

Materiality for sustainability reporting

How-to guide

European Sustainability Reporting Standards



September 2026

Contents

Focusing on decision-useful information	1
Your six steps to identifying material information	3
Step 1: Understand the operating context	4
Step 2: Identify material topics and IROs that might be material	14
Step 3: Determine material IROs	22
Step 4: Identify information that might be material	41
Step 5: Assess and determine material information	45
Step 6: Organise and report material information	53
Appendix 1: List of 'How to...'	57
Appendix 2: List of insights	58
Appendix 3: List of examples	59
Keeping in touch	60
About this guide	61
Acknowledgements	61

Focusing on decision-useful information

To make the right decisions, users¹ need the right information at the right time. For sustainability reporting, this means providing decision-useful information without allowing immaterial information or unnecessarily detailed information to obscure it. A robust double materiality assessment (DMA) is key to achieving this.

Applying materiality under European Sustainability Reporting Standards (ESRS) can be challenging. ESRS 1 specifies the materiality criteria and outcomes required, but it does not prescribe a single process for performing the DMA.

Designed to be used with our forthcoming ESRS Sustainability handbook, this how-to guide sets out a clear six-step approach to the DMA process. It uses practical sustainability-related scenarios and experience-based insights to address the questions and implementation challenges that commonly arise – highlighting what tends to work well, common pitfalls to avoid and areas requiring particular attention.

The result is a practical route from the principles of ESRS to a well-considered, well-documented DMA – and ultimately to decision-useful reporting.

The concept of materiality

A DMA is grounded in the concept of materiality, which helps a company focus on providing decision-useful information to users of its reports. It determines the type, volume and level of precision of information reported. A company needs to apply all of the following concepts when performing a DMA.



ESRS 1 requires a company to consider each year whether significant changes in its business and relationships, understanding of its impacts, risks and opportunities (IROs), assessment methodologies, or external environment could affect the conclusions reached in previous DMAs. When such changes have occurred, the company revisits those conclusions, using prior assessments as a starting point unless circumstances have changed.

1. In this guide, 'users' covers both groups that ESRS 1 *General requirements* identifies: the primary users of general purpose financial reports – existing and potential investors, lenders and other creditors – and other users of the sustainability statement interested in the company's material IROs and how it manages them.

Building the practical foundations of a DMA

A DMA is more than a reporting compliance exercise. It provides the basis for identifying the decision-useful information to report to users and can provide valuable insights that inform how the business is managed. The DMA also supports board decision-making, connects with strategy, risk management and governance, and can help the company manage its IROs.

Effective preparation provides the foundation for a robust DMA. Before embarking on any analysis, companies need to confirm the reporting boundary, establish clear ownership and accountability, involve the right functions and expertise, and define the responsibilities and involvement of management and the board. Addressing these matters at the outset helps avoid gaps, inconsistent conclusions and unnecessary rework.

Management and the board are involved throughout the DMA in accordance with their established responsibilities, including in reviewing and challenging significant judgements and conclusions.

Foundations of a robust DMA



Your six steps to identifying material information

The six-step process provides a structured way of applying the ESRS requirements. The six steps are interconnected and the process is iterative. How each step is applied may vary depending on the company's specific facts and circumstances.

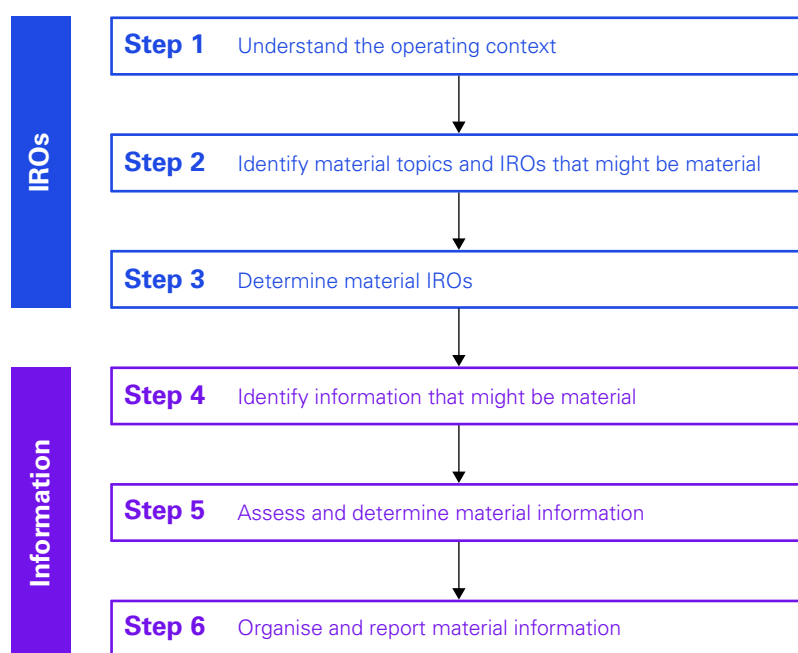
A company does not need to duplicate work already performed. It can build on existing processes, assessments and information, supplementing them only when necessary to meet ESRS requirements and reflect its current facts and circumstances.

The starting point is the reporting entity – i.e. the entity or group for which the sustainability statement is prepared. Once a company has determined the reporting entity, it begins the DMA by first understanding its operating context – i.e. its business model and value chain, the wider environment around it and the stakeholders it affects.

The DMA involves identifying topics related to material IROs² (Steps 1–3) and determining the information to be reported for each topic (Steps 4–6).

In Step 2, a company may work top-down, concluding on a topic's materiality from its strategy, business model and value chain, or bottom-up, assessing whether individual IROs might be material.

The company chooses its approach before starting its DMA and may combine both approaches. These approaches provide different ways of performing the DMA process but do not change the criteria applied to assess the materiality of topics, sub-topics and their related IROs.



Keep in mind – DMA is an iterative process

Although this guide presents the DMA as a sequence of steps, the process often requires iteration. For example, assessing information may reveal that an IRO is missing or described too broadly, while organising and reviewing the material information may identify an unclear link between a material IRO and the related disclosures.

In these circumstances, a company revisits the affected part of the assessment and updates the related conclusions and documentation. It is not necessarily required to repeat the full DMA.

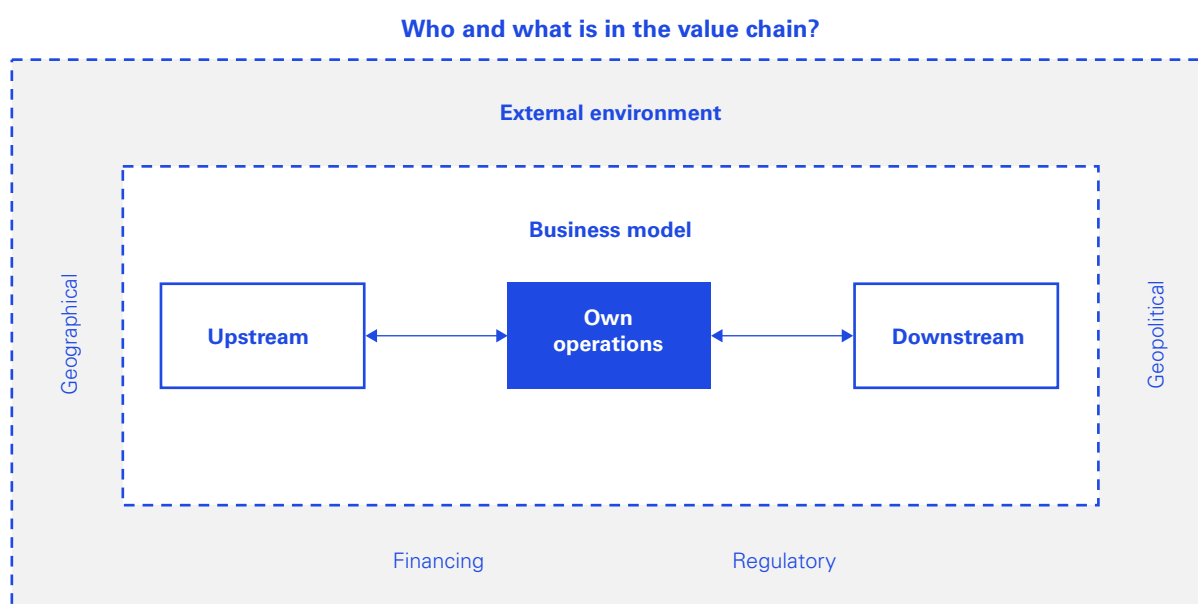
2. In this guide, 'material IROs' refer to sustainability-related IROs that could reasonably be expected to affect people and the environment and/or a company's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term.

Step 1: Understand the operating context

Understanding a company's operating context – i.e. its business model and value chain, the wider environment around it and the stakeholders it affects – provides the foundation for identifying whom and what the company affects, and on what it depends.

A company starts by considering its own operations – i.e. the activities of the reporting entity, generally based on the entities included in its consolidated financial statements – and then extends its analysis across its upstream and downstream value chain.

A company's value chain comprises the activities, resources and relationships related to its business model and the external environment in which it operates. It includes its own operations, upstream and downstream business relationships, and the financing, geographical, geopolitical and regulatory environments in which it operates.³ [ESRS Annex II]



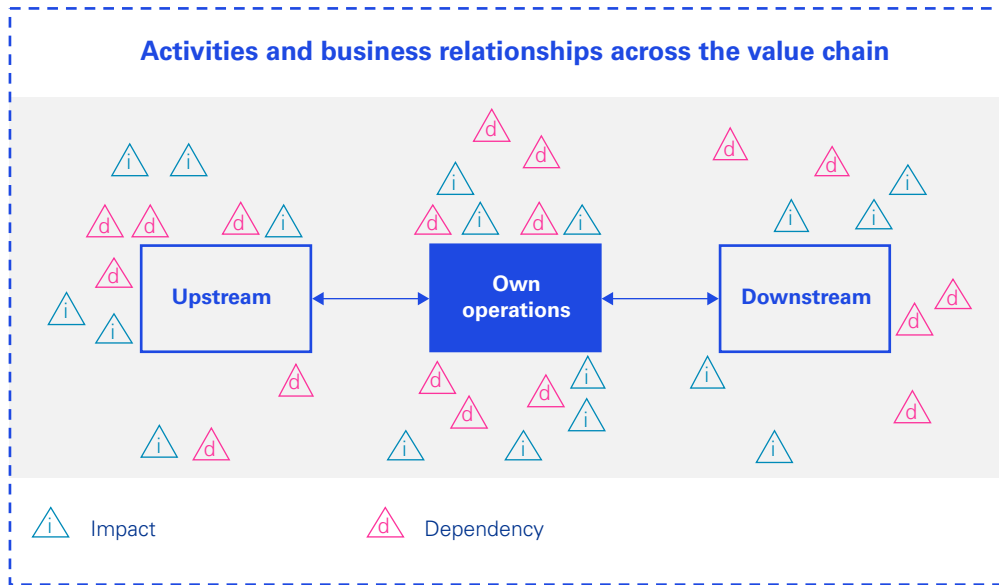
The company identifies its affected stakeholders – the individuals or groups whose interests are, or could be, affected positively or negatively by its activities. It also considers other stakeholders' perspectives that may help it identify sustainability-related topics relevant to the reporting entity.

Developing this understanding draws on relevant internal and external sources. These may include the outcomes of a company's sustainability-related due diligence and enterprise risk management (ERM) processes, stakeholder engagement, peer experience, reports and statistics, scientific data and media coverage.

Together, these activities help a company understand:

- its impacts on people and the environment;
- the natural, human and social resources on which it depends; and
- the external factors to which it is exposed.

3. References in square brackets after the text identify the relevant paragraphs of the sustainability standards or other literature – e.g. ESRS 1.27 is paragraph 27 of ESRS 1.



The output from Step 1 is an understanding of the company's activities and business relationships, and the impacts, dependencies and other factors that exist across the company's value chain and its wider operating context.⁴

In Step 2, the company considers whether these give rise to IROs that might be material.



In Step 1, consider...

- In which **external environment** does the company operate, and to what **external factors** is it exposed?
- With whom does the company **interact**, and how?
- What is the **life cycle** of the company's products and services?
- What **activities**, **resources** and **relationships** does the company **depend** on or **affect**?
- Which **stakeholders'** interests are, or could be, **affected** – and who is in a **vulnerable situation**?

4. For simplicity, the diagrams illustrating the six-step process do not show the external environment. In addition, the factors and stakeholders shown are for illustrative purposes only and are not comprehensive.

**How to...****Determine the value chain**

To determine its value chain, a company needs to understand its business model, how it creates value, the full life cycle of its products and services, and the environment in which it operates. This enables the company to:

- identify the activities, resources and relationships in its own operations and across its upstream and downstream value chain, including its supply, marketing and distribution channels, product use and end-of-life activities; and
- understand where and how it is exposed to different financing, geographical, geopolitical and regulatory environments. [ESRS Annex II]

A company may undertake the following to identify and map these activities, resources and relationships, and understand the environments in which they operate:

- identifying its principal business activities, significant product and service groups, and key markets and customer groups;
- defining the activities, entities and assets that form part of its own operations;
- mapping the supply chain and marketing and distribution channels for each product or service;
- analysing key business relationships with suppliers and customers, including how these vary across geographies;
- analysing activities and products/services by geographical location;
- reviewing information provided to investors (including financial statements) and elements of the business plan and strategy;
- assessing the legal and regulatory landscape in different jurisdictions; and
- examining publicly available information, including media reports, peer analysis, existing sector-specific benchmarks, scientific reports and other publications on sustainability-related topics.

A company may have performed related exercises in the past – e.g. as part of its existing risk management processes. These exercises can provide useful sources of information when understanding the business model and mapping the value chain.

**Insight...****Does a company need to do an exhaustive search to determine its value chain?**

No. A company is not expected to identify every actor (e.g. supplier, distributor or customer) in its value chain. Instead, it identifies the parts of the value chain that are relevant to understanding where material IROs may arise, using all reasonable and supportable information that is available to it at the reporting date without undue cost or effort. [ESRS 1.32(a), 93(b), AR13(b)]

What constitutes 'undue cost or effort' depends on the specific circumstances of each company. This assessment weighs the costs of obtaining information against the resulting benefit to users, considering:

- the company's degree of exposure to IROs;
- the company's skills, capabilities and resources available; and
- the benefits of the resulting information to users.

A company can obtain reasonable and supportable information from internal and external sources when determining its value chain. Those sources include, but are not limited to, the following. [ESRS 1.AR14]

External sources	Internal sources
<ul style="list-style-type: none"> Industry and peer group reports ESG ratings agencies' scores, reports and statistics, and scientific data Media screening, including adverse media coverage News coverage Academic reports Direct investor and affected stakeholder feedback 	<ul style="list-style-type: none"> A company's risk management processes, including its existing risk register and risk management system A company's due diligence process and engagement with affected stakeholders A company's own information that it uses to: <ul style="list-style-type: none"> prepare its financial statements and related management commentary; operate its business model; and set its strategy Materiality assessments or sustainability reporting prepared under a different framework (see Step 2)



How to...

Identify activities, resources and relationships

Identifying activities, resources and relationships is a key part of determining the value chain. A company needs to understand the stages of its value chain and the activities that are part of each stage. It then connects its business activities to the relevant resources and relationships across its value chain.

Business relationships extend beyond direct contractual arrangements. They also include indirect relationships across the company's value chain, as well as shareholdings in joint ventures, associates and other forms of investment.

Resources and relationships may relate to a company's own operations, upstream value chain or downstream value chain, and may include the following. [ESRS Annex II]

Type	Resources and relationships	Type	Resources and relationships
Human 	<ul style="list-style-type: none"> Company's workforce Workers in the value chain 	Natural 	<ul style="list-style-type: none"> Land Water Minerals
Intellectual 	<ul style="list-style-type: none"> Patents Copyrights Trademarks 	Manufactured 	<ul style="list-style-type: none"> Machinery Equipment Buildings Infrastructure
Financial 	<ul style="list-style-type: none"> Cash Investments Access to financial resources Shareholdings in joint ventures, associates and other equity investees 	Social and relationship 	<ul style="list-style-type: none"> Stakeholder relationships Contractual relationships, such as with suppliers or customers Indirect business relationships, such as with indirect suppliers or end-users Indigenous communities



Example 1 – Identifying activities, resources and relationships across the value chain

Company Z is a construction company that specialises in the design and construction of commercial buildings. Z operates within a single jurisdiction but has several sites under development across the country.

Z considers its operations in the pre-construction, construction and post-construction stages of its value chain, the key activities it performs in each stage and the resources and relationships on which it relies in each stage.

Value-chain stage	Pre-construction	Construction	Post-construction
Key activities	Contracting Raw materials sourcing Supplier engagement Design and planning Permitting and regulatory compliance	Project management and logistics On-site construction Health, safety and environmental controls Quality assurance and compliance monitoring	Handover and commissioning Post-sale service and maintenance Client support and warranty management
Resources and relationships	<p>Human:</p> <ul style="list-style-type: none"> Engineering and construction workforce <p>Social and relationship:</p> <ul style="list-style-type: none"> Customer contracts Supplier relationships Relationships with local and indigenous communities Relationships with government agencies issuing construction permits 	<p>Human:</p> <ul style="list-style-type: none"> Engineering and construction workforce <p>Social and relationship:</p> <ul style="list-style-type: none"> Relationships with trade unions Relationships with local and indigenous communities <p>Natural:</p> <ul style="list-style-type: none"> Land and water use <p>Natural and manufactured:</p> <ul style="list-style-type: none"> High-quality building materials, including various metal, cement and lumber products <p>Manufactured:</p> <ul style="list-style-type: none"> Machinery and equipment <p>Financial:</p> <ul style="list-style-type: none"> Access to financing 	<p>Human:</p> <ul style="list-style-type: none"> Engineering and construction workforce <p>Social and relationship:</p> <ul style="list-style-type: none"> Customer contracts Relationships with government agencies issuing construction permits

**Insight...****Does a company need to assess every direct and indirect supplier in its value chain?**

No. A company considers direct and indirect suppliers and other upstream relationships to the extent necessary to identify IROs that might be material, using reasonable and supportable information available without undue cost or effort. There is no predetermined number of direct and indirect suppliers that a company is required to assess. [ESRS 1.32(b), 64]

Depending on the facts and circumstances, this may require a company to consider its indirect suppliers and other upstream relationships. For example, material IROs may arise through indirect suppliers, including those involved in raw material extraction, manufacturing activities or product use.

**Example 2 – Considering indirect suppliers in the value chain**

Company E manufactures electric vehicles and sources lithium-ion battery cells from a direct supplier. That supplier relies on the extraction and processing of lithium, cobalt and other minerals by entities further upstream in its own value chain.

Based on information from internal and external sources (e.g. its due diligence processes and sector data), E is aware that extracting and processing battery minerals is associated with known environmental and social impacts in certain sourcing geographies, including impacts on workers and local communities, water resources and biodiversity. Because these activities take place beyond its direct supplier, E extends its understanding of the value chain to the relevant extraction and processing activities, even though it has no direct relationship with the entities involved.

When identifying IROs, E considers relevant parts of its value chain beyond its direct suppliers, including indirect suppliers, where material IROs are likely to arise. E does not need to perform an exhaustive search for information when identifying material IROs.

**How to...****Identify impacts and dependencies**

Across its value chain, a company needs to consider its:

- *impacts* on people and the environment through its activities, products and services; and
- *dependencies* on resources and relationships to operate and create value.

To do this, a company works through its value chain in a structured way, focusing its efforts on the parts of the value chain where material IROs are most likely to occur and drawing on information already available to it without undue cost or effort. This would include a range of internal and external sources, as described in [Insight... Does a company need to do an exhaustive search to determine its value chain?](#) [ESRS 1.32, AR13]

Impacts and dependencies do not arise in isolation. External factors (e.g. geographical, geopolitical and regulatory conditions) can influence whether they exist and how they manifest. The same activity may give rise to different impacts and dependencies in different circumstances. [ESRS 1.AR16]



Example 3 – Identifying impacts and dependencies across the value chain

Continuing [Example 1](#), Company Z's management uses its understanding of Z's value chain and business model to identify how Z depends on the resources and relationships identified and how its activities affect people and the environment.

Resources and relationships (continued from Example 1)	Example dependencies	Example impacts
Engineering and construction workforce (human)	Availability of its skilled workforce in multiple locations (direct)	Health, safety and wellbeing of employees at work (direct)
Relationships with trade unions (social and relationship)	Constructive labour relations to maintain operations and avoid disruption (direct)	Employees' ability to exercise their rights to freedom of association and collective bargaining (direct)
High-quality building materials, including various metal, cement and lumber products (natural and manufactured)	Timely access to materials and products to maintain operations (direct); raw material supplier working practices relating to their workforce, local communities and environmental protection (indirect)	Damage to natural environment in source locations for lumber and mining, quarrying and processing sites for metals and cement (indirect)
Machinery and equipment (manufactured)	Availability and reliability of plant and equipment to carry out construction (direct)	Emissions, noise and waste arising from equipment use on-site (direct)
Land and water use (natural)	Access to land and water needed for site development (direct)	Land degradation and water consumption at development sites constraining access to land and water (direct)
Supplier relationships (social and relationship)	Continuity and reliability of supply to maintain operations (direct)	Influence on suppliers' labour and environmental practices through procurement (indirect)
Relationships with local and indigenous communities (social and relationship)	A social licence to operate at development sites (direct)	Disruption to, or displacement of, local and indigenous communities near sites (direct)
Customer contracts (social and relationship)	Profitability of operations (direct)	–
Relationships with government agencies issuing construction permits (social and relationship)	Availability of permits issued by the government (direct); relevant construction standards set by the government (direct)	Ability of the government to meet regeneration targets in key locations (indirect)
Access to financing (financial)	Adequate cash flow to operate (direct)	–



How to...

Identify affected stakeholders

A company maps its affected stakeholder groups, including vulnerable groups and, when relevant, their legitimate representatives. This mapping helps a company to validate that it has identified all relevant impacts. It also provides an important input into identifying IROs that might be material in [Step 2](#).

Affected stakeholders are those whose interests are, or could be, affected by the company's activities and business relationships – in its own operations, upstream value chain or downstream value chain – and may include the following categories. [\[ESRS 1.42, AR23\]](#)

- *Own workforce*: workers in the company's own operations and their representatives.
- *Value-chain workers*: workers upstream and downstream (e.g. in suppliers or distributors).
- *Affected communities*: communities affected by the company's operations or value-chain activities.
- *Consumers and end-users*: people who use the company's products or services.
- *Nature*: a silent stakeholder.

To identify affected stakeholders, a company carries out the following activities.



Affected stakeholder groups may differ across locations, business units or parts of the value chain. A company also considers whether certain individuals or sub-groups are particularly vulnerable and need to be identified separately – e.g. indigenous peoples, migrant workers or children. [\[ESRS 1.AR23\]](#)

To test the mapping for completeness, a company considers each stakeholder category independently and assesses whether it may have overlooked any affected stakeholder groups, and therefore any related impacts.



Example 4 – Mapping affected stakeholder groups in a DMA

Company B is a food manufacturer. In considering its value chain, B determines that it affects both upstream agricultural workers and the availability and quality of water at one of its own production sites.

B considers these impacts to determine whose interests are or could be affected. The following table shows how B maps the affected stakeholders.

	Labour-related impacts	Availability and quality of water
Value-chain location	Upstream agricultural suppliers	Own operations – production
Stakeholders affected	Agricultural workers	<ul style="list-style-type: none"> • Affected communities • Nature
Vulnerable groups within stakeholders affected	Migrant workers in some sourcing regions may face heightened risks due to limited labour protections	–
Stakeholder representatives	Agricultural worker unions	<ul style="list-style-type: none"> • Local community organisations (affected communities) • Environmental experts (nature)

This mapping helps B identify affected stakeholder groups, consider whether any groups are particularly vulnerable and determine appropriate representatives. It also helps to validate whether B has identified all relevant impacts across the value chain, including additional considerations (e.g. competition for water resources) that it may not have identified initially.



Insight...

How can a company obtain stakeholder perspectives for its DMA?

A company may draw on existing stakeholder engagement activities, seek direct input for the DMA or use evidence-based indirect sources. It does not need to establish a separate stakeholder engagement process specifically for its DMA.

If a company already engages affected stakeholders as part of its sustainability-related due diligence, then it can use the results of that engagement as a direct input to the impact materiality assessment.

Alternatively, a company may choose to seek direct input from affected stakeholders, their representatives (e.g. employee representatives or trade unions), sustainability statement users or other experts to challenge or validate its conclusions on those IROs it considers to be material. [\[ESRS 1.42, AR24\]](#)

If a company does not engage stakeholders directly, then it can often assess their perspectives indirectly through internal experts, representatives or proxies. A company needs to be able to demonstrate that the perspectives it considered are evidence-based – e.g. drawing on engagement activities, research, surveys or grievance mechanisms – and to document how it obtained those inputs. [\[ESRS 2.22, 35\(c\)\]](#)

Nature is a special case because, as a silent stakeholder, it cannot be engaged directly. Therefore, a company assesses nature's perspective through environmental data, scientific evidence and experts and, when relevant, through representatives or proxies for nature (e.g. environmental non-governmental organisations (NGOs), conservation organisations or indigenous peoples). [\[ESRS 1.42, AR23–AR24\]](#)

Keep in mind – Tailor the analysis to your business

A company obtains a more reliable starting point for its DMA when the analysis reflects how the business operates in practice, rather than relying on a single group-level view.

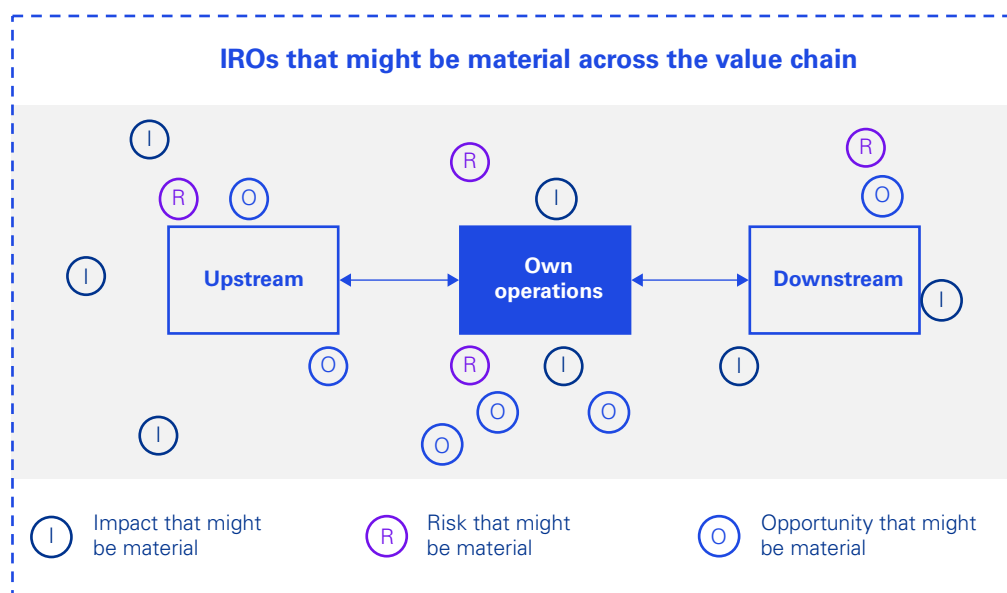
- **Tailor the level of analysis to the business.** A group-level analysis may obscure differences between business lines, products, activities, geographies or value chains that could affect the IROs identified and ultimately lead to rework.
- **Consider whether parts of the business need separate analysis.** Use reporting segments, legal entities and management information to identify where different IROs might arise.
- **Do not use financial size as an exclusion criterion.** A smaller operation may still give rise to significant impacts because of its location, inputs, workforce or business relationships.
- **Focus beyond direct relationships when relevant.** Consider how far upstream or downstream material IROs might arise based on the company's activities, relationships and operating context.
- **Start with existing stakeholder evidence.** Surveys, grievances, complaints and due diligence findings may provide broader evidence than engagement undertaken solely for the DMA. Use targeted engagement to address gaps or challenge preliminary conclusions.

Step 2: Identify material topics and IROs that might be material

Drawing on the understanding developed in [Step 1](#), a company determines whether its activities and business relationships give rise to sustainability-related impacts and whether its impacts, dependencies and other factors give rise to sustainability-related risks or opportunities.

In [Step 2](#), a company identifies material topics and sub-topics and sustainability-related IROs that might be material. This is the starting point for identifying material IROs in [Step 3](#).

A company may use a top-down approach, a bottom-up approach or a combination of both to identify material topics and sub-topics and related IROs. Depending on the approach applied, materiality may be concluded at topic or sub-topic level or through the individual assessment of IROs. [ESRS 1.27–28, AR10]



The output from [Step 2](#) is a population of all IROs that might be material and the topics and sub-topics to which they relate.

A company then determines which are material in [Step 3](#).



In Step 2, consider...

- Which **topics and sub-topics** are clearly material or clearly not material based on the company's operating context?
- What **impacts, dependencies** and **other factors**, and underlying **resources and relationships**, were identified in [Step 1](#)?
- Which **impacts** has the company already identified, and which **risks and opportunities** already managed by the business are sustainability-related?
- Could a change in the underlying resources and relationships affect the company's **business model**?
- Could a change in the underlying resources and relationships affect the company's **strategic advantage**?

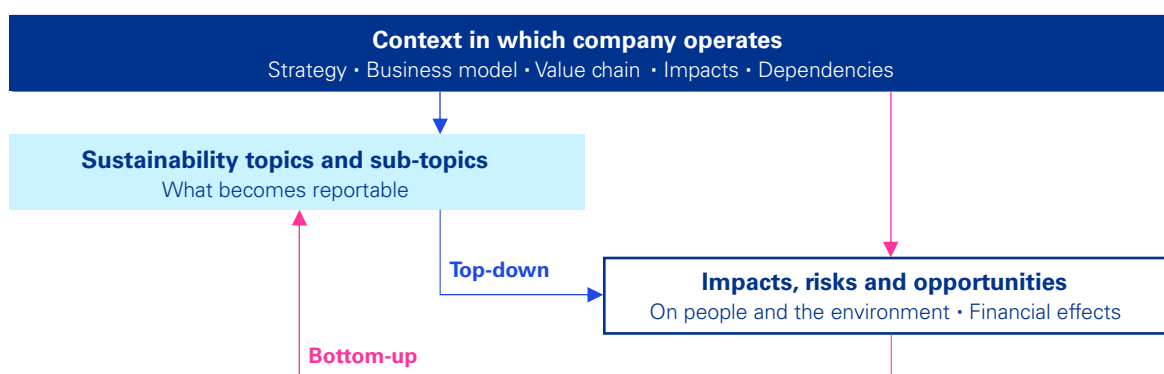


How to...

Apply a top-down or bottom-up approach

Companies may use a top-down approach, a bottom-up approach or a combination of both to identify their material topics and sub-topics and related IROs. Although the approaches have different starting points and may involve different levels of granularity, both ultimately support identifying the information to be reported under ESRS.

How topics, IROs and the company's operating context are connected



Under a *top-down approach*, a company starts with topics and sub-topics and analyses its strategy and business model, including its sector(s) of operations, its geographies and the features of its upstream and downstream value chain, to identify which are clearly material or clearly not material (see [Step 1](#)). Topics and sub-topics that are assessed as clearly material are taken forward to identify the related IROs; topics and sub-topics that are clearly not material require no further analysis. [ESRS 1.27, AR11]

Under ESRS 1, the company is not generally required to reach a separate materiality conclusion for each individual IRO. Instead, it may reach a materiality conclusion at topic or sub-topic level for related IROs considered together, provided that the conclusion is consistent with the relevant impact and financial materiality criteria. See [Insight... How are severity and likelihood considered in assessing impact materiality?](#) and [Insight... How are likelihood and magnitude considered in assessing financial materiality?](#) for further guidance on how to apply the materiality criteria. [ESRS 1.AR9, AR19]

In general, a high-level assessment based on qualitative considerations may be sufficient to conclude whether a topic or sub-topic is material or not material. However, a more granular assessment may be needed where one or more related IROs could reasonably be expected to change that conclusion. For example, most IROs related to the 'water' topic may be clearly not material, but some water withdrawals at a site in a water-stressed area could be, and therefore require separate assessment. [ESRS 1.AR9, AR19]

If the company cannot reach a clear conclusion on the materiality of a topic or sub-topic, then it identifies the IROs that might be material in [Step 2](#) and assesses their materiality in [Step 3](#).

Under a *bottom-up approach*, a company draws on its understanding of its operating context and relevant internal and external sources to identify impacts, dependencies and other factors that may give rise to IROs that might be material. It conducts the materiality assessment at the individual IRO level and then assesses each IRO for materiality in [Step 3](#). In doing so, it uses qualitative considerations or quantitative thresholds, depending on the nature of the IRO, available data and other circumstances, and then assigns IROs to topics and sub-topics. [ESRS 1.28, AR19]

See [Insight... How does a top-down approach affect the DMA process?](#) for further guidance on how a company's choice of approach may affect the DMA process.



Insight...

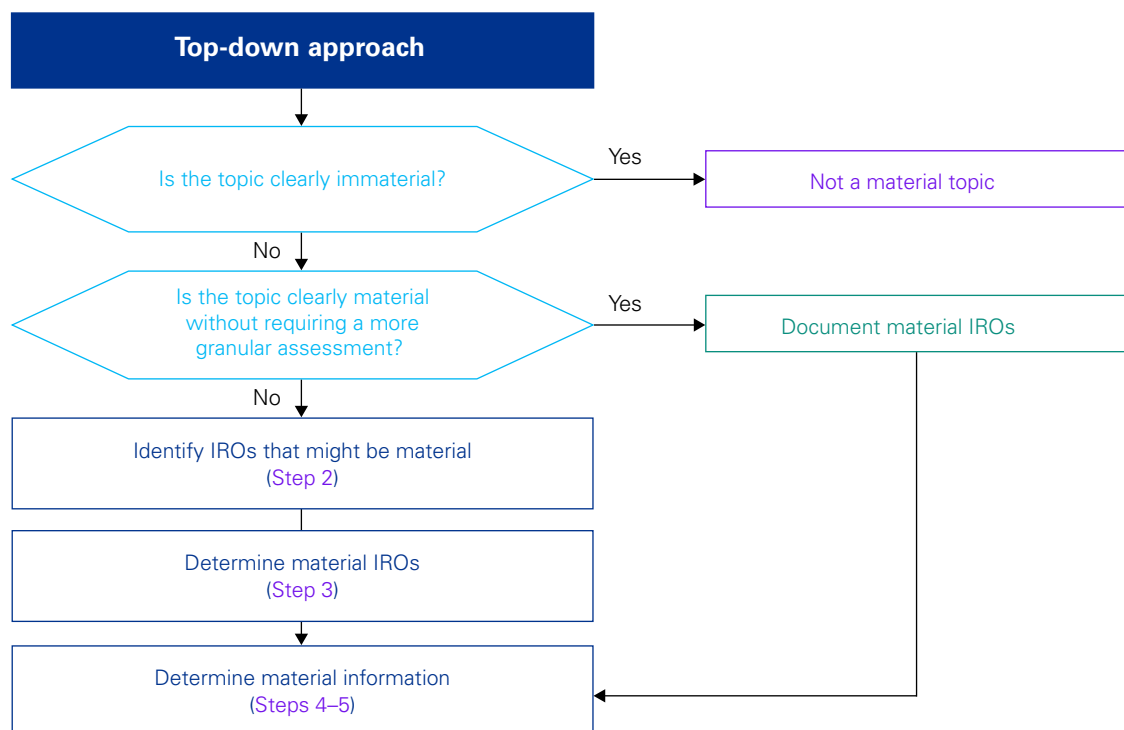
How does a top-down approach affect the DMA process?

A company may conclude that a topic or sub-topic is material (or not material) without assessing every IRO. This is possible when the materiality conclusion is clear from the company's operating context, including its strategy, business model, geographies, sectors and value-chain characteristics. [ESRS 1.27]

Under the top-down approach, topics and sub-topics that are clearly not material require no further analysis.

For a topic or sub-topic that is clearly material and for which further assessment could not reasonably be expected to change that conclusion, the company documents the related IROs as material. It then proceeds directly to Steps 4–5 without assessing each IRO individually for materiality. Otherwise, it identifies IROs that might be material in Step 2, assesses their materiality in Step 3 and then proceeds to Steps 4–5.

If the company cannot reach a clear conclusion on the materiality of a topic or sub-topic, it identifies the related IROs that might be material in Step 2 and assesses their materiality in Step 3. It then proceeds to Steps 4–5.



**How to...****Identify material topics and sub-topics**

When applying a top-down approach, a company:

- starts with its operating context, including its strategy, business model, value chain, sectors and geographies (see [Step 1](#));
- considers the topics and sub-topics in Appendix A of ESRS 1, which serves as non-binding guidance to help the company identify material topics rather than as a mechanical checklist;
- draws on reasonable and supportable information from relevant internal and external sources, including company processes, stakeholder engagement, internal and external expertise, peer and sector experience, reports, data and other reporting frameworks; and
- identifies any entity-specific topics that are not covered by the ESRS list.

This results in a list of topics and sub-topics to be considered in the materiality assessment. [\[ESRS 1.28, AR10\]](#)

For topics and sub-topics that are clearly material, the company identifies the related IROs. Topics and sub-topics that are clearly not material are not subject to further analysis. To the extent that the company cannot conclude on materiality at a topic level, it identifies and assesses the related IROs. See [Insight... How does a top-down approach affect the DMA process?](#) for further guidance.

Circumstances in which the materiality conclusion at the topic level may be unclear include:

- operations across multiple sectors or geographies that may lead to different materiality conclusions;
- activities or business relationships within the value chain that may lead to different materiality conclusions; or
- reasonably available information from stakeholders, risk management processes, peers or other sources that provides conflicting evidence regarding the materiality conclusion. [\[ESRS 1.27, AR9\]](#)

**Example 5 – Identifying antimicrobial resistance as a material entity-specific topic**

Company F is a food manufacturer that sources dairy and meat through an agricultural supply chain across several countries.

Starting with Appendix A of ESRS 1, F identifies the topics that are clearly material considering its business model and value chain – namely climate change, water, biodiversity, its own workforce, workers in the value chain, consumers and end-users, and business conduct.

Working through its due diligence records and engaging with its procurement team and supply-chain NGOs, F finds the routine use of antimicrobials in livestock production surfacing repeatedly. Audit findings identify widespread antimicrobial use among key suppliers. Stakeholders raise concerns about the resulting public health risks, and several sector peers identify antimicrobial resistance as a key sustainability-related issue and report related mitigation measures.

Based on this information, F concludes that antimicrobial resistance is clearly material because of its significant impacts on consumers and public health. As a result, F adds antimicrobial resistance to its list of material topics and identifies the related IROs.

Antimicrobial resistance is not an ESRS topic and no ESRS sub-topic captures it with sufficient granularity. Therefore, F considers antimicrobial resistance an entity-specific topic.



How to...

Determine whether a company's activities and business relationships give rise to impacts that might be material

Drawing on the understanding developed in [Step 1](#), a company determines whether its own operations, its upstream and downstream activities and its business relationships give rise to impacts that might be material.

An impact arises when the company harms or benefits people or the environment over the short, medium or long term through its own operations or upstream and downstream value chain. [\[ESRS 1.39\]](#)

When identifying impacts that might be material, a company draws on the understanding of its operating context developed in [Step 1](#) and other reasonable and supportable information available without undue cost or effort – including due diligence activities, engagement with affected stakeholders and their representatives, public information, sector and peer reporting, and risk, compliance and incident records. [\[ESRS 1.32, 42, AR14\]](#)

See *Insight... Does a company need to do an exhaustive search to determine its value chain?* for further guidance on the extent of information gathering required.

This assessment results in a list of impacts (positive or negative, actual or potential) that might be material. These impacts are grouped into topics and sub-topics. A company then assesses the materiality of these impacts in [Step 3](#).



Example 6 – Identifying actual and potential positive and negative impacts that might be material

The following examples illustrate how companies in different sectors may identify actual and potential positive and negative impacts that might be material.

	Actual	Potential
Negative	Impact on freshwater resources <ul style="list-style-type: none"> Manufacturing Company M considers how its operations affect freshwater resources in the regions in which it operates. M identifies that inadequately treated wastewater from its facilities has polluted freshwater ecosystems and reduced water quality for local communities. 	Impact from product leakage <ul style="list-style-type: none"> Company G considers how leakage from its transportation infrastructure could affect the environment. G identifies that product leakage could pollute soil, water and air and damage local ecosystems.
Positive	Impact on access to education <ul style="list-style-type: none"> Technology Company T considers the impacts of its low-cost digital platform, which enables educational institutions to host online services. T identifies that the platform has improved access to education in underserved communities. 	Impact from low-temperature detergents <ul style="list-style-type: none"> Chemicals Company C considers the potential impact of an enzyme that allows detergents to work at low washing temperatures. C identifies that wider adoption of the enzyme could reduce household energy consumption.

**How to...****Determine whether impacts and dependencies give rise to risks and opportunities that might be material**

A company assesses whether the impacts and dependencies identified in [Step 1](#), as well as other factors – e.g. exposure to climate-related hazards or regulatory changes – give rise to risks and opportunities that might be material.

An impact, dependency or other factor gives rise to:

- a risk when it could reasonably be expected to negatively affect the company financially (e.g. lost sales, higher costs or an impairment loss); or
- an opportunity when it could reasonably be expected to benefit the company financially (e.g. new revenue, lower costs or better access to finance or cost of capital). [\[ESRS 1.47–48\]](#)

Throughout, a company draws on reasonable and supportable information available without undue cost or effort. See [Insight... Does a company need to do an exhaustive search to determine its value chain?](#) for further guidance on the extent of information gathering required. [\[ESRS 1.32\(a\), 93–95\]](#)

A company will often already be aware of many of these risks and opportunities from its internal risk management framework, which ESRS treats as a valuable source of information. It may build on this framework and draw on external sources – e.g. sector benchmarks, market data or peer experience – when useful. [\[ESRS 1.AR29, ESRS 2.35\(a\), AR22\]](#)

This assessment results in a list of risks and opportunities that might be material, which the company groups into topics and sub-topics. It then assesses the materiality of the risks and opportunities in [Step 3](#).

**Example 7 – Risks and opportunities arising from workforce dependencies and relationships**

Software Company E operates in a highly competitive labour market. E's business model depends on a specialised workforce of qualified software engineers, meaning that its success is linked to its ability to attract and retain that resource (workforce).

This dependency gives rise to a risk that might be material. If E is unable to hire and retain qualified engineers, then the resulting loss of talent would negatively affect E's business model. At the same time, E's employment practices have resulted in higher employee satisfaction and retention than those of its peers.

As a result, E identifies an opportunity that might be material because its ability to attract and retain engineers could provide a strategic advantage over its peers.

**Example 8 – Identifying biodiversity risk arising from a supplier's potential adverse impact**

Metal Production Company F processes refined metals into sheet metal and other industrial products. F relies on refined metals in its operations that are mined in its upstream value chain.

F identifies a key supplier of its refined metals that sources its raw materials exclusively from mines near a biodiversity-sensitive area. F concludes that the potential adverse impact on biodiversity gives rise to a risk that might be material because of restrictions on mining activity, supply disruption or higher raw material costs.

In this example, the risk from the potential adverse impact arises only because the supplier's mine is near a biodiversity-sensitive area. F identifies this risk by considering detailed information about the supplier and the location of its operations.

F also considers whether the underlying potential adverse impact on biodiversity in its upstream value chain might be a material impact.

**Insight...****Can a company use materiality assessments prepared under other frameworks when identifying IROs?**

Yes. Existing assessments, analyses and reporting processes may provide useful inputs, provided the company considers whether they remain relevant to its own facts and circumstances. Therefore, a company may draw on work performed under other sustainability-related frameworks, internal risk management processes, due diligence activities or previous DMAs. [ESRS 1.32, AR13–AR14]

When using existing assessments, a company considers whether these inputs:

- cover relevant parts of its own operations and value chain;
- address the topics relevant to its activities and business relationships; and
- were prepared under appropriate governance and controls, and can be supported by appropriate evidence.

Although existing assessments can be a valuable starting point, a company needs to ensure that other IROs that might be material are not overlooked. Therefore, it needs to complement those assessments if they do not sufficiently cover the company's own facts and circumstances, relevant parts of its value chain or topics that may give rise to material IROs. [ESRS 1.AR14, AR29]

**Example 9 – Using existing assessments as inputs to the DMA**

Company P has previously performed a DMA for one of its business divisions and separately prepares sustainability reporting under Global Reporting Initiative (GRI) Standards.

In identifying IROs that might be material across the group, P uses both of these assessments as inputs.

P reviews the judgements previously made, considers whether they remain appropriate in light of its current business model, value chain and operating context, and supplements them where necessary. The existing assessments help P identify IROs that might be material, but do not eliminate the need for it to perform a DMA for the whole group.

P reviews significant judgements about the relevance and completeness of the existing assessments through its established governance process for the DMA.

**Example 10 – Using internal and external sources to identify IROs that might be material**

Hotel Group H owns and operates hotels across multiple jurisdictions.

After mapping its value chain, H identifies impacts and dependencies connected to its workforce, suppliers, guests, local communities, water resources and energy supply.

To identify IROs that might be material, H uses all reasonable and supportable information available at the reporting date without undue cost or effort. It considers:

- activities and business relationships, and impacts and dependencies identified through its value-chain mapping;
- existing due diligence activities and grievance mechanisms;
- risks monitored through its risk management processes;
- engagement with affected stakeholders, including employees and local communities;
- peer reporting and sector guidance; and
- scientific evidence relating to water stress and climate-related hazards in the regions where it operates.

As part of its risk management processes, H performs peer benchmarking, reviews incidents and complaints, analyses regulatory trends and conducts risk-identification workshops internally.

Based on the activities performed, H identifies additional IROs that might be material, which were not immediately apparent from the value-chain mapping alone. These include water-related impacts in water-stressed regions and risks arising from increasing regulatory requirements relating to energy efficiency.

The output of this exercise is a list of IROs that might be material. H documents the process it followed.

The list and process documentation are reviewed by an internal expert committee, including the Chief Financial Officer, who is responsible for the group's sustainability reporting.

H decides not to refer to additional sources of guidance beyond those identified above, because the expert committee is satisfied that the list is sufficiently complete to proceed with determining which IROs are material ([Step 3](#)).

Keep in mind – Build a company's population of IROs

A focused process combines broad coverage with the company's knowledge and avoids undertaking a detailed assessment for every sustainability topic.

- **Screen topics before detailed assessment.** If a topic has no apparent connection to the company's activities, products, services or business relationships, or no IRO could reasonably arise from that connection, then a detailed assessment merely to assign it a low score may not be necessary. If the available information is incomplete or conflicting, then perform further analysis before reaching a conclusion.
- **Test external sources against operational knowledge.** Sector lists, peer analysis and other external sources, including whether these are summarised or screened using AI tools, provide useful breadth, but may not capture circumstances specific to a site, product, supplier or geography. Test these sources against the company's own operational knowledge before relying on them.
- **Describe each IRO precisely.** Identify what happens or could happen, where it occurs, what gives rise to it and the consequences for people, the environment or the company. An unclear or incomplete description of the IRO may need refining before completing [Steps 4–5](#).
- **Use existing assessments as inputs, not conclusions.** Risk registers and other internal assessments may focus on own operations, shorter time horizons or consequences for the company and may need supplementing. Risk management teams may also need expertise in sustainability reporting to assess these topics appropriately.

Step 3: Determine material IROs

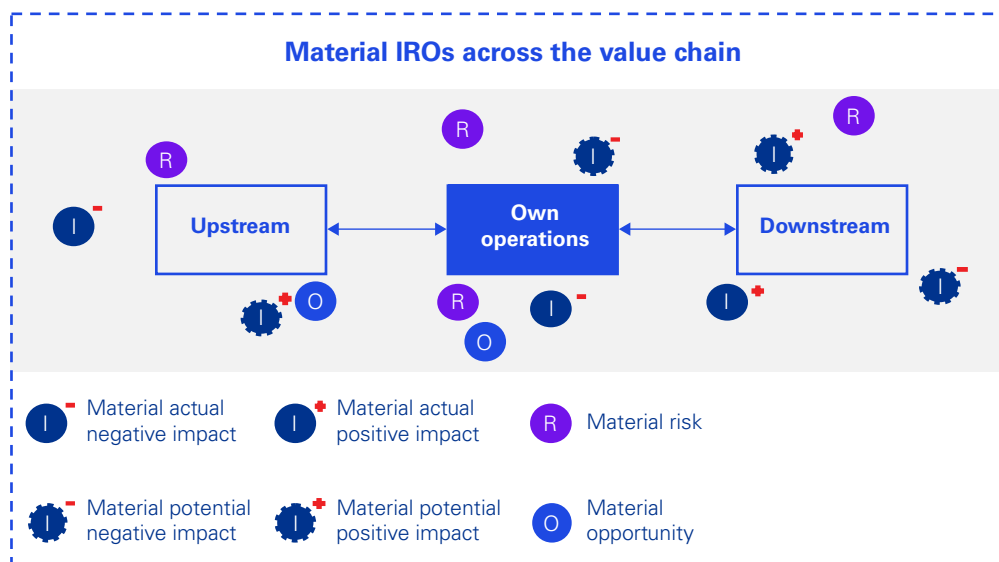
Having identified the IROs that might be material in [Step 2](#), a company assesses which of them are material in [Step 3](#). Identifying an IRO as material makes the related topic or sub-topic reportable, but it does not determine what information is disclosed about it – that is assessed in [Steps 4–5](#).

ESRS applies the principle of double materiality. An IRO may be material from an impact perspective, a financial perspective, or both. The assessment of material IROs filters the range of IROs that might be material to focus on those that are material, and that therefore need to be reflected in the company's sustainability statement.

[ESRS 1.35]

In [Step 2](#), a company may identify material topics and sub-topics and their related IROs using a top-down approach, or individual IROs that might be material using a bottom-up approach.

- Under a top-down approach, if a topic or sub-topic is clearly material and a more granular assessment could not reasonably be expected to lead to a different conclusion, the related IROs do not need to be assessed individually in [Step 3](#).
- [Step 3](#) applies to individual IROs identified for further assessment under a top-down approach and to those identified under a bottom-up approach. [ESRS 1.27–28, AR9–AR10]



The output from [Step 3](#) is a shortlist of material IROs that have been narrowed down from those identified as possibly material in [Step 2](#).

In [Steps 4–5](#), the company then identifies material information about these IROs, and in [Step 6](#) it organises and reports that information.



In Step 3, consider...

- What **IROs that might be material** were identified in [Step 2](#)?
- Could an identified risk or opportunity be expected to trigger **material financial effects**?
- Could an identified impact **affect people or the environment** materially?
- Which **time horizons** are relevant for material IROs?
- Are there **mitigation activities** in relation to identified negative impacts or risks?



How to...

Determine whether impacts are material

A company considers the list of impacts that might be material determined in [Step 2](#) and assesses whether those impacts are material. The result is a list of material impacts, whether positive or negative, actual or potential. [\[ESRS 1.38–39\]](#)

It uses severity to assess the materiality of impacts and likelihood for potential impacts. The specific factors that apply depend on whether the impact is negative or positive, and whether it has already occurred. See [Insight... How are severity and likelihood considered in assessing impact materiality?](#) for further guidance on the factors used to assess different types of impacts.

In making this assessment, a company generally considers the perspectives of the people and environment affected, using appropriate evidence. Although not required by ESRS, stakeholder engagement from ongoing due diligence activities can be a key input when considering these perspectives. [\[ESRS 1.42\]](#)

A company exercises judgement, weighing the evidence and drawing on qualitative considerations and quantitative information, including thresholds when appropriate. See [Insight... Is a company required to use quantitative thresholds in determining material IROs?](#) for further guidance. [\[ESRS 1.37, AR19\]](#)

See [Insight... Can a company consider its mitigation activities when identifying material negative impacts?](#) for further guidance on how to consider mitigation activities.

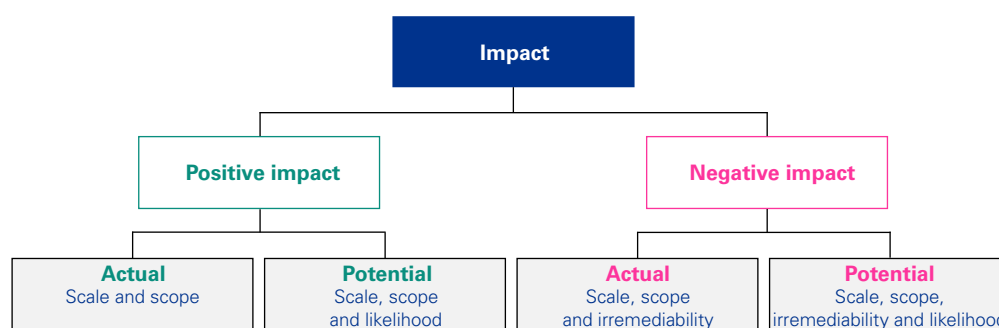


Insight...

How are severity and likelihood considered in assessing impact materiality?

A company assesses impacts based on their scale and scope. It also assesses their:

- irremediable character together with scale and scope to determine the severity of a negative impact; and
- likelihood when assessing potential impacts. [\[ESRS 1.40–41, AR22\]](#)



The factors used to assess severity are defined as follows.

Factor	Definition	Example
Scale	How serious the negative impact is or how beneficial the positive impact is for people or the environment.	A worker paid slightly below the going rate, and a worker in conditions that endanger their life, are both negative impacts; however, they are not equally grave.
Scope	How widespread the negative or positive impacts are – e.g. the extent of environmental impacts and the number of people affected.	A chemical spill in a single pond, and the same spill in a river that supplies a city are, in substance, the same; however, far more water and far more people are affected in the latter case.
Irremediable character	If, and to what extent, the negative impacts could be remediated – i.e. could the environment or the affected people be restored to their prior state?	Wages withheld can be paid back, but a species driven to extinction cannot be brought back.

A company needs to consider the nature of affected stakeholders when assessing these factors. It is important to determine who is, or could be, affected by an impact and whether they are a vulnerable party (e.g. indigenous communities or biodiversity-sensitive areas). [ESRS 1.42]

The three factors affecting the severity of an impact are often interdependent. For example, the greater the scale or wider the scope of an impact, the more difficult it may be to restore the affected people or the environment to their prior state. Any of the three factors can make a negative impact more severe. [ESRS 1.AR22]

Likelihood is assessed based on the probability of occurrence. It can be determined qualitatively (e.g. unlikely, likely) or quantitatively (e.g. as a percentage). In making its determination, a company may consider incident records, industry experience, scientific evidence and its own risk management processes. [ESRS 1.40–41]



Insight...

Are there special considerations that apply when a potential impact could affect human rights?

Yes. For potential human rights impacts, severity takes precedence over likelihood. As a result, a severe potential human rights impact may be material even if it is unlikely to occur. The reverse does not apply – i.e. a likely but trivial impact does not become material solely because of its likelihood. [ESRS 1.40]



Example 11 – Assessing the materiality of an impact on agency workers

Company L is a logistics company that relies on many agency workers to manage fluctuating demand at a key hub.

When considering its impacts across the value chain, L identifies an impact on the working conditions of those workers that might be material – i.e. loss of earnings resulting from short-notice shift cancellations. The impact is negative, actual and ongoing. Because L sets the shift patterns at the hub, it contributes to the impact through its own operations.

L identified the concern through engagement with worker representatives and corroborated it with the relevant employment agencies.

It assesses the impact from the perspective of the workers affected, not its own. These workers are low-paid, on non-guaranteed hours and depend on the agency for future shifts. As a result, they have limited capacity to absorb a sudden loss of income, which increases the gravity of the impact.

When assessing the scale of the impact, L considers the workers' vulnerability. These workers are vulnerable because they have limited capacity to absorb a sudden loss of income and the resulting loss of earnings may have significant consequences for them. It is common to rely on agency labour to manage demand peaks in the logistics sector, but L remains connected to the impact at the hub.

L assesses the severity of the negative and actual impact as follows.

- *Scale is high:* The loss of earnings materially affects the workers' capacity to provide for themselves or for their families.
- *Scope is wide:* It affects most of the several hundred agency workers at the hub.
- *Irremediable character is low:* The loss of earnings can be remedied through full and timely compensation.

L concludes that the impact is material based on qualitative considerations alone; no quantitative considerations are needed to form the conclusion.

This example continues in [Example 13](#), where L assesses the same topic from a financial perspective.



Example 12 – Assessing a potential negative impact from loss of chemical containment

Chemical Company T is aware of an industry issue relating to the harmful impacts of intermediate products created through producing chemicals at its plant.

The harmful impacts were recently discovered and made public in a series of high-profile news reports. T identifies a potential negative impact on local communities and the environment due to the possibility of failed containment of these products and includes it in its list of impacts that might be material.

Because the impact is negative and potential, T assesses both severity and likelihood as follows.

- *Scale is high:* The release of harmful substances can cause serious harm to people and the environment.
- *Scope is narrow:* The intermediate products are liquid and the negative impacts are limited to the area of a potential spill. T's plant is not located near population centres, nor is it near any aquifers or bodies of water.
- *Irremediable character is high:* Once exposed, people are left with lasting physical damage (scarring) that cannot be reversed.
- *Likelihood is low:* T has never experienced a loss of containment and has robust processes in place to inspect and monitor its infrastructure. Secondary containment measures are also in place at the plant. Employees are trained in the safe operation of plant equipment and regularly practise emergency response procedures. T considers these implemented mitigation activities when assessing likelihood. See *Insight... Can a company consider its mitigation activities when identifying material negative impacts?* for further guidance.

If T's due diligence process includes engagement with the communities that could be affected by this impact, then it considers the results of that engagement. It also considers the environmental organisations that represent nature.

Considering the scale and irremediability of the potential impact, T determines that it is material from an impact perspective.



Insight...

Can a company offset positive impacts against negative impacts when assessing materiality?

No. A company assesses positive impacts separately from negative impacts. A positive impact does not reduce or offset the severity or materiality of a negative impact, even if both impacts relate to the same sustainability topic. For example, creating employment in a local community does not offset a negative impact on that community arising from pollution; the company assesses each impact separately using the criteria applicable to that impact. [ESRS 1.44]

A company also distinguishes a positive impact from an action that mitigates or remediates a negative impact to which it is connected. Reducing the severity of such a negative impact does not, in itself, create a positive impact. See *Insight... Can actions to address a company's own negative impacts be considered positive impacts?* for further guidance.

**Insight...****Is there a difference between mitigation and remediation activities?**

Yes. ESRS 1 treats mitigation and remediation differently, and this difference is relevant.

- Mitigation activities reduce, minimise or stop the effects of an actual or potential impact to which a company is connected.
- Remediation activities address harm that has already occurred as a result of a company's actual impacts. [ESRS 1.43(a), AR26]

For example, a company's efforts to contain an oil spill are mitigation activities; the clean-up of the oil itself is remediation. A single action may do both. Pumping and treating an aquifer affected by the spill may prevent the contamination from spreading (mitigation) while also cleaning up the existing spill (remediation).

See *Insight... Can a company consider its mitigation activities when identifying material negative impacts?* for further guidance on how to consider mitigation and remediation activities.

**Insight...****Can a company consider its mitigation activities when identifying material negative impacts?**

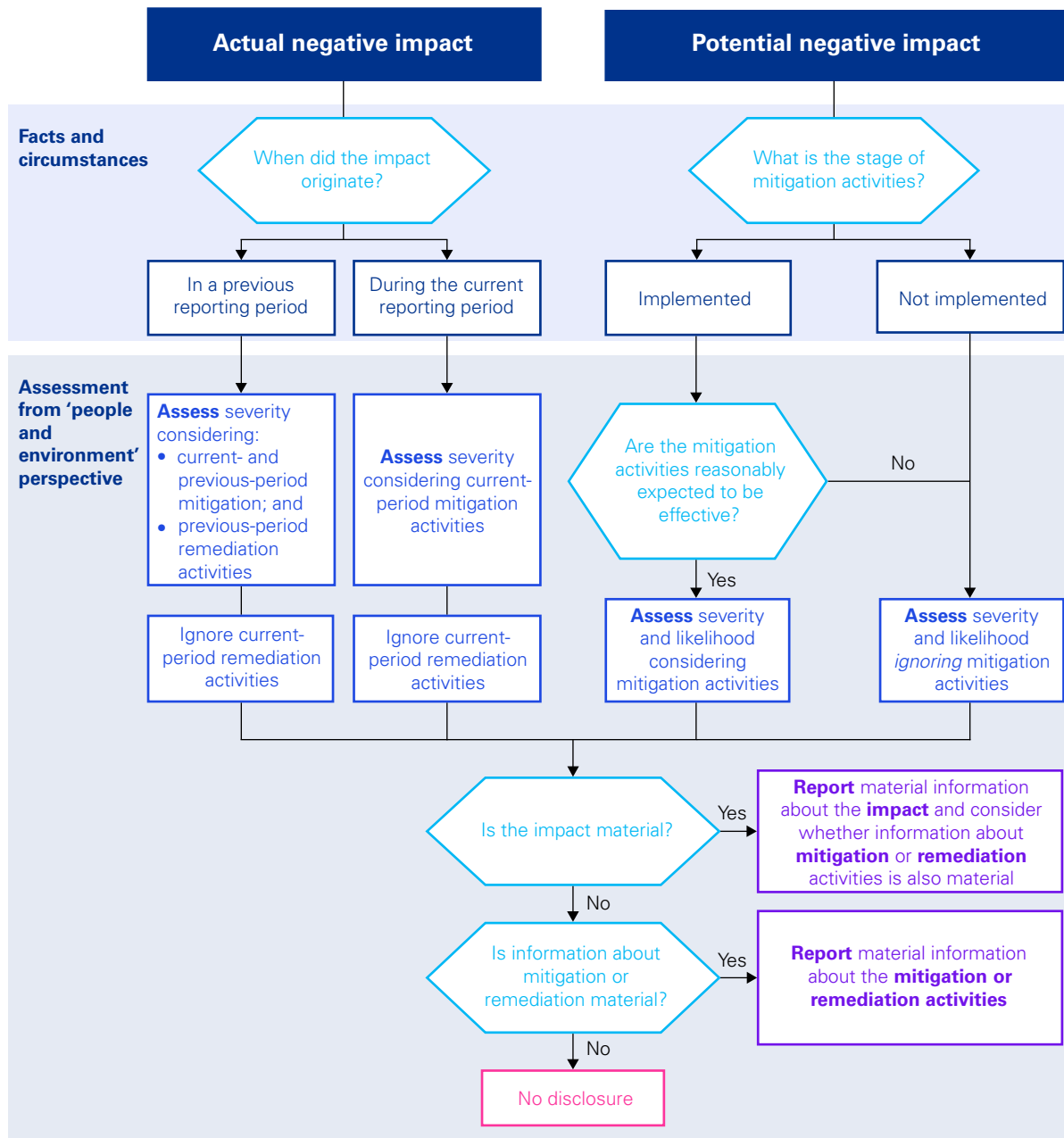
It depends. A company may undertake mitigation and/or remediation activities to address its negative impacts. A company may do this through actions or by implementing policies.

When assessing a negative impact, a company considers its mitigation and remediation activities to determine whether information about the impact remains material (i.e. decision-useful for users) by applying the approach in the following flowchart. The considerations differ depending on the nature of the negative impact – i.e. whether it is actual or potential.

For actual negative impacts, severity is assessed based on the condition of the impact as it actually manifested during the reporting period. [ESRS 1.43(a)]

For potential negative impacts, severity and likelihood are assessed taking into account only implemented prevention and mitigation policies and actions that can reasonably be assumed to effectively reduce the severity or likelihood. Policies and actions that have not yet been implemented are not considered. [ESRS 1.43(b)]

In the following flowchart, 'mitigation activities' is used to refer to a company's policies and actions to prevent, mitigate, bring to an end or minimise negative impacts.



Assessing the effect of mitigation activities when reaching materiality conclusions may require significant judgement based on the specific facts and circumstances. A company applies its judgement consistently to similar facts and circumstances. [ESRS 1.QC11]

Even when an impact is not assessed as material, information about the impact, its mitigation or remediation activities, and the approach applied in reaching the materiality conclusion may nevertheless be material and require disclosure if it is decision-useful to users (see Steps 4–6). In such cases, the materiality assessment takes this into account. [ESRS 1.43(c)]

When a company has not implemented mitigation policies or actions for a topic related to a material impact, it discloses that it has no such policies or actions in place. [ESRS 2.39]



How to...

Consider the stage of mitigation activities when assessing potential negative impacts

When assessing the effect of mitigation activities on potential negative impacts, a company applies the guidance in *Insight... Can a company consider its mitigation activities when identifying material negative impacts?*

The following table illustrates how a mitigation activity's stage can affect a company's impact materiality assessment. These stages are relevant only to potential negative impacts.

Stage	Description	Effect on assessment
Implemented	The mitigation actions or policies are implemented – no further substantive action is required for them to operate as intended by management.	<p>A company considers mitigation activities that are implemented and reasonably expected to be effective at the reporting date when determining whether a potential negative impact is material.</p> <p>A company assesses the effect of these mitigation activities on the severity and likelihood of the potential impact to determine whether it is still material. This assessment considers the company's specific facts and circumstances.</p> <p>See <i>How to... Consider the effect of mitigation activities in assessing negative impacts and risks</i> for further guidance.</p> <p>The company also considers whether information about the mitigation activity is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company operates in a region where water availability is projected to decline significantly in the next five to seven years. It installed a water recycling system in the previous year that reduces the consumption of freshwater from local sources.</p> <p>The company considers the relevant factors – from the perspective of people and the environment – to assess the effect of these mitigation activities on the severity and likelihood of the potential impact, and whether it remains material. It also considers whether information about the mitigation activities is material. See <i>How to... Consider the effect of mitigation activities in assessing negative impacts and risks</i>, and Examples 16 and 17 for further guidance on relevant factors to consider.</p>	
Not implemented	A company has planned for or commenced the mitigation activity, but further action is required to implement it.	<p>A company does not consider mitigation activities that are not yet implemented when determining whether a potential negative impact is material. This is because people and the environment are still exposed to the effects of the potential impact.</p> <p>The company considers whether information about the mitigation activities yet to be implemented is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company operates in a region where water availability is projected to decline significantly in the next five to seven years. It is in the process of installing a water recycling system that will reduce the consumption of freshwater from local sources. The system is expected to come online in the next reporting period.</p> <p>Because the mitigation activity is not yet implemented, the company does not consider it when determining whether the potential negative impact is material.</p> <p>The company reports material information about the potential negative impact on water availability and considers whether information about the planned installation is material (see Steps 4–6).</p>	

**Insight...****Can actions to address a company's own negative impacts be considered positive impacts?**

No. Mitigation or remediation activities that a company undertakes to address negative impacts to which it is connected do not result in positive impacts. For example, a company that cuts its emissions may reduce the severity of its negative impact, but it does not generate a positive one. Similarly, actions undertaken to comply with laws or regulation do not constitute positive impacts.

Although actions, products or services that mitigate or remediate a company's own negative impacts do not result in positive impacts, those that mitigate or remediate negative impacts caused by third parties may result in positive impacts. For example, a company may create a positive impact related to a technology it developed that removes pollutants released by third parties. [ESRS 1.44]

**How to...****Determine whether risks and opportunities are material**

A company assesses whether the risks and opportunities identified in [Step 2](#) are material. The result is a list of material risks and opportunities. [ESRS 1.47]

A risk or opportunity is material if it has, or could reasonably be expected to have, material financial effects. This is the case when the risk or opportunity has, or could reasonably be expected to have, a material influence on a company's development, financial position, performance and cash flows, or access to finance or cost of capital over the short, medium or long term. To make this assessment, a company considers the likelihood of occurrence and the potential magnitude of the financial effects. See [Insight... How are likelihood and magnitude considered in assessing financial materiality?](#) for further guidance on how these factors are considered together. [ESRS 1.47, 50]

In making this assessment, a company considers the common information needs of the primary users of general-purpose financial reports (investors, lenders and other creditors). To reflect this perspective, it assesses whether a primary user would expect a risk or opportunity to have a material financial effect on the company. It is not required to consider the specific information needs of individual users, who may have different information needs – e.g. when making decisions based specifically on a company's social impacts. [ESRS 1.AR8]

A company makes this assessment using all information reasonably available to it without undue cost or effort. In our experience, a company's existing ERM system can be a valuable input into the DMA. [ESRS 1.23, 45, AR29]

Other factors a company may consider in its assessment include whether the risk or opportunity:

- affects the key value drivers of the business or the company's ability to execute its strategy;
- is prevalent in the company's jurisdictions or industry;
- is a pervasive issue across the business model and/or value chain; or
- arises from material impacts, dependencies or other external factors – e.g. exposure to climate-related hazards or regulatory change.

A company exercises judgement, weighing the evidence and drawing on qualitative considerations and, when helpful, quantitative information, including thresholds. See [Insight... Is a company required to use quantitative thresholds in determining material IROs?](#) for further guidance on when and how thresholds may be used. See [Insight... Can a company consider its mitigation activities when identifying material risks?](#) for further guidance on how to consider mitigation activities.



Example 13 – Assessing a material risk arising from dependency on agency labour

Continuing the assessment in [Example 11](#), Company L now considers the same reliance on agency workers from a financial perspective.

L's dependency on the availability of agency labour is a source of risk in its own right, regardless of the impact on the workforce.

L identifies a risk arising from its dependency on agency labour, which could result in higher labour costs due to a sharp increase in competition for the same pool of agency workers following the recent relocation of major employers to the local area. The risk could also result in reduced revenue if L is unable to meet customer demand, particularly because flexibility in meeting unpredictable demand is a key differentiator between L and its competitors. L already tracks the availability and cost of labour through its risk management system.

L determines that the risk arising from its dependency on agency labour is material. In making this judgement, it draws on its existing risk management processes to assess the financial effects over the short, medium and long term – i.e. the likelihood of higher labour costs and reduced capacity is high, given the confirmed relocation of major employers, and the potential magnitude is significant relative to L's cost base and revenue.

L also considers that the risk:

- is connected to one of the company's principal risks and is already monitored through its risk management system;
- could affect a key value driver of the business – its ability to respond flexibly to demand – and, if it requires L to reconsider its reliance on agency workers, could significantly affect its business model and strategy;
- is prevalent across its industry and may arise at other locations where L relies on agency labour; and
- arises from a dependency on labour, which can generate financial effects independently of the impact on workers.

As a result, L concludes that the same sustainability topic is material from both perspectives. It has identified two separate material IROs related to that topic: a material negative impact on agency workers' working conditions (see [Example 11](#)) and a material risk arising from its dependency on agency labour.

L reviews its conclusion and the significant judgements supporting it through its established DMA governance process.



Example 14 – Assessing financial materiality of a loss-of-containment risk

Continuing [Example 12](#), Chemical Company T considers the issue relating to the harmful nature of its intermediate products. T has included the risk of loss of containment on its list of risks that might be material.

T has already considered the likelihood of loss of containment as part of its assessment of material impacts. Now, in assessing whether the risk is material, T considers the potential magnitude of financial effects.

T assesses whether a loss of containment and the associated press attention could reasonably be expected to trigger a material financial effect. T concludes that the magnitude is high based on the following.

- The cost of environmental remediation activities would be material.
- Potential litigation costs and settlements would be material.
- Reputational damage associated with the loss of containment could result in a higher cost of capital, reduced access to finance, and a loss of customers and contracts.

T also considers the fact that the substantial press attention has resulted in primary users being aware of the issue, and they could reasonably expect that T is affected by this risk.

As a result, T concludes that the risk of loss of containment is financially material because of the magnitude of the potential financial effects and primary users' expectations about T's exposure.

**Insight...****How are likelihood and magnitude considered in assessing financial materiality?**

A risk or opportunity is material if it triggers, or could reasonably be expected to trigger, material financial effects on the company. These effects may influence the company's development, its financial position, performance or cash flows, and its access to finance or cost of capital over the short, medium or long term. [ESRS 1.47]

To assess whether a risk or opportunity is financially material, a company considers both the likelihood of occurrence and the potential magnitude of the financial effects, as illustrated below. [ESRS 1.49–50]



Likelihood and magnitude are considered together. A risk or opportunity with limited financial effects may not be material even if it is highly likely to occur. A low-likelihood event may still be material if its potential financial effects could reasonably be expected to be significant. [ESRS 1.50]

There is no predetermined threshold for determining financial materiality. See *Insight... Is a company required to use quantitative thresholds in determining material IROs?* for further guidance.

**Insight...****Does a company assess materiality of a risk and an opportunity separately when they both relate to the same sustainability topic?**

Materiality is determined by considering the likelihood of occurrence together with the potential magnitude of the financial effects. The analysis of a risk and an opportunity arising from the same topic will often differ. As a result, a single combined assessment is unlikely to be meaningful. [ESRS 1.50]

For example, a company may face a risk from significant fluctuations in energy costs while also identifying an opportunity to reduce costs by investing in energy-efficient facilities or renewable energy. The company has little or no control over the likelihood of the risk materialising, but significant influence over the likelihood of the opportunity because it decides whether to make the investment. Therefore, the two need to be assessed on their own terms.

**Insight...**

Does a company need to model its future cash flows when assessing whether information is material?

No. Although a company needs to assess the potential magnitude of the financial effects and the likelihood of occurrence when determining whether information is material, it does not need to model the company's future cash flows – e.g. prepare detailed forecasting specifically for this purpose. [ESRS 1.45, 49–50]

A company makes this assessment using reasonable and supportable information available at the reporting date without undue cost or effort. [ESRS 1.93–95]

**Insight...**

Does a material impact always give rise to a material risk or opportunity?

No. A material impact may give rise to a material risk or opportunity, but this is not always the case. Conversely, a risk or opportunity may be material even if no material impact has been identified.

This is because impact materiality and financial materiality are assessed through different lenses. Impact materiality focuses on the severity of a company's effects on people and the environment, whereas financial materiality focuses on whether risks and opportunities could reasonably be expected to trigger material financial effects for the company. [ESRS 1.38, 47–51]

The two perspectives are often interconnected and may overlap, but neither determines the materiality of the other. The extent of overlap between impacts and risks and opportunities differs between companies and may change over time. Therefore, a company assesses each perspective independently. Over time, a material impact may give rise to a related risk or opportunity, and a risk or opportunity may in turn lead a company to identify impacts that were not previously considered material.

**Insight...**

Is a company required to use quantitative thresholds in determining material IROs?

No. ESRS do not require a company to use quantitative thresholds when determining material IROs. Determining material IROs requires judgement, supported by qualitative considerations and, when appropriate, quantitative thresholds. [ESRS 1.37]

Specifically, when a company applies a top-down approach, qualitative considerations may be sufficient to conclude on the materiality of IROs (see [Step 2](#)). Quantitative thresholds may be helpful when the conclusion is less clear and relevant data is available. [ESRS 1.AR19]

If a company uses thresholds to help determine material IROs, then it needs to ensure that those thresholds do not result in excluding information that is material to users. See [Step 5](#) for relevant considerations.

**Insight...**

Is a company required to use a scoring system to determine material IROs?

No. ESRS do not require a company to use a scoring system to determine material IROs. However, in our experience, scoring can help a company compare and prioritise IROs across different sustainability-related topics. A scoring system can support, but not replace, management judgement. An effective scoring system considers a broad range of factors relevant to the nature of the IRO and does not reduce a company's assessment to a mechanical exercise.

If a company uses a scoring system, then it needs to ensure that this system does not result in excluding information that is material to users. [ESRS 1.23]

**Insight...****Can a risk be material if a company determines that it has no or low exposure to it?**

Yes. A risk may be material if primary users' perception of the company's exposure could reasonably be expected to trigger material financial effects. [ESRS 1.47, 50]

For example, a company may have operations located in an area prone to flooding – i.e. companies in the area are generally exposed to flood risk. Because the company is located on higher ground, it has never experienced any flooding and has obtained expert opinions that the flood risk is minimal across its sites and key access routes.

However, the company considers whether primary users' perception of the company's exposure to flood risk could affect its access to finance or cost of capital. If those effects could reasonably be expected to be material, then the risk arising from that perception is material.

**Insight...****Is a company required to allocate material IROs to different time horizons?**

Yes. A company considers the time horizons over which an impact exists or could reasonably be expected to occur. For risks and opportunities, it considers the horizons over which they could reasonably be expected to trigger material financial effects. [ESRS 1.39, 47]

For companies reporting annually, ESRS define the time horizons that apply to both impact materiality and financial materiality as follows:

- *short term*: the length of the period adopted for its financial statements (typically one year);
- *medium term*: more than one and up to five years; and
- *long term*: more than five years. [ESRS 1.79]

A company may use different medium- or long-term horizons if the default periods would result in information that is not relevant – e.g. because of its business or investment cycles or the planning horizons used in its decision-making. [ESRS 1.79, 81]

An actual impact that has already occurred is allocated to the short term, and additionally to the medium/long term if it continues. A potential impact is allocated to the horizon(s) in which it could materialise. Therefore, the time horizon of individual IROs arising from the same sustainability topic may differ. [ESRS 1.39, 79]

See [Step 5](#) for further guidance on the material information to provide.

**Example 15 – Allocating water-related impacts and risks to ESRS time horizons**

Manufacturing Company M identifies an actual negative impact on water availability for a local community caused by the water withdrawals of a plant located in a water-stressed basin. The community is already experiencing reduced access to water.

M determines that the default medium- and long-term horizons under ESRS would not provide decision-useful information, because of its long product and investment cycles. Therefore, it defines medium term as more than one year and up to 10 years, and long term as more than 10 years. These periods are aligned with its internal strategic planning and forecasting horizons. M concludes that the impact is actual because it is already occurring. The impact is material in the short term and is expected to continue into the medium and long term unless M reduces its water withdrawals.

M then considers the same water-stress topic from a financial perspective. In the current year, M can draw the water it needs at normal cost, and therefore does not yet face material financial effects. However, tightening water regulation in the basin is expected to limit water withdrawals and increase water costs after the end of M's short-term horizon.

As a result, M concludes that the impact on the community is material in the short term, and the related potential risk (i.e. higher operating costs and potential production constraints) is material over the medium and long term.

See [Example 25](#) in Step 5 for an illustration of the material information disclosed by M over the medium and long term.

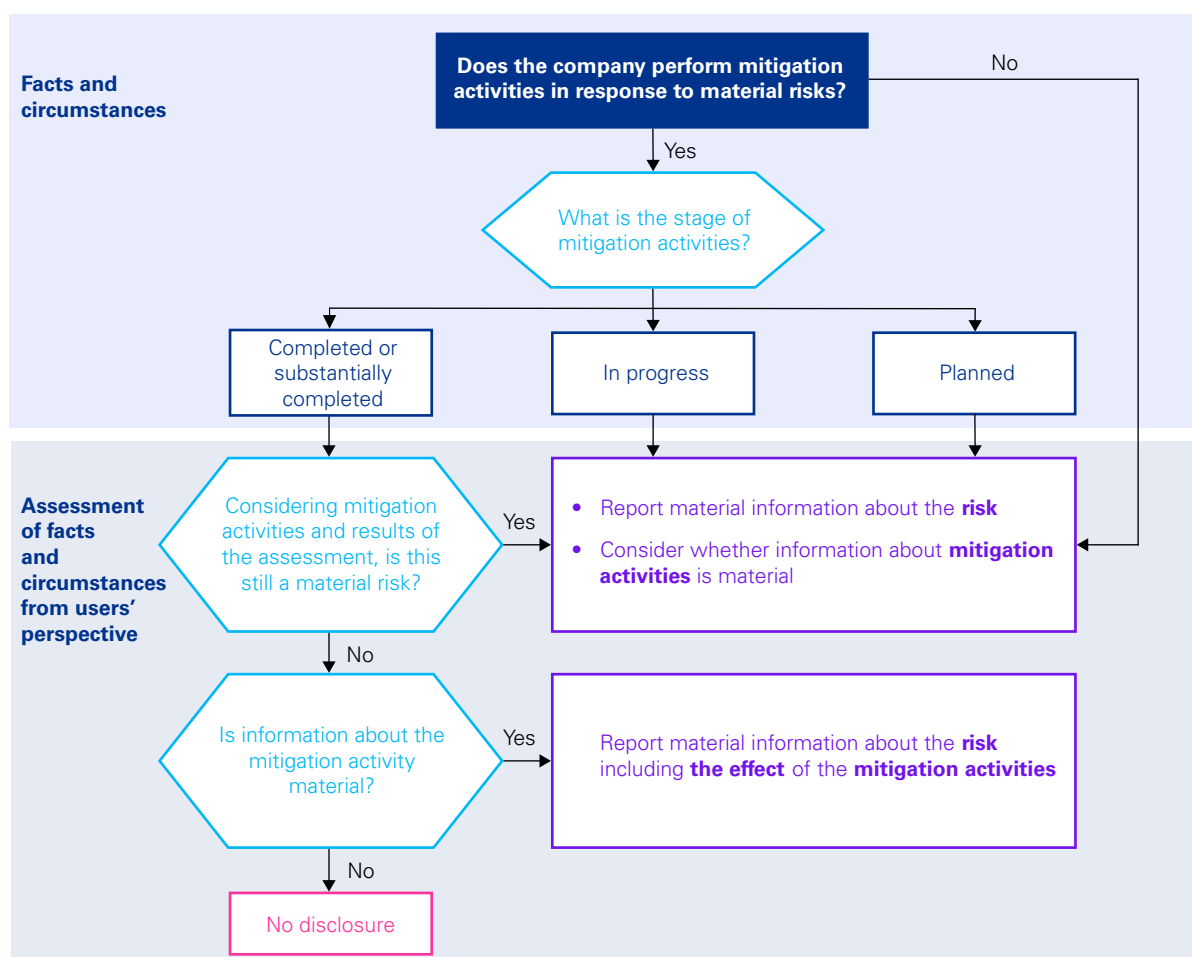


Insight...

Can a company consider its mitigation activities when identifying material risks?

As part of its risk management policy, a company may undertake mitigation activities in response to material risks. Mitigation activities are strategies and actions taken to reduce or eliminate the potential effect of risks on a company. ESRS 1 does not specify whether, in assessing risks as part of its sustainability reporting, a company considers its mitigation activities.

It appears that a company can consider its mitigation activities when determining material risks by applying the following approach. We believe that this assessment should be performed from its users' perspective.



A company's assessment of the effect of mitigation activities on its conclusion on whether a risk is material may require significant judgement based on the specific facts and circumstances. If a company considers the effect of mitigation activities when determining material risks, then we believe that it should develop a reasonable approach and apply it consistently to similar facts and circumstances.

In addition, we believe that a company should consider whether information about its mitigation activities and the approach applied is material and requires disclosure (see [Steps 4–6](#)). Also, we believe that when a company considers mitigation activities as part of its assessment of whether a risk is material, it should ensure that it does not omit material information about the risk and related mitigation activities.



How to...

Consider the stage of mitigation activities when assessing risks

When assessing the effect of mitigation activities on risks, we believe that a company should apply the guidance in *Insight... Can a company consider its mitigation activities when identifying material risks?*

The following table illustrates how the stage of mitigation activities can affect a company's materiality assessment.

Stage	Description	Impact on assessment
Completed or substantially completed	No further substantive action or cash outflows are required. The mitigating asset is in the location and condition (or procedures are in place) necessary for the asset (or procedures) to be capable of operating in the manner intended by management.	<p>A company can consider completed mitigation activities when determining whether a risk is material.</p> <p>A company needs to assess the specific facts and circumstances from its users' perspective to determine whether the risk is material. Separately, the company needs to consider whether information about its mitigation activities is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company with a manufacturing facility on the coast has built a flood wall to reduce the risk of flooding affecting its operations. The flood wall was completed in the previous reporting period.</p> <p>The company considers the relevant factors – from its users' perspective – to assess whether and to what extent the mitigation activity addresses the risk and whether the risk is material. See <i>How to... Consider the effect of mitigation activities in assessing negative impacts and risks</i>, and Examples 16 and 17.</p>	
In progress	A company has commenced mitigation activities, but further action or cash outflows are required.	<p>A company should not consider in-progress mitigation activities when determining whether a risk is material. This is because the company remains exposed to the risk until mitigation activities are complete.</p> <p>Also, the company needs to consider whether information about mitigation activities performed to date, or planned activities that may lead to future cash outflows, is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company with a manufacturing facility on the coast has started construction of a flood wall with completion scheduled in the next reporting period. The company determines that the mitigation activity is in the in-progress stage. Therefore, it does not consider it when determining whether the risk of flooding is material.</p> <p>The risk of flooding is material because:</p> <ul style="list-style-type: none"> the incomplete flood wall means that the company remains exposed to flood risk; and future cash outflows are required to complete the flood wall. <p>Therefore, the company reports material information about the risk of flooding and considers whether information about the construction of the flood wall is material (see Steps 4–6).</p>	

Stage	Description	Impact on assessment
Planned	A company has not started mitigation activities and further substantive actions or cash outflows are required.	A company should not consider planned mitigation activities when determining whether a risk is material because they have not been started. Separately, the company needs to consider whether information about planned mitigation activities is material (see Steps 4–6).
	<p>Example</p> <p>A company with a manufacturing facility on the coast plans to construct a flood wall within the next three years. It determines that the mitigation activity is in the planning stage, and therefore does not consider it when determining whether the risk of flooding is material.</p> <p>The risk of flooding is material because:</p> <ul style="list-style-type: none"> the company is exposed to the flood risk; and the company may need to access capital to finance the future cash outflows required to construct the flood wall. <p>Therefore, the company reports material information about the risk of flooding and considers whether information about the planned flood wall is material (see Steps 4–6).</p>	



How to...

Consider the effect of mitigation activities in assessing negative impacts and risks

When assessing the effect of mitigation activities in determining whether a negative impact or risk is material, a company considers factors relevant to its specific facts and circumstances.

The following factors may be helpful in assessing how the mitigation activities affect the severity and, for potential impacts, likelihood of a negative impact, or the likelihood and potential magnitude of the financial effects of a risk. The relevance and weight of each factor depend on the nature of the impact or risk and the mitigation activities considered. Individual factors may not be determinative on their own.

Factor	A company...
Pervasiveness of the negative impact or risk	<p>Evaluates how widespread the impact or risk is – e.g. within its industries, regions or societies in which it operates – and how it affects people, the environment and/or the business.</p> <p>This factor is important because users may have expectations about a company's susceptibility to an impact or a risk.</p>
Proven effectiveness	Assesses whether mitigation activities are proven or involve new, untested technologies.
Investment of resources	<p>Considers the investment made in mitigation activities to date – e.g. the amount of funds and effort dedicated to mitigating an impact or a risk.</p> <p>This factor is important because the more resources a company has dedicated to mitigation activities in response to a negative impact or risk, the more likely it is that the impact or risk is material.</p>
Future costs	Considers the ongoing maintenance and monitoring required for mitigation activities to remain effective.

Factor	A company...
Third-party reliance	Considers its dependency on third parties for implementing and/or maintaining mitigation activities.
Strategy or business model changes	Analyses how significant any changes to its strategy or business model are in response to a negative impact or risk – e.g. diversifying supply chains, changing raw materials, divesting segments or relocating assets.
Underlying causes of negative impacts or risks	<p>Considers:</p> <ul style="list-style-type: none"> the specific facts and circumstances that give rise to impacts or risks; whether it can influence these circumstances; and whether and how these circumstances may change over time. <p>For example, a company cannot influence extreme weather events that may increase in frequency or severity over time.</p>
Timing of mitigation activities	Assesses when the mitigation activities were, or are expected to be, implemented and effective. For an actual negative impact, this includes whether they were implemented before the impact occurred.
Frequency of control failures	Considers whether there have been instances of control failures associated with the mitigation activities and whether it has responded to the failures effectively.
Human rights impact	<p>Evaluates whether the impact or the risk might affect human rights.</p> <p>This factor is important because users may be particularly sensitive to a company's susceptibility to human rights impacts. See <i>Insight... Are there special considerations that apply when a potential impact could affect human rights?</i></p>
Significance of remaining activities	<p>Considers whether substantial time and effort are required to implement and/or maintain the mitigation activities.</p> <p>For example, if a mitigation system has been fully installed and tested and only a routine operational step remains, the remaining activities may not be significant.</p>

Some information may be material regardless of whether the negative impact or risk is material, as outlined in *Insight... Can a company consider its mitigation activities when identifying material negative impacts?* and *Insight... Can a company consider its mitigation activities when identifying material risks?* A company needs to ensure that it does not omit material information about the negative impact or risk and the related mitigation activities. See *How to... Determine whether information about mitigation activities is material* for further guidance.



Example 16 – Assessing the effect of a completed mitigation asset on impact and risk materiality

Company V has a manufacturing facility on the coast where hazardous substances are stored. Flooding of the facility could release these substances, potentially harming nearby communities and ecosystems, and causing financial effects for V. To reduce the likelihood of flooding and the resulting loss of containment, V built a flood wall that was completed in the previous reporting period.

V determines that its mitigation activities and the related asset are complete.

V assesses its specific facts and circumstances from the perspective of the people and environment that could be affected (potential negative impact) and its primary users (risk) to determine whether, considering the mitigation activities, the potential negative impact and risk of flooding is material. It considers that:

- the likelihood of flooding and a resulting loss of containment is remote based on historical evidence and scientific projections;
- the flood wall is a proven technology supported by real-life use cases in similar circumstances;
- future maintenance costs are not material to the financial statements and there is no reliance on third parties;
- the ongoing mitigation activities do not require a change in strategy or business model; and
- the amount invested in the flood wall is not material to V's financial statements.

Based on its assessment, V concludes as follows.

- The potential negative impact is not material because the completed flood wall reduces the likelihood of flooding and a resulting release of hazardous substances to a remote level.
- The risk is not material because it is substantially addressed by V's mitigation activities.

Nevertheless, V considers whether information about the mitigation activity itself is material (see [Steps 4–6](#)).



Example 17 – Assessing completed mitigation procedures that require action when a risk occurs

Modifying [Example 16](#), Company V has developed an operational response to the risk of flooding. In the event of a flood, V's personnel are trained to follow a specific procedure to fill and place sandbags on-site to minimise the impact of flooding on the facility.

V determines that its mitigation activities are complete because the plan is in place, with materials ready for use and personnel trained in their duties.

V assesses its specific facts and circumstances from the perspective of people and the environment (potential negative impact) and its users (risk) to determine whether, considering the mitigation activities, the risk of flooding is material. It considers that:

- the use of sandbags is a proven method of mitigating flood-related damage;
- future maintenance costs are not material to the financial statements and there is no reliance on third parties;
- the ongoing mitigation activities do not require a change in strategy or business model; and
- the remaining mitigation activities require a moderate amount of time and effort because sandbags need to be filled and brought to the appropriate location on-site to mitigate the risk of flooding.

Based on its assessment, V concludes as follows.

- The potential negative impact is material because the effectiveness of the mitigation activities still depends on significant actions being performed when a flood occurs.
- The risk is material because of the significance of remaining mitigation activities.

Therefore, V reports material information about the impact and risk, and considers whether information about the procedures in place is material (see [Steps 4–6](#)).



Example 18 – Assessing mitigation policies in place when implementation activities remain ongoing

Company J uses pipelines to supply natural gas. J identifies a dependency on its relationships with indigenous communities living alongside the site of a pipeline under construction. The construction of the pipeline may impact the community due to noise, land disturbance and air or water pollution at culturally significant sites. J determines that there is a risk that might be material because the community could block the progress of the pipeline and J could also fail to protect the community's interests adequately. This would result in costly delays, fines and legal costs.

J's management has established mitigation activities in the form of industry-leading policies, audited monitoring controls and extensive ongoing community engagement. J determines that the policies are in place – i.e. these mitigation activities are complete – and ready to be operated during the construction of the pipeline.

J assesses its specific facts and circumstances from the perspective of people and the environment (potential negative impact) and its users (risk) to determine whether, considering the mitigation activities, the risk relating to the affected community is material. It considers that:

- it has a proven track record of positive community relations on other projects;
- the future costs of applying the policies are not material to the financial statements; and
- the risk is pervasive to companies in its industry and locations.

Based on its assessment, J concludes as follows.

- The potential negative impact is material based on the severity of the potential impacts, J's reliance on ongoing community engagement and the prevalence of similar issues in its industry and operating locations. J does not disregard the potential negative impacts on affected communities merely because extensive mitigation activities are in place.
- The risk is material because of its pervasiveness to companies in the industry and users' expectation about J's exposure.

Therefore, J reports material information about the impact and risk, and considers whether information about the mitigating activities is material (see [Steps 4–6](#)).



Example 19 – Assessing the effect of an internal export-control policy on risk materiality

Defence Company D operates under stringent export control regulations. D has not breached these regulations in the past 15 years since it enforced a policy to prohibit export of its goods.

Management acknowledges that there is a risk of breaching the export control regulations if it sells products internationally. Management and users are aware of the regulatory environment and the approach D takes to address the risk.

D assesses its specific facts and circumstances from the users' perspective to determine whether, considering the mitigation activities, the risk relating to the export regulations is material. It considers that:

- users are already aware of the regulatory environment and D's approach to mitigating the risk;
- D has a proven track record of complying with its policy on prohibiting export of its goods;
- no changes are required in its strategy or business model to comply with the regulations; and
- the policy removes the circumstances that give rise to the risk and does not depend on significant future actions or third parties to remain effective.

Having assessed these factors, D concludes that the risk related to the export regulations is effectively managed, and is therefore not material. D considers whether information about its internal policy is material (see [Steps 4–6](#)).

Keep in mind – Apply judgement consistently and test the evidence

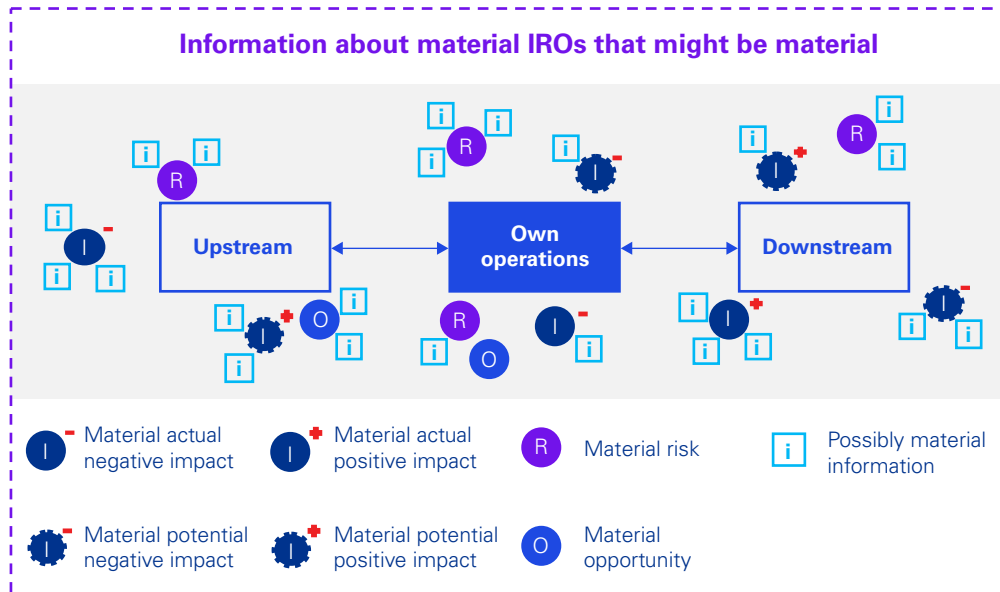
Materiality conclusions are more robust when scoring supports – rather than replaces – judgement and when significant assumptions are subject to effective challenge.

- **Look beyond the score.** Small changes in weightings or thresholds may change the result without changing the underlying facts. Document the qualitative rationale and evidence supporting significant or borderline conclusions.
- **Assess what mitigation activities achieve in practice.** Do not assume that a policy, control or programme reduces exposure merely because it exists. Consider whether it is implemented, operates as intended and is supported by evidence of its effectiveness.
- **Do not equate compliance with immateriality.** Regulatory limits, permits and monitoring results may provide relevant evidence, but do not replace an assessment of the underlying effect on people or the environment.
- **Challenge gaps and inconsistencies.** Missing data or limited management awareness does not demonstrate that an IRO is immaterial. Also investigate when the DMA and other internal assessments reach different conclusions about the same circumstances or controls.

Step 4: Identify information that might be material

Having determined its material IROs, a company then identifies information about them that might be material.

Information that might be material is information that could be relevant to its users' needs. A company may consider various sources of guidance to identify information that might be material as long as any information identified faithfully represents the company's specific facts and circumstances. See [Step 5](#) for how to determine material information. [ESRS 1.11, 19, 29, AR5]



The output from [Step 4](#) is a list of possibly material information that relates to the material IROs determined in [Step 3](#) or as part of a top-down approach.

The list is then refined in [Step 5](#).



In Step 4, consider...

- What **material IROs** were identified?
- Which guidance applies to help identify information that might be material?
 - Required **guidance**: ESRS 2 *General disclosures* and all relevant topical ESRS
 - Additional guidance for entity-specific information: IFRS® industry-based guidance, GRI Standards, other frameworks, and industry or local practice
- Is there additional information that may be **relevant** to users and **faithfully represents** the facts and circumstances of the material IROs?



How to...

Identify information that might be material

A company first determines whether a topic related to a material IRO is covered by a specific ESRS and, if so, whether it is covered with sufficient granularity. If the topic related to a material IRO is not covered, or is not covered with sufficient granularity, then the company determines what material information is needed to meet users' information needs and provides entity-specific disclosures accordingly. [ESRS 1.11, 20(b), 29(c)]

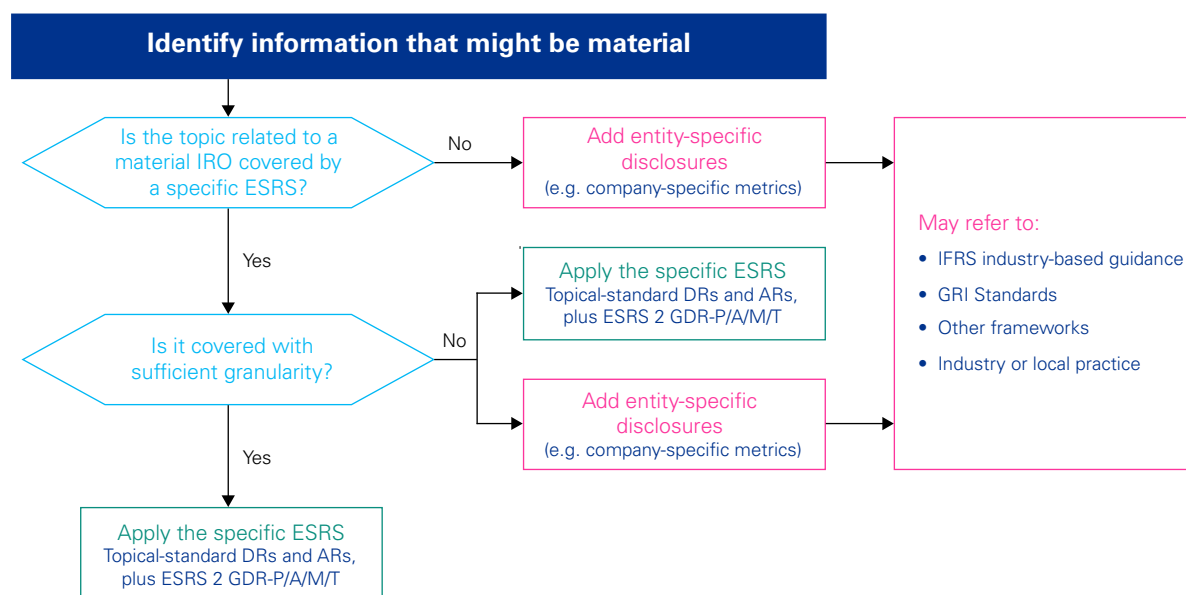
In developing those disclosures, the company applies judgement to identify information that:

- is relevant to users' decision-making; and
- faithfully represents the IRO, providing a complete, neutral and accurate depiction of the company's facts and circumstances. [ESRS 1.19]

This helps ensure that the disclosures meet the qualitative characteristics of information and include the material information for the relevant reporting areas (governance, strategy, IRO management and metrics and targets). [ESRS 1.AR3]

In addition, a company may consider available practices, frameworks and reporting standards in developing entity-specific disclosures. [ESRS 1.AR5]

In all cases, a company considers the disclosure requirements in ESRS 2 when identifying information that might be material. These requirements apply across all sustainability-related topics, and therefore are likely to result in material information for all companies. [ESRS 1.AR12]



Example 20 – Identifying information that might be material for a clothing retailer

Clothing Retailer R identifies material IROs relating to:

- climate- and water-related impacts and risks in its supply chain;
- labour conditions in its supply chain; and
- the management of chemical products.

For each material IRO, R first determines whether it is covered by a specific ESRS and, if so, whether that ESRS covers the IRO with sufficient granularity.

R determines that these topics are addressed by ESRS E1 *Climate change*, ESRS E2 *Pollution*, ESRS E3 *Water* and ESRS S2 *Workers in the value chain*. R applies those standards together with ESRS 2.

R considers whether the ESRS requirements are sufficiently granular to provide material information about its circumstances. As a clothing retailer with an extensive global supply chain, R determines that certain features of the apparel supply chain are not covered, or not covered with sufficient granularity, by the sector-agnostic standards. For those topics, R provides entity-specific disclosures.

R draws on the *Apparel, Accessories & Footwear* SASB Standard to develop additional entity-specific disclosures. R considers the disclosure topics and metrics within that standard and uses judgement to identify information that is relevant to users and faithfully represents its circumstances.



Example 21 – Identifying information that might be material about antimicrobial resistance

Company K produces and sells dairy and meat products. It operates its own farms and sources additional raw milk and livestock from contracted farmers.

In **Step 3**, K identified:

- a material negative impact on public health arising from antimicrobial resistance associated with the use of medically important antibiotics in livestock production on its own and suppliers' farms; and
- a material risk, the source of which is the impact, arising from changing customer and consumer expectations. As these expectations evolve – reflected in retailer sourcing policies and anticipated stricter requirements on using medically important antibiotics – K could face the delisting of its products by retailers, higher compliance and conversion costs, and lower revenue.

To identify information that might be material about the impact and the related risk, K first considers the relevant ESRS requirements. Antimicrobial resistance is not addressed by a topical ESRS. Therefore, K considers the general disclosure requirements in ESRS 2 and identifies additional entity-specific information needed to reflect its circumstances. K also considers other guidance and reporting standards, including GRI Standards, SASB Standards and information reported by peers, as well as metrics already used internally to manage and monitor the impact and related risk.

As a result, K compiles the following list of information that might be material to disclose.

Information source	Information that might be material
A. ESRS requirements	
ESRS 2 SBM-3	Description of the material impact and of the related risk, where they occur in the business model and value chain (own farms and contracted suppliers), and their current and anticipated financial effects
ESRS 2 (GDR-P, GDR-A, GDR-M, GDR-T)	Policies, actions, resources and metrics and targets relating to responsible antibiotic use and antimicrobial resistance
B. Entity-specific information	
	Amount of medically important antibiotics used on own farms and suppliers' farms
	Percentage of animals raised without routine antibiotic use
	Percentage of contracted farmers reporting verified antibiotic-use data
	Animal health indicators that drive antibiotic use (mortality, disease rates, vaccination)
	Revenue from customers with antibiotic sourcing requirements

Information source	Information that might be material
C. Other guidance and frameworks	
GRI 13.11	Animal health and welfare disclosures, including antimicrobial use
SASB FB-MP-260a.1	Percentage of animal production by animal type that received: <ul style="list-style-type: none"> • medically important antibiotics; and • antibiotics that are not medically important
Peer benchmarking	Additional antibiotic-use and antimicrobial resistance (AMR) metrics reported by peers

See [Example 26](#) in Step 5 for how K refines this list to information that is in fact material.

Keep in mind – Determine the population of information before drafting

Identifying potentially material information is more effective when the company establishes clear links, ownership and evidence before drafting begins.

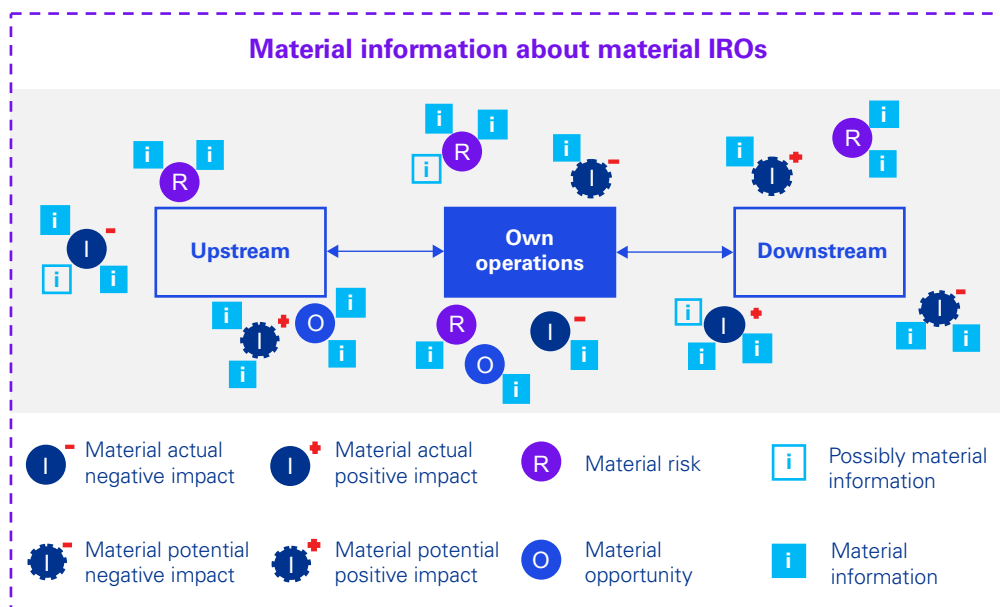
- **Maintain a structured information register.** Link each item of potentially material information to the relevant material IRO, source, owner and any identified data gap.
- **Document significant decisions when they are made.** A statement of ‘not material’ records the conclusion, not the company’s rationale or evidence supporting it. Reconstructing that rationale later may be difficult.
- **Involve topic owners and reporting preparers early.** The central project team may understand the reporting requirements but may not know what information exists or who owns it across the business.
- **Check separately for entity-specific information.** Compare the initial population with management and board reporting, strategic, operational and remuneration metrics, industry practice and prior-period reporting.

Step 5: Assess and determine material information

Not all information identified in [Step 4](#) is material for reporting. Some information may be relevant and faithfully represented, but may not influence users' decisions. Therefore, after identifying information that might be material, a company filters out any information that, based on its specific facts and circumstances, would not influence users' decisions.

A company determines whether each piece of information is material. It does this by determining whether omitting, misstating or obscuring the information could reasonably be expected to influence the decisions of users of its sustainability statement. Users comprise primary users, whose decisions relate to providing resources to the company, and other users, whose decisions may be informed by the company's material IROs and how they are managed. [\[ESRS 1.23\]](#)

In making its assessment, a company considers the common information needs of both primary users of general-purpose financial reports and other users of sustainability statements, rather than the preferences of individual users. [\[ESRS 1.AR8\]](#)



The output from [Step 5](#) is a list of material information that has been narrowed down from the list of information that might be material identified in [Step 4](#).



In Step 5, consider...

- What **information** that might be material was identified in [Step 4](#)?
- Could omitting, misstating or obscuring the information **influence users' decisions**?
- What **quantitative** and **qualitative factors** are relevant to the specific facts and circumstances?
- Does the information meet the **common information needs** of users?
- Could the information influence primary users' decisions to **provide resources** to the company?
- Could the information influence other users' assessments of the company's **material IROs** and how it **manages** them?



How to...

Assess whether information is material

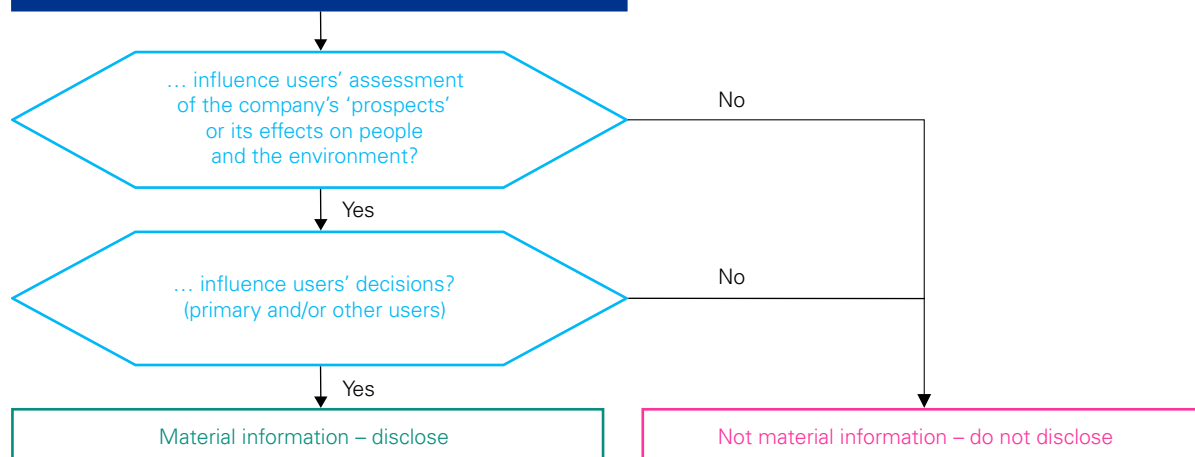
A company assesses the materiality of information based on whether it could affect users' assessments of the company – i.e. whether users' decisions could be influenced by a specific piece of information. This includes decisions by primary users about providing resources to the company and other users' assessments of the company's material IROs and how they are managed. [ESRS 1.23]

This assessment considers both quantitative and qualitative factors. Information may relate to a material impact, a material risk or opportunity, or both. In each case, its materiality depends on whether it could influence users' decisions. [ESRS 1.23, QC4]

A company considers the common information needs of groups of users, rather than the preferences of individual users. Different groups may have different information needs, including those represented by NGOs or other organisations acting on behalf of affected stakeholders. The absence of an explicit request from users does not, in itself, make information immaterial. [ESRS 1.AR8]

Some information may allow users to understand a company's effect on people and the environment or its prospects – i.e. its development, financial position, financial performance, cash flows, access to finance or cost of capital. However, not all information could reasonably be expected to influence their decisions.

Could information that might be material...



Aggregation and disaggregation are important considerations when determining how to present material information. See [How to... Aggregate and disaggregate information](#) for further guidance.

If a company uses thresholds to help determine material IROs, then it needs to ensure that any threshold does not result in excluding information that is material to users. See [Insight... Is a company required to use quantitative thresholds in determining material IROs?](#) for further guidance.



Example 22 – Assessing material information about potential human rights incidents in the supply chain

Company N has identified a material potential negative impact relating to human rights incidents in its supply chain and a related risk. Although N has not identified such incidents in its own supply chain, they are prevalent in its industry and reported by several peers. Therefore, N concludes that users may reasonably expect the impact and related risk to be relevant to its circumstances (see [Step 3](#)).

N assesses the list of information that might be material as follows.

Information that might be material	Could the information influence users' assessment of...		Could it influence users' decisions?	Conclusion: Is the information material?
	...the company's 'prospects' ⁵ ?	...the company's effects on people and the environment?		
Policies to address human rights impacts on value-chain workers	Yes	Yes	Yes	Yes
Actions and due diligence processes to identify, prevent and remediate the impact	Yes	Yes	Yes	Yes
Channels for value-chain workers to raise their concerns and the company's approach to remedy	No	Yes	Yes	Yes
Contractual and operational details of the grievance mechanism (external provider selected, set-up cost, IT architecture)	No	No	No	No

As a result, N discloses material information about its policies, due diligence processes and channels for value-chain workers to raise concerns.

N does not disclose detailed operational information about its grievance mechanism (the external provider selected, set-up costs or IT architecture) because it concluded that this information would not influence users' assessments or decisions.

See [How to... Determine whether information about mitigation activities is material](#) for further guidance.

5. The company's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term.

**Insight...****Can the nature of an item make related information material, regardless of its magnitude?**

Yes. Information may be material because of its nature, even when the related effects are quantitatively small or expected only over the longer term. The materiality of information is assessed based on the nature or magnitude of the item to which the information relates – or both. [ESRS 1.23, QC4]

For example, a company may determine that a quantitatively small metric is material because the nature of the related IRO makes the information important to users' decisions. Without that information, users may not be able to make an informed assessment of that IRO.

**Example 23 – When a quantitatively small metric provides material information**

Company Q has information about a large increase in water consumption at a site where water is readily available and associated costs are insignificant. Q concludes that this information is not material because the level of water consumed at the site could not reasonably be expected to influence users' decisions.

Q also has information about a quantitatively small increase in water consumption at a location where the water supply is severely restricted and costly. Q concludes that this information is material. This is because it could affect users' assessments of Q's impact on water availability for local communities and the site's ability to continue operating, and therefore influence their decisions.

**Insight...****Can information be material if complete or precise data is not available?**

Yes. The absence of complete or precise data does not, by itself, make information immaterial. A company assesses whether information is material based on whether omitting, misstating or obscuring it could reasonably be expected to influence users' decisions. [ESRS 1.23–24]

If the information is material, then the company considers how best to report it despite the data limitations. It may use reasonable estimates and explains any significant measurement uncertainty, including the significant assumptions and limitations involved. Even a high level of measurement uncertainty does not necessarily prevent an estimate from providing useful information. [ESRS 1.88–89]

The company uses the best information available at the reporting date without undue cost or effort, including estimates and information obtained from indirect sources when necessary. [ESRS 1.65, 93–95, AR45]

**Example 24 – Estimating scope 3 purchased goods and services emissions using supplier data**

Manufacturing Company X purchases and receives delivery of raw materials on a quarterly basis from Company Y. X determines its scope 3 category 1 greenhouse gas (GHG) emissions (Purchased Goods and Services) for the purchased raw materials based on supplier-specific emissions data provided by Y. X determines that this information is material.

Y has provided emissions data for the first three quarters of the year; however, the Q4 data will not be available before the date the management report is authorised for issue. In the absence of supplier-specific data, X estimates its Q4 emissions using an average emissions-per-unit rate based on the supplier-specific data available and the amount purchased in Q4.

X considers the effectiveness of its inventory controls and the reliability of Y's data for the periods used in the estimate. It also considers whether there have been any significant changes in Y's production facilities, production methods or other circumstances that could affect the Q4 emissions-per-unit rate. It determines that the assumptions used in the calculation are reasonable and supportable, and that the resulting information is free from material error.

X also considers whether information about the estimation method, assumptions and resulting measurement uncertainty is material.



How to...

Determine what information about time horizons is material

A company considers what information about time horizons could reasonably be expected to influence users' decisions. In doing so, it considers whether users need information about:

- when and for how long each material impact exists or could occur;
- when each material risk or opportunity could give rise to financial effects;
- whether an impact continues across more than one time horizon; and
- whether related IROs arise over different time horizons – e.g. when an impact already affects people or the environment, but the related risk arises only over the medium or long term. [ESRS 1.23, 39, 47]

A company uses the time horizons specified in ESRS unless different medium- or long-term horizons would result in more relevant information. See *Insight... Is a company required to allocate material IROs to different time horizons?* for further guidance on time horizons.



Example 25 – Providing material information about time horizons for a water impact and related risk

Continuing *Example 15*, Manufacturing Company M uses the ESRS short-term horizon corresponding to its financial reporting period. M uses different definitions for the medium- and long-term horizons, and discloses those definitions and the reasons for using them.

M applies judgement to determine what information about the time horizons of the impact and the related risk is material to users' understanding of those matters.

M concludes that this information is material and provides the following information.

- The negative impact on water availability is already affecting the local community, and therefore is material in the short term. M explains that the impact is expected to continue over the medium and long term unless it reduces its water withdrawals.
- M does not currently experience material financial effects from its water withdrawals. However, M explains that expected regulatory restrictions could increase water costs and constrain production starting in two years' time, giving rise to a material risk over the medium and long term.



How to...

Determine whether information about mitigation activities is material

A company needs to consider whether information about its mitigation activities and the approach it applies is material and requires disclosure. See *Insight... Can a company consider its mitigation activities when identifying material negative impacts?* and *Insight... Can a company consider its mitigation activities when identifying material risks?* for further guidance.

A company's effective management of an impact or effective regulation does not, on its own, make information about the impact or how the company manages it immaterial. This assessment applies regardless of whether the related impact or risk is material after considering the mitigation activities. When assessing a negative impact, the company also ensures that it does not omit material information about the impact or the actions taken to address it. [ESRS 1.43(c)]

The following illustrates how this assessment applies to the impacts and risks in *Step 3*.

- The impact or risk is not material after considering the mitigation activities. Information about the mitigation activities may nevertheless be material if users need it to understand the company's materiality conclusion – e.g. why the impact or risk is not material. See *Examples 16 and 19* in *Step 3*.
- The impact or risk remains material after considering the mitigation activities. Information about the mitigation activities may be material if users need it to understand the impact or risk and how the company manages it – including the nature and effectiveness of the activities and the extent to which they depend on significant future actions. See *Examples 17 and 18* in *Step 3*.

In each case, a company applies judgement based on its specific facts and circumstances.

**Insight...****Can information about the absence of an impact or a risk be material?**

Yes. Information explaining why a company is not exposed to an impact or risk may be material if users would reasonably expect the company to be exposed. For example, if a particular risk is common in the industry, users may need to understand the company's circumstances that lead to a different conclusion. Omitting that information could reasonably be expected to influence their decisions. [ESRS 1.23]

**Example 26 – Determining material information about antimicrobial resistance and related risk**

Continuing [Example 21](#), Company K considers its list of information about the material negative impact on public health arising from antimicrobial resistance and the related risk. For each item, K assesses whether the information could reasonably be expected to affect users' assessments of the company enough to influence their decisions.

Information that might be material	Analysis	Conclusion
Amount of medically important antibiotics used on its own farms and suppliers' farms (entity-specific information)	K determines that this information helps users understand the extent of antibiotic use contributing to antimicrobial resistance and the resulting public health impact, and K's exposure to the related risk. Therefore, K concludes that the information could reasonably be expected to influence users' decisions.	Material
Additional antibiotic-use and AMR metrics reported by peers (peer benchmarking)	K observes that some peers disclose additional antibiotic-use and AMR metrics. However, K determines that these metrics would not provide significant additional insight into its specific impact, risk exposure or response, beyond the information it already provides. Therefore, K concludes that the information could not reasonably be expected to influence users' decisions.	Not material

K documents the rationale for its conclusions, which it reviews through its established governance process for sustainability reporting.

**Insight...****Can a company omit material information?**

In limited circumstances, ESRS permit a company to omit material information that is commercially sensitive or otherwise protected.

A company may consider information to be commercially sensitive if disclosing it would seriously prejudice the company's commercial position. In applying this exemption, a company needs to consider whether the information can be disclosed in another way (e.g. by providing less granular information) and whether its exclusion prevents a fair and balanced representation of its specific facts and circumstances. [ESRS 1.100(a)]

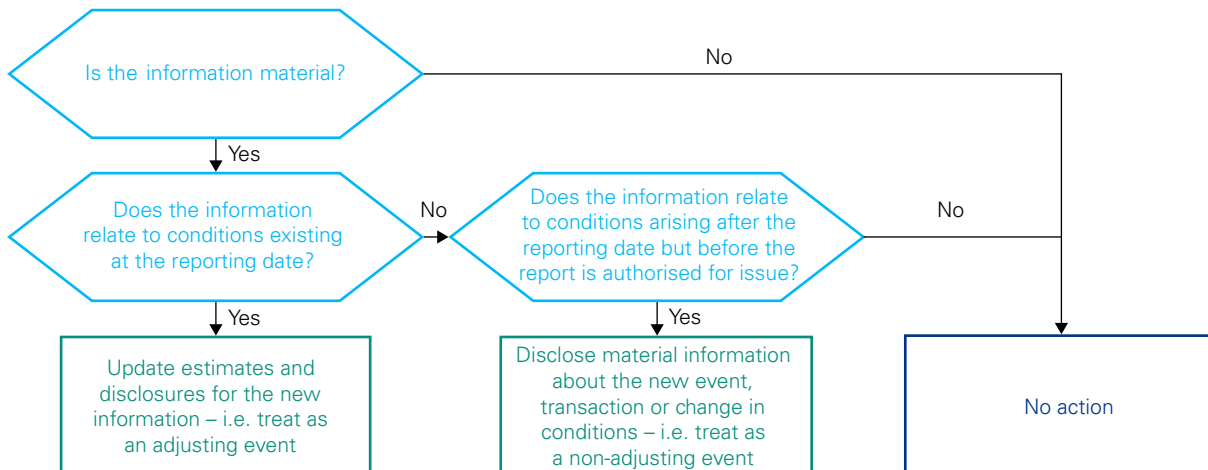
Otherwise, protected information may:

- qualify as a trade secret;
- be classified;
- be restricted by EU or national law; or
- compromise the privacy or security of a person or company.

For each datapoint omitted, the company discloses that it has applied the exemption and reassesses at each reporting date whether it may still omit the information. [ESRS 1.100]

**How to...****Consider information after the reporting date**

Information obtained after the reporting date but before the management report (that includes the sustainability statement) is authorised for issue may require a company to either update existing disclosures or to disclose new events, transactions or changes in conditions.

Information about an event, transaction or change in conditions identified after the reporting date


A company updates its disclosures for information about conditions that existed at the reporting date. It also discloses material events, transactions and changes in conditions that arise afterwards, including information about their nature and potential consequences, up to the date the management report is authorised for issue.

[ESRS 1.96–97]


Example 27 – Updating estimated scope 3 emissions when supplier-specific data becomes available

Continuing [Example 24](#), in the absence of supplier-specific emissions data, Company X uses the average-data method to calculate its Q4 emissions. Before the date the management report was authorised for issue, X obtained the supplier-specific emissions data from Company Y for Q4.

This supplier-specific data provides evidence about conditions that existed during the reporting period. X recalculates its Q4 emissions data and determines that adjustments to its GHG emissions metrics are not required because the difference from the original estimate is small, does not change the reported emissions trend and could not reasonably be expected to influence users' decisions.

**How to...****Reassess the DMA**

At each reporting date, a company considers whether any changes in facts and circumstances could affect previous materiality judgements. If so, it reassesses the materiality of the related IROs and information.

[ESRS 1.34]

To do this, a company considers whether users' assessments and decisions could now be influenced differently because:

- an IRO has become material or is no longer material; or
- information that was previously assessed as immaterial has become material, or vice versa.

This reassessment reflects changes in the company's activities, business relationships, operating environment, methodologies or understanding of its IROs. For example, this may arise from a major acquisition, a new product type, a major new supplier, a significant change in a supplier's production methods, new regulation, geopolitical developments affecting supply chains, due diligence activities, incidents, new scientific evidence or new input from affected stakeholders. [ESRS 1.34]

Keep in mind – Test the information, not the topic again

The information assessment is most effective when each item is assessed on its own merits and remains clearly connected to the material IRO it explains.

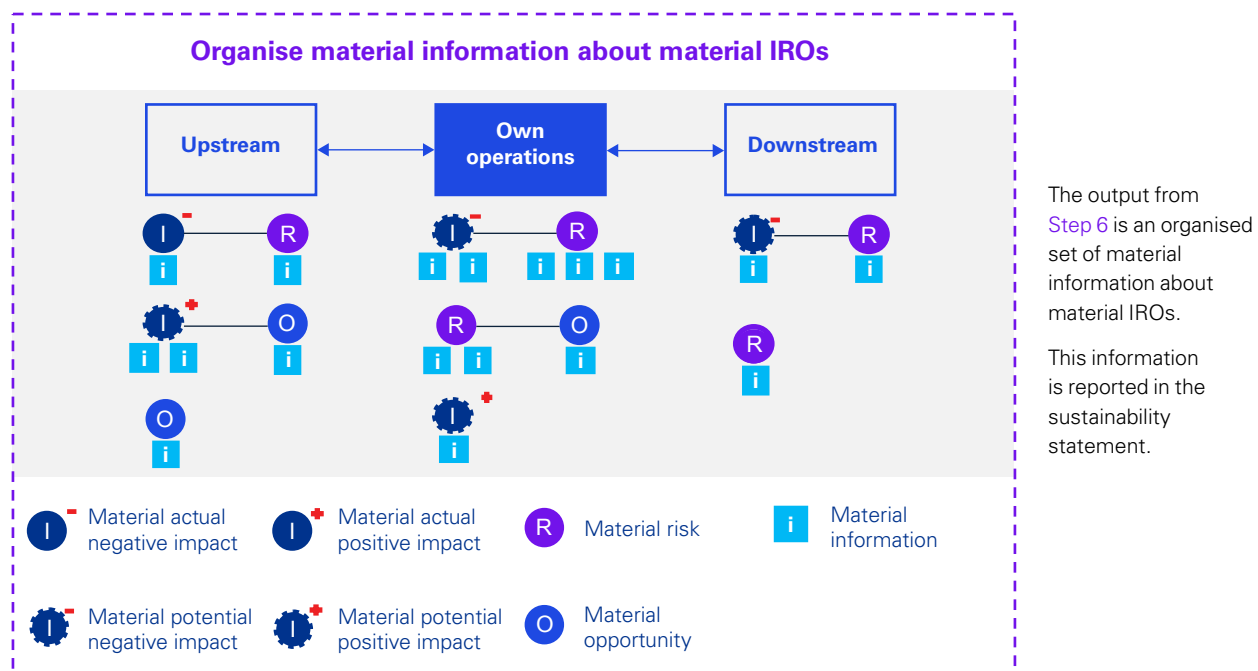
- **Do not carry all related information forward automatically.** A material IRO does not make every related disclosure requirement or item of entity-specific information material.
- **Test traceability in both directions.** Trace each material IRO to the material information needed to explain it, and each item of material information back to a material IRO.
- **Revisit unclear links.** A gap may indicate that relevant information is missing, unnecessary information has been retained or the IRO is described too broadly. Reconsider the affected part of the assessment rather than forcing the information into the closest IRO.
- **Do not use data availability as a proxy for materiality.** When material information is incomplete, consider how it can be estimated, explained or improved rather than excluding it because it is difficult to obtain.

Step 6: Organise and report material information

In **Step 6**, a company organises the material information identified in **Step 5** for presentation in its sustainability statement. It presents that information in a clear, concise and connected way, ensuring that it is not omitted or obscured by immaterial information. [ESRS 1.104–105]

In doing so, it aggregates and disaggregates information at the appropriate level. [ESRS 1.52–53]

The sustainability statement is generally organised into four distinct parts: general information, environmental information, social information and governance information. A company may use a different structure if it explains why it has done so. [ESRS 1.104–105]



In Step 6, consider...

- What **material information** was identified in **Step 5**?
- Is the material information presented at an appropriate level of **aggregation** or **disaggregation**?
- Has the company performed a **holistic review** of the reporting package?
- Is information provided about **key judgements** made in preparing the sustainability statement?
- Is there a risk that any material information has been **omitted** or **obscured**?

**How to...****Avoid obscuring material information**

To avoid obscuring material information, a company considers whether users can readily identify and understand the information presented. Information is obscured if the way in which it is communicated has a similar effect to omitting or misstating it and could reasonably be expected to influence users' decisions.

[ESRS 1.23]

A company considers whether:

- related information is scattered throughout the sustainability statement, making it difficult to understand the overall matter;
- information is aggregated or disaggregated in a way that hides material IROs or their relevant characteristics;
- material information is hidden among non-material information; or
- unnecessary repetition makes it more difficult to identify or understand material information.

[ESRS 1.53, AR34]

When the same information is relevant to more than one disclosure requirement, the company presents it where it is most relevant and cross-refers to that information rather than repeating it. It clearly identifies any supplementary information and presents it in a way that does not obscure material information.

[ESRS 1.109(c), 113]

**How to...****Aggregate and disaggregate information**

To aggregate or disaggregate information appropriately, a company considers whether combining information would hide material differences or whether separating information is necessary for users to understand its material IROs. This may involve presenting information by topic, sector, subsidiary, geography, site or asset. [ESRS 1.52]

A company considers whether:

- information about IROs may be material when considered in aggregate, even though it would not be material when considered separately; or
- aggregated information may hide significant variations, including information about a particular subsidiary, geography, site or activity that may be material when considered separately. [ESRS 1.52, 54]

The company presents aggregated or disaggregated information in a way that does not obscure material information. See [How to... Avoid obscuring material information](#) for further guidance. [ESRS 1.53, AR34]

**Example 28 – Aggregating biodiversity impacts and supply-chain risks across sourcing regions**

Food Manufacturer U has a diverse supply chain that includes many small producers across several sourcing regions. U identifies multiple location-specific negative impacts on biodiversity and related risks affecting the resilience of its supply chain.

Each impact and related risk is limited when considered separately. However, U concludes that they are material when considered together because they are widespread across its sourcing regions and could have a significant combined effect on biodiversity and the resilience of its supply chain.

Therefore, U presents aggregated information about the nature and extent of the impacts and related risks, together with its actions to address the impacts on affected ecosystems and strengthen the resilience of its supply chain.

Because the severity of the impacts varies significantly across sourcing regions, U also disaggregates the information by geography so that users can understand those differences.



Example 29 – Disaggregating water-use information for a water-stressed site

Company W determines that water is a critical part of its operations. The availability of water varies across all sites, one of which is water-stressed. W concludes that reporting its aggregated water usage is not a useful metric because it obscures the location-specific risk. Therefore, W provides disaggregated information about water usage only for the water-stressed site; it does not provide this information for other sites where water supply is plentiful.



How to...

Disclose the DMA process and key judgements

To disclose its DMA process and key judgements, a company describes the process through which it identifies IROs and assesses their materiality as the basis for determining what to disclose in its sustainability statement. In addition, it discloses material information about the key judgements made in preparing its sustainability statement. These judgements depend on the facts and circumstances at the time the company prepares its statement. [ESRS 1.88, ESRS 2.34]

Some of these judgements may be made during the DMA process.

Area	What to disclose
DMA process	A description of the process used to identify IROs and assess their materiality, including the key methodologies, inputs, assumptions and thresholds applied. [ESRS 2.35(a)]
Impact assessment	How the company assessed and prioritised the impacts, including how it considered mitigation and remediation activities and areas of heightened risk. [ESRS 2.35(b), AR26]
Due diligence and consultation	Whether the assessment was informed by the company's sustainability-related due diligence process and, when relevant, how consultation with affected stakeholders and external experts informed the assessment. [ESRS 2.35(c), AR25]
Changes and updates	Significant changes to the process compared with the previous reporting period and when the materiality assessment was last updated. [ESRS 2.35(d)–(e)]
Significant judgements	<p>The judgements that have had the most significant effect on the information reported in the sustainability statement, including significant uncertainties, assumptions and limitations. [ESRS 1.88(a)–(c)]</p> <p>This could include explaining judgements made in:</p> <ul style="list-style-type: none"> identifying material IROs; assessing the effect of mitigation activities; determining which sources of guidance to apply; identifying material information to include in the sustainability statement; and assessing whether an event or change in circumstances requires reassessment of the scope of the value chain.
Supplementary information	If a company includes supplementary information from other legislation, standards or frameworks, then it clearly identifies the relevant source. [ESRS 1.107, 109(a)]

Because facts and circumstances can change, materiality judgements may be vulnerable to hindsight challenge if they are not subject to due process and properly documented. Therefore, a company documents its decision-making process for governance and/or assurance purposes.



How to...

Perform a holistic review

A company needs to 'step back' to assess whether information is material, both separately and in combination with other information in the context of its sustainability statement as a whole. This assessment considers the overall picture conveyed by the information disclosed across the statement, and not individual disclosures in isolation. [ESRS 1.AR6]

As part of its review of disclosures, a company considers the following areas.

Area	What to consider
Materiality	Whether information is material individually and in combination with other information. This includes considering: <ul style="list-style-type: none"> relationships between different pieces of information; and whether information that appears immaterial on its own could influence users' decisions when viewed together with other information.
Connectivity	Whether users can understand the connections between related disclosures in the sustainability statement and, when relevant, between the sustainability statement and other corporate reporting documents published by the company, including its financial statements.
Understandability	Whether information in the sustainability statement is communicated in an effective and understandable way, and organised in a way that avoids obscuring material information, including through unnecessary repetition.
Fair presentation	Whether the sustainability statement as a whole provides a fair presentation of the company's material IROs.

Keep in mind – Make the reporting package traceable and decision-useful

A clear reporting package shows how the company moved from its evidence base and materiality judgements to the information ultimately reported.

- **Resolve unclear links before drafting.** Trace each material IRO to the related policies, actions and metrics and targets. This helps reduce duplication and prevents related information from being dispersed across the sustainability statement.
- **Describe the DMA as it was performed.** Avoid generic descriptions of methodologies or processes that were designed but not fully applied. Keep the description consistent with the underlying workpapers.
- **Focus governance discussions on the decisions required.** Present material conclusions, significant and borderline judgements, key assumptions and evidence limitations; retain detailed scores and supporting evidence in the workpapers.
- **Give particular attention to significant exclusions.** Retain the supporting evidence, company's rationale, ownership and approval, and confirm that the final reporting package remains consistent with the DMA.

Appendix 1: List of 'How to...'

Title	Page
Determine the value chain	6
Identify activities, resources and relationships	7
Identify impacts and dependencies	9
Identify affected stakeholders	11
Apply a top-down or bottom-up approach	15
Identify material topics and sub-topics	17
Determine whether a company's activities and business relationships give rise to impacts that might be material	18
Determine whether impacts and dependencies give rise to risks and opportunities that might be material	19
Determine whether impacts are material	23
Consider the stage of mitigation activities when assessing potential negative impacts	28
Determine whether risks and opportunities are material	29
Consider the stage of mitigation activities when assessing risks	35
Consider the effect of mitigation activities in assessing negative impacts and risks	36
Identify information that might be material	42
Assess whether information is material	46
Determine what information about time horizons is material	49
Determine whether information about mitigation activities is material	49
Consider information after the reporting date	51
Reassess the DMA	51
Avoid obscuring material information	54
Aggregate and disaggregate information	54
Disclose the DMA process and key judgements	55
Perform a holistic review	56

Appendix 2: List of insights

Title	Page
Does a company need to do an exhaustive search to determine its value chain?	6
Does a company need to assess every direct and indirect supplier in its value chain?	9
How can a company obtain stakeholder perspectives for its DMA?	12
How does a top-down approach affect the DMA process?	16
Can a company use materiality assessments prepared under other frameworks when identifying IROs?	20
How are severity and likelihood considered in assessing impact materiality?	23
Are there special considerations that apply when a potential impact could affect human rights?	24
Can a company offset positive impacts against negative impacts when assessing materiality?	25
Is there a difference between mitigation and remediation activities?	26
Can a company consider its mitigation activities when identifying material negative impacts?	26
Can actions to address a company's own negative impacts be considered positive impacts?	29
How are likelihood and magnitude considered in assessing financial materiality?	31
Does a company assess materiality of a risk and an opportunity separately when they both relate to the same sustainability topic?	31
Does a company need to model its future cash flows when assessing whether information is material?	32
Does a material impact always give rise to a material risk or opportunity?	32
Is a company required to use quantitative thresholds in determining material IROs?	32
Is a company required to use a scoring system to determine material IROs?	32
Can a risk be material if a company determines that it has no or low exposure to it?	33
Is a company required to allocate material IROs to different time horizons?	33
Can a company consider its mitigation activities when identifying material risks?	34
Can the nature of an item make related information material, regardless of its magnitude?	48
Can information be material if complete or precise data is not available?	48
Can information about the absence of an impact or a risk be material?	50
Can a company omit material information?	50

Appendix 3: List of examples

Example	Title	Page
Example 1	Identifying activities, resources and relationships across the value chain	8
Example 2	Considering indirect suppliers in the value chain	9
Example 3	Identifying impacts and dependencies across the value chain	10
Example 4	Mapping affected stakeholder groups in a DMA	12
Example 5	Identifying antimicrobial resistance as a material entity-specific topic	17
Example 6	Identifying actual and potential positive and negative impacts that might be material	18
Example 7	Risks and opportunities arising from workforce dependencies and relationships	19
Example 8	Identifying biodiversity risk arising from a supplier's potential adverse impact	19
Example 9	Using existing assessments as inputs to the DMA	20
Example 10	Using internal and external sources to identify IROs that might be material	20
Example 11	Assessing the materiality of an impact on agency workers	24
Example 12	Assessing a potential negative impact from loss of chemical containment	25
Example 13	Assessing a material risk arising from dependency on agency labour	30
Example 14	Assessing financial materiality of a loss-of-containment risk	30
Example 15	Allocating water-related impacts and risks to ESRS time horizons	33
Example 16	Assessing the effect of a completed mitigation asset on impact and risk materiality	38
Example 17	Assessing completed mitigation procedures that require action when a risk occurs	38
Example 18	Assessing mitigation policies in place when implementation activities remain ongoing	39
Example 19	Assessing the effect of an internal export-control policy on risk materiality	39
Example 20	Identifying information that might be material for a clothing retailer	42
Example 21	Identifying information that might be material about antimicrobial resistance	43
Example 22	Assessing material information about potential human rights incidents in the supply chain	47
Example 23	When a quantitatively small metric provides material information	48
Example 24	Estimating scope 3 purchased goods and services emissions using supplier data	48
Example 25	Providing material information about time horizons for a water impact and related risk	49
Example 26	Determining material information about antimicrobial resistance and related risk	50
Example 27	Updating estimated scope 3 emissions when supplier-specific data becomes available	51
Example 28	Aggregating biodiversity impacts and supply-chain risks across sourcing regions	54
Example 29	Disaggregating water-use information for a water-stressed site	55

Keeping in touch

Follow '**KPMG IFRS**' on LinkedIn or visit kpmg.com/ifrs

The KPMG Global Corporate Reporting Institute provides digestible summaries of recent developments, detailed guidance on complex requirements, and practical tools such as illustrative disclosures and checklists.



Corporate reporting

IFRS Accounting

Our latest insights and guidance on IFRS Accounting Standards



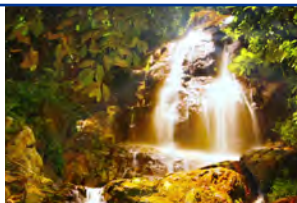
IFRS Sustainability

Our latest insights and guidance on IFRS Sustainability Disclosure Standards



Sustainability reporting in the EU

Our latest insights and guidance on European Sustainability Reporting Standards



Connected Reporting Today

Aligning strategic, sustainability and financial information



Sustainability reporting

EU Omnibus

Digital hub on revisions to sustainability reporting



Real-time ESRS

Our findings on the first wave of ESRS reporting



IFRS Sustainability handbook

Our detailed guidance, examples and insights



IFRS Sustainability toolkit

Our insights in applying IFRS Sustainability Disclosure Standards



Materiality for sustainability reporting

Focusing on decision-useful information



GHG emissions reporting handbook

Measuring and disclosing greenhouse gas emissions



Financial reporting

Insights into IFRS®

Our practical guide to IFRS Accounting Standards



IFRS Accounting toolkit

Our insights and guidance on applying IFRS Accounting Standards



For access to an extensive range of accounting, auditing and financial reporting guidance and literature, visit KPMG Accounting Research Online. This web-based subscription service is a valuable tool for anyone who wants to stay informed in today's dynamic environment. For a free 30-day trial, go to aro.kpmg.com and register today.

About this guide

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

It considers the revised European Sustainability Reporting Standards adopted by the European Commission on 3 July 2026 and subsequently published in the Official Journal of the European Union. The revised standards apply to financial years beginning on or after 1 January 2027, with early application for financial years beginning in 2026 permitted.

Further analysis and interpretation will be needed for a company to consider the impact of ESRS in light of its own facts, circumstances and individual transactions. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards themselves.

The examples included in this publication are for illustrative purposes only. They are intended to help companies prepare and present sustainability statements under ESRS. The information contained in the examples is of a general nature and not intended to address the circumstances of any particular company.

Acknowledgements

We would like to acknowledge the efforts of the following members of the KPMG International Standards Group, who were the principal authors of this publication: Gijs de Graaff, Jan Alexander Müller, Julie Santoro, Nicholas Smith, Emese Teveli-Gazsó and Catarina Vieira.

We would also like to thank members of the KPMG Global Corporate and Sustainability Reporting topic team for their contribution:

Sarah Bagnon-Szkoda	France
Maura Hodge	US
Ramon Jubels (leader)	Netherlands
Jeff King	Canada
David Littleford	UK
Izabella Milhomem	Brazil
Eddie Ng	Hong Kong (SAR), China
Shaheed Osman	South Africa
Julie Santoro (deputy leader)	US
Marco Schuit (deputy leader)	Netherlands
Tomokazu Sekiguchi (deputy leader)	Japan
Volker Specht	Germany
Jennifer Travers	Australia

With additional thanks to the following colleagues from KPMG member firms who contributed their time:

Reinhard Dotzlaw	Canada
Stefanie Jordon	Germany
Dave Rice	UK

kpmg.com/ifrs

Publication name: *Materiality for sustainability reporting – How-to guide*

Publication number: 137899

Publication date: September 2026

© 2026 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit kpmg.com/governance.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The cover image was adjusted with assistance from AI.

This publication contains copyright © material of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit www.ifrs.org.

Disclaimer: *To the extent permitted by applicable law, the IASB, the ISSB and the IFRS Foundation expressly disclaims all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.*

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

'ISSB™' is a Trade Mark and 'IFRS®', 'IASB®', 'IFRIC®', 'IFRS for SMEs®', 'IAS®' and 'SIC®' are registered Trade Marks of the IFRS Foundation and are used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.