.

Upon establishing this quantitative baseline, the organization can then proceed to gather qualitative inputs through stakeholder engagement. This may involve organizing interviews or workshops with a diverse range of stakeholders, including both internal parties like employees and external groups such as suppliers, consumers, investors, and affected communities. This engagement aims to enrich the quantitative data with firsthand perspectives and insights, ensuring a holistic view of impact materiality. The results of the quantitative analysis can also be used to inform the selection of the stakeholders. For example, it can help in identifying which experts should be consulted to provide inputs on either large or small impacts.

In the interviews or workshops, stakeholders are asked to prioritize the organization's most significant impact on people and the environment. Presenting and discussing the results of the quantitative impact assessment will facilitate the discussions and will enable stakeholders to compare and assess a broad range of impact topics from these two perspectives. It will be important to ensure that the explanation of both the methodology and results of the quantitative impact assessments are clear, concise and visualized effectively to be suitable for the stakeholders involved in the sessions. Furthermore, it should be clear to the stakeholders if there are limitations to the quantitative assessment.

During the interviews or workshops, stakeholders can provide qualitative input on impact materiality based on criteria such as severity, relevance to business strategy, and potential for mitigation or improvement. The discussions help contextualize the quantified impacts and can potentially identify and prioritize additional impacts that were not yet quantified.

Using the quantitative analysis to facilitate stakeholder discussions minimizes biases and provides a robust framework that stakeholders can rely on when making judgments or providing further insights. This can enhance the relevance and effectiveness of stakeholder contributions, ensuring that they are addressing a wide variety of impacts. Stakeholders, therefore, are not starting from scratch but are enhancing a pre-established data-driven framework, which can lead to more focused and strategic discussions.

4. Details of the steps taken in our framework

In this step of the framework, stakeholders are engaged to obtain input on which impacts are most material for the organizations. Input of stakeholders can either be used as a starting point for IMV or can be used to refine and complement the outcomes of the IMV.

Option 2: Refine stakeholder inputs (B) based on Impact Measurement and Valuation (A)

In the second option, the process begins with gathering inputs from stakeholders as done in a stakeholder-based DMA. This approach takes into account the perceptions, experiences, and priorities of those who are directly or indirectly affected by the organization's operations. Stakeholders may include customers, employees, local communities, suppliers, regulators, and even competitors. Collecting their views and insights first ensures that the impact measurement and valuation process is deeply contextual and aligned with the concerns and expectations of those most closely connected to the organization.

Similar as for the first option, interviews or workshops can be used for the stakeholder engagement. However, in contrast with the first option, the stakeholders are asked to identify the organization's most significant impacts rather than prioritizing them. It is important to involve a variety of stakeholders that collectively cover a broad range of potential impacts.

Similar aspects of materiality will be discussed with stakeholders as for the first option, including the assessment of severity, likelihood and irremediability of impacts. Once these qualitative inputs are collected, the organization then applies IMV methodologies to analyse, refine, and possibly re-prioritize these stakeholder concerns based on empirical data and objective analysis. This step helps to validate the relevance and significance of the initial inputs and may highlight additional areas of impact not initially identified by stakeholders. This method ensures that the decision-making process is both inclusive and data-informed, leading to a balanced approach that respects stakeholder perspectives while also grounding decisions in objective analysis.

This approach is especially beneficial in dynamic or complex environments where stakeholder insights might reveal unforeseen risks or opportunities, which can then be thoroughly analysed through IMV methodologies for a more comprehensive understanding of impacts.

For both options, the stakeholder discussions should be clearly documented, detailing which impacts were identified or prioritized and the rationale behind these decisions. Preferably, the documentation of the discussions should be shared with the involved stakeholders for validation and feedback.

Both options provide robust frameworks for integrating stakeholder engagement with impact analysis but differ in their starting points and how stakeholder inputs are utilized in the impact assessment process. The choice between them would typically depend on the specific context of the organization, the nature of its impacts, and the strategic importance of stakeholder relationships.

4. Details of the steps taken in our framework

In the final step of the framework, internal stakeholders, preferably in the form of a steerco, will be engaged to merge the external stakeholder insights (B) with the quantitative impact data (A).

Step C: Integrating the Quantitative and Qualitative Results

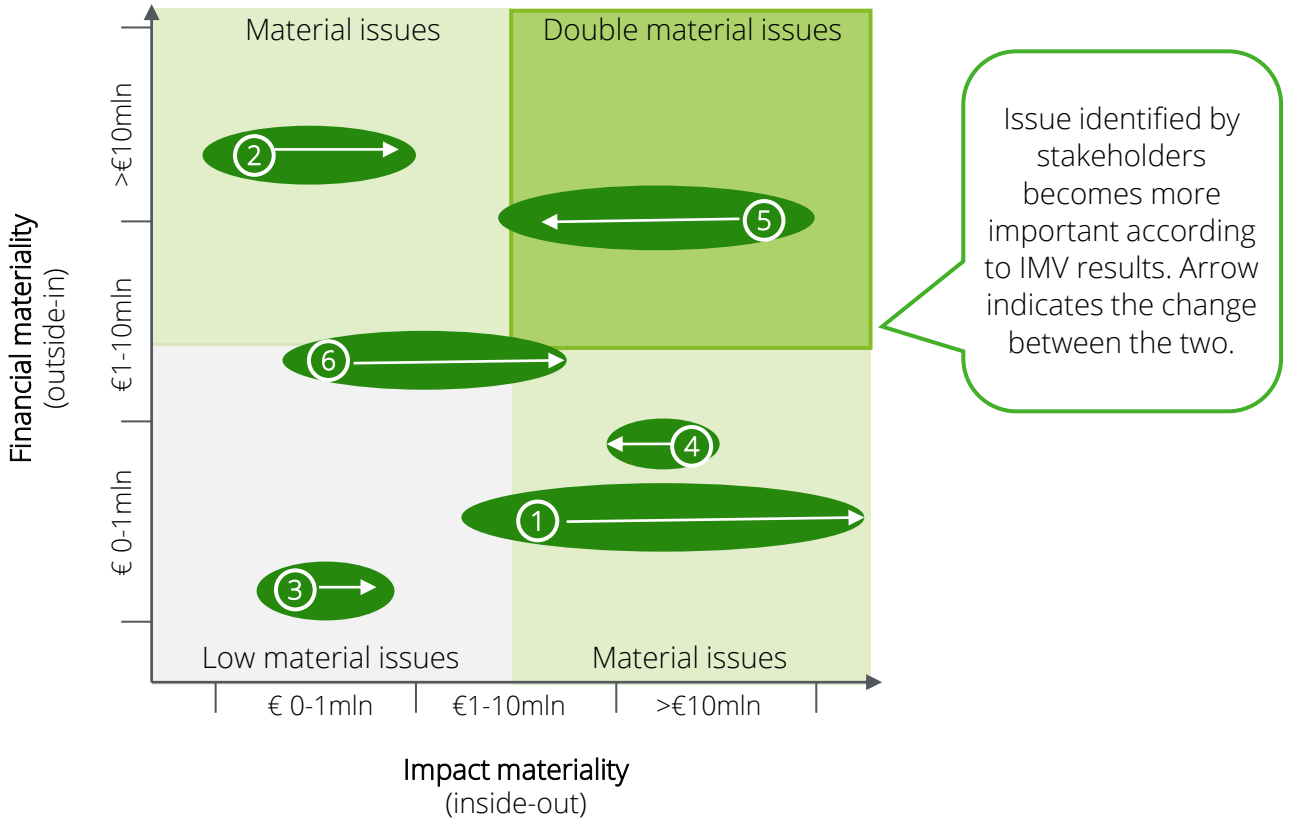
This phase is crucial as it ensures the merged results accurately reflect an informed consensus on the assessed impacts, addressing potential discrepancies between qualitative and quantitative results.

Engaging internal stakeholders here is critical and required by ESRS and furthermore important because their deep understanding of the organization's operations and strategies enables them to interpret and balance the (potentially) diverse results.

During this phase, results of step A and step B are presented to internal stakeholders. These sessions are essential for reconciling differences between the data types and for ensuring that the outcomes align with the organization's internal knowledge, strategic objectives and the reporting requirements.

A comprehensive view of all collected insights and data, such as the one on the right, enhances stakeholders' ability to make informed decisions.

Optimizing the DMA results with IMV



Examples of potential material topics:

1. Water consumption
2. Human rights
3. Occupational health and safety
4. Waste management
5. Climate change
6. Biodiversity

4. Details of the steps taken in our framework

Once internal stakeholders have reviewed the merged data, their task is to define what is ultimately considered material. They examine the significance of each impact area, deciding how impacts that could not be monetized should be considered in the materiality analysis.

This careful consideration ensures that decisions on materiality are well-founded, considering both measurable and perceived impacts. Furthermore, insights from the financial materiality assessment can be integrated into the assessment in this step of the process.

Decisions are documented, detailing how the data was merged, the methods used to address discrepancies, and how final decisions on materiality were made. It includes insights into the challenges faced and how internal stakeholder feedback was integrated into the final analysis.

This documentation is vital for building trust and ensuring transparency, demonstrating the organization's commitment to a thorough and inclusive approach to determining material impacts and is an important basis for (potential) future audits.

Overall, the three-step approach provides a robust methodology for assessing impact materiality, empowering companies to enhance their sustainability practices effectively.

Benefits and Limitations of the approach

Aspect	Benefits	Limitations
Decision-making support	Facilitates comparison and supports internal decision-making as it permits comparability across topics	May require significant resources in terms of time, expertise and investment to implement effectively
Quantitative basis for DMA	Data-driven, quantitative basis for materiality assessment, ensuring objectivity and aligning with regulatory requirements	May be hindered by data gaps, particularly when assessing impacts across extensive and diverse value chains
Value chain analysis	Can be used to assess the entire value chain and portfolio, providing a holistic view of a company's value chain impacts	Data accuracy and availability not always optimal and attributing impacts can be challenging
Flexibility and Granularity	Offers flexibility and granularity in analysis from company-level to sector or portfolio-level perspectives	Granularity necessitates robust data controls given that substantial volumes of data are involved in the IMV process.
Transparency in reporting	Enhances transparency in reporting by presenting monetized impact values in an understandable format	Some impact drivers are undergoing further development and may not be fully covered by current methodologies.

"Quantitative impact measurement transforms the abstract into the actionable, enabling businesses to make strategic decisions not just based on what they think matters most, but on concrete data that underscores the urgency and scale of these issues."

Frits Klaver
Strategic Impact Assessment Director @ Deloitte

5. Applying the framework to the financial sector and holding companies

Conducting a double materiality assessment in the financial sector and for holding companies with numerous subsidiaries is challenging due to the complexity of intertwined financial services and products which can obscure clear lines of material impact. Additionally, the sheer volume and diversity of subsidiaries often result in a broad spectrum of material issues that must be uniquely identified and managed at both the parent company and subsidiary level, complicating the consolidation and prioritization of materiality assessments across the entire corporate structure.

We believe that the proposed framework can support both holding companies and companies in the financial sector. Due to the nature of the financial sector and holding companies, we recommend applying the Quantitative Analysis First (Step A) and then ask stakeholders for additional inputs (Step B), because it can be difficult for stakeholders to provide input on what is material for such type of organizations because most impacts occur in the value chain.

Financial Markets

Financial institutions could utilize IMV to assess the sustainability impact of their portfolios, supporting them in their DMA. This assessment helps in understanding how their investments create positive or negative impacts. Typically, this process requires modelling and often utilizes databases, such as input-output databases or dedicated impact databases, because primary data at location level is not available.

By monetizing these impacts, institutions can more straightforwardly compare the sustainability effects of different portfolios and identify those with the most significant positive and negative impacts, providing a robust foundation for the initial step in the framework. Additionally, recognizing negative monetized impacts may serve as an indicator of potential future risks for the financial institution. Based on these insights, risk mitigation strategies can be implemented, or decisions such as portfolio optimization can be made. Consequently, institutions could establish performance benchmarks that integrate both financial returns and sustainability impacts, fostering a holistic approach to portfolio management.

A crucial component to incorporate is the attribution of effects on the financial institution. This attribution can be assessed using various metrics, for instance, comparing the loan issued by the financial institution to the total loans received by the organization being financed. This factor should be considered for each impact to accurately attribute effects to the financial institution.

Holding companies

For holding companies with numerous subsidiaries, applying IMV can support in assessing sustainability impacts in a DMA process across diverse business units. By quantifying and monetizing the impacts, unified metrics are created which can be used for holistic evaluation throughout the conglomerate and identification of hotspots.

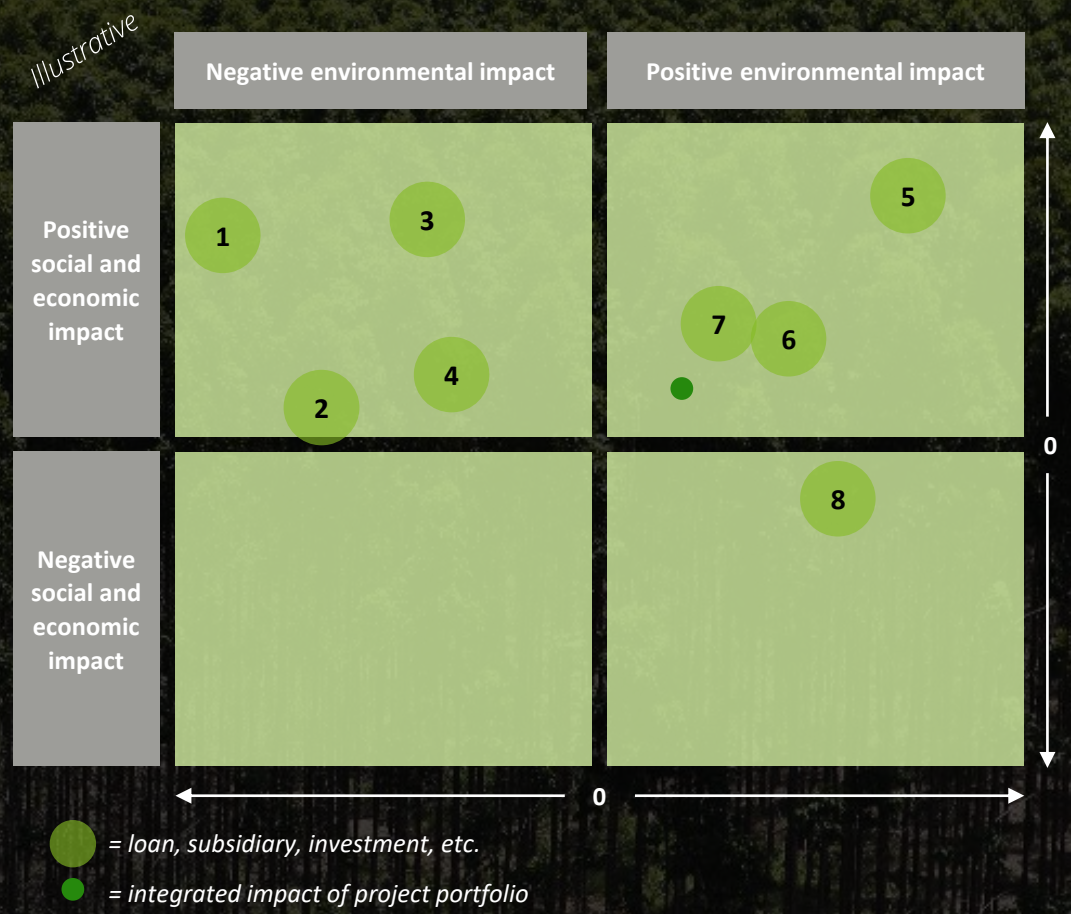
Utilizing IMV allows holding companies to consolidate and compare sustainability data from various subsidiaries, offering a cohesive overview of both positive and negative impacts at a macro level. By monetizing these impacts, the company can more effectively identify areas to improve sustainability practices or identify where efforts are falling short, potentially exposing the company to financial or reputational risks. With this detailed and aggregated data, holding companies can pursue targeted risk mitigation strategies, optimize subsidiary performance, and develop comprehensive sustainability benchmarks that reflect the specific operational and environmental contexts of their diverse units. This holistic approach not only aligns with broader sustainability objectives but also enhances strategic decision-making at the corporate level, balancing profitability with environmental stewardship.

For both types of organizations, it can be beneficial to analyse their results in a plot as shown on the right. In this visual representation, each bubble represents components such as loans, investments, or subsidiaries.

In the example, investment portfolio's 1-4 predominantly yield positive social and economic impacts while adversely impacting the environment. Conversely, portfolio's 5-8 primarily result in a positive environmental impact; among these, portfolio 5-7 also create a positive social and economic impact, whereas portfolio 8 does not. The dark green dot show the integrated impact of the portfolio.

To better understand where these impacts come from, it is crucial to delve deeper into the underlying factors driving these outcomes. Understanding the specific elements that are material to the institution's portfolio will enable more targeted and effective communication towards stakeholders and enhance strategic decision-making.

Identifying impact hotspots of loans, investment portfolios or subsidiaries



LOOKING AHEAD

Future Developments and Conclusions

As regulatory requirements for sustainability reporting continue to evolve globally, an increasing number of organizations will be required to conduct DMAs. Given the current stakeholder-focused approach recommended by various standards, results can often be insightful yet ambiguous. In response, we anticipate that in the coming years, leading organizations will shift towards more data-driven and potentially more objective approaches, which could be based on IMV. This shift is crucial for improving the precision of DMAs and enhancing comparability across organizations within and across various industries and sectors, thereby significantly elevating the standards and utility of DMAs.

Implementing this more advanced approach will necessitate some initial investments from organizations, but the long-term benefits, are expected to be substantial as it will create new opportunities for utilizing impact data in strategic decision-making and sustainability reporting.

Key benefits of our framework

Our proposed framework in this paper highlights several key benefits that reaffirm the value of IMV into DMAs.

- Firstly, it improves transparency, allowing organizations to communicate their sustainability impacts with greater clarity and credibility to its stakeholders. This transparency is crucial for building trust with stakeholders, including investors, regulators, and the public, who are increasingly expecting clear and credible sustainability disclosures.
- Additionally, this method fosters enhanced decision-making capabilities within organizations. Armed with quantifiable and objective data, businesses are better positioned to make informed choices that align with both their strategic goals and sustainability commitments. This capability is crucial for navigating the intricate balance between financial performance and social responsibility in today's complex business environment.
- Furthermore, the framework allows organizations to align with and stay ahead of the rapidly evolving regulatory requirements that demand more stringent and comprehensive sustainability reporting standards. Staying ahead of these changes not only helps companies mitigate compliance risks but also positions them as leaders in corporate sustainability.
- Finally, adopting this enhanced framework necessitates industry and value chain-wide collaboration. Through collective efforts and shared commitments to standardized impact valuation methodologies, the business community can significantly advance sustainable practices across industries, driving meaningful change towards a more accountable and sustainable business landscape.

Conclusion and path forward

Incorporating impact measurement and valuation into Double Materiality Assessments holds transformative potential that reaches beyond mere compliance, potentially enhancing strategic business practices. By embracing this forward-thinking approach, organizations not only meet regulatory demands but also contribute to a more sustainable world, creating lasting value for all stakeholders. The path to fully realizing this potential involves ongoing innovation, collaboration, and commitment, and it is through these joint efforts that the most significant impacts will be achieved.

Key authors

The framework we've presented here is a first step towards integrating IMV into DMA. We recognize that this framework can be refined based on practical implementation experiences and valuable feedback from stakeholders. For feedback or suggestions, please feel free to reach out to any of the authors listed here.

Frits Klaver | Director
fklaver@deloitte.nl

Wim Bartels | Senior Partner
wbartels@deloitte.nl

Arjan de Draaijer| Senior Partner
adedraaijer@deloitte.nl

Inga Trofimova | Senior Manager
introfimova@deloitte.nl

Alissa Griffioen | Senior Consultant
agriffioen@deloitte.nl

Tatiana Kan | Consultant
takan@deloitte.nl

Annoek Reitsema | Consultant
areitsema@deloitte.nl

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Dimitrij Euler (VBA)
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APPENDIX: WHICH IMPACTS FROM IMV CAN BE MAPPED TO ESRS

Several IMV standards outline how to measure and monetize economic, social, and environmental impacts, with methodologies from the VBA and the EU Transparent project serving as examples. However, these methods do not encompass all ESRS topics because some IMV methods are either under development by the VBA or have not yet been created. The table below aims to clarify which impacts are associated with specific ESRS topics or subtopics. It is important to note that the absence of a method for particular ESRS topics in the table does not imply that no methods exist, since many impacts have been monetized by researchers. This simply reflects the current state of development and should not be seen as a definitive limitation.

ESRS sub-topics currently linked to impact accounting methodologies

ESRS Topic	ESRS Sub-topic	VBA/Transparent Impact Driver
E1-Climate Change	Climate change mitigation	GHG Emissions
E1-Climate Change	Climate change adaptation	GHG Emissions
E1-Climate Change	Energy	GHG Emissions
E2 – Pollution	Pollution of air	Air Pollution
E2 – Pollution	Pollution of water	Water Pollution
E2 – Pollution	Pollution of living organisms	Water Pollution
E2 – Pollution	Substances of concern	Solid Waste
E2 – Pollution	Substances of very high concern	Solid Waste
E3 – Water and marine resources	Water withdrawals	Water Consumption
E3 – Water and marine resources	Water consumption	Water Consumption
E3 – Water and marine resources	Water discharges	Water Pollution
E3 – Water and marine resources	Water discharges in ocean	Water Pollution
E3 – Water and marine resources	Extraction and use of marine resources	Water Consumption
E5 – Circular economy	Resources inflows, including resource use	Solid Waste
E5 – Circular economy	Resource outflows related to products and services	Solid Waste
E5 – Circular economy	Waste	Solid Waste

ESRS sub-topics potentially or partially linked to impact accounting methodologies

ESRS Topic	ESRS Sub-topic	VBA/Transparent Impact Driver
E2 – Pollution	Pollution of soil	Partially linked to: Solid Waste
E2 – Pollution	Pollution of living organisms	Partially linked to: Air Pollution, Water Pollution
E2 – Pollution	Microplastics	To be linked to: Solid Waste
E2 – Pollution	Pollution of living organisms	Partially linked to: Air Pollution, Water Pollution
E4 – Biodiversity and ecosystems	Direct impact drivers of biodiversity loss	Partially linked to: Land Use
E4 – Biodiversity and ecosystems	Impact on the state of species	Partially linked to: Land Use
E4 – Biodiversity and ecosystems	Impact on the extent and the condition of ecosystem	Partially linked to: Land Use
E4 – Biodiversity and ecosystems	Impact and dependencies on ecosystem	Partially linked to: Land Use
S1 - Own workforce	Working conditions	Partially linked to: Training, Occupational Health & Safety, Adequate Wages
S1 - Own workforce	Equal treatment and opportunities for all	To be linked to: DE&I
S1 - Own workforce	Other work-related rights	Partially linked to: Child Labour, Forced Labour
S2 – Workers in the value chain	Working conditions	Partially linked to: Training, Occupational Health & Safety, Adequate Wages
S2 – Workers in the value chain	Equal treatment and opportunities for all	Partially linked to: DE&I
S2 – Workers in the value chain	Other work-related rights	Partially linked to: Child Labour, Forced Labour
S3 – Affected communities	Communities' economic, social and cultural rights	Partially linked to: Child Labour, Forced Labour

ESRS sub-topics not linked to impact accounting methodologies

ESRS Topic	ESRS Sub-topic	VBA/Transparent Impact Driver
S3 – Affected communities	Communities' civil and political rights	Not covered currently
S3 – Affected communities	Rights of indigenous communities	Not covered currently
S4 – Consumers and end-users	Information-related impacts for consumers and/or end-users	Not covered currently
S4 – Consumers and end-users	Personal safety of consumers and/or end-users	Not covered currently
S4 – Consumers and end-users	Social inclusion of consumers and/or end-users	Not covered currently
G1 – Business conduct	Corporate culture and others	Not covered currently
G1 – Business conduct	Corruption and bribery	Not covered currently

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