Materiality for sustainability reporting

How-to guide: Illustrative example

IFRS® Sustainability Disclosure Standards

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Contents

Filtering relevant information to report

To make the right decisions, investors need the right information at the right time. So, when preparing reports under IFRS Sustainability Disclosure Standards, companies need to provide sustainability-related information that is clear, structured and decision-useful. However, they may face challenges in determining which information to report.

Our **Materiality for sustainability reporting – How-to guide** is designed to help companies navigate the complexities of sustainability reporting, providing insights and helpful practical tips.

This supplement includes an example that illustrates how to apply the guide to a specific scenario.

Use the How-to guide and the illustrative example to supplement your understanding of how sustainability-related topics could affect your business and filter the relevant information to provide to your investors.

Helena Watson

KPMG International Standards Group

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About this supplement

Highlights

For each of the **six steps**, the illustrative example:

- refers to the **relevant considerations** in the How-to guide;
- outlines the **steps** followed and **analysis** performed by the company; and
- illustrates the '**output**'.

Use this ' ' icon to navigate to the **relevant page** in the How-to guide.

Illustrating the six-step approach

This supplement to *Materiality for sustainability reporting – How-to guide* (How-to guide) illustrates how a company could identify and report decision-useful information under IFRS Sustainability Disclosure Standards[1], applying a practical six-step approach.

The example provides only the level of detail necessary to illustrate how the six-step approach applies. It may not reflect all the complexity companies may encounter in practice. Also, real-life processes may differ from the sequential flow presented here.

Illustrating disclosures

For illustrations of disclosures, see our Illustrative disclosures – Guide to sustainability reporting.

Evolving reporting landscape

The Standards and their interpretation may evolve over time. This supplement is not intended to be a substitute for consulting the Standards themselves or other authoritative interpretative guidance.

[1] This supplement is not intended to illustrate specific local or jurisdictional requirements or address all of the requirements of the Standards.

Risks and opportunities

Step 1	Understand the population of impacts and dependencies across the value chain
Step 2	Identify potentially relevant risks and opportunities
Step 3	Determine relevant risks and opportunities

Information

Step 4	Identify potentially material information
Step 5	Assess and determine material information
Step 6	Organise and report material information

About the example

The company in this example is entirely fictional and intended for illustrative purposes only.

Items included in this supplement are not intended to be exhaustive.

To keep the example concise and focus on the key aspects when applying the six-step approach, we do not carry forward every output from each step through all subsequent steps of the analysis. The outputs that are carried forward are shown as pink text.

Introducing TerraBrew Coffee Inc.

Company information

- Established on 1 January 20X7 in Cityville, Country M
- Publicly listed on Country M's stock exchange
- No previous sustainability reporting experience

Industry

- Specialty coffee (food and beverage sector)

Key products

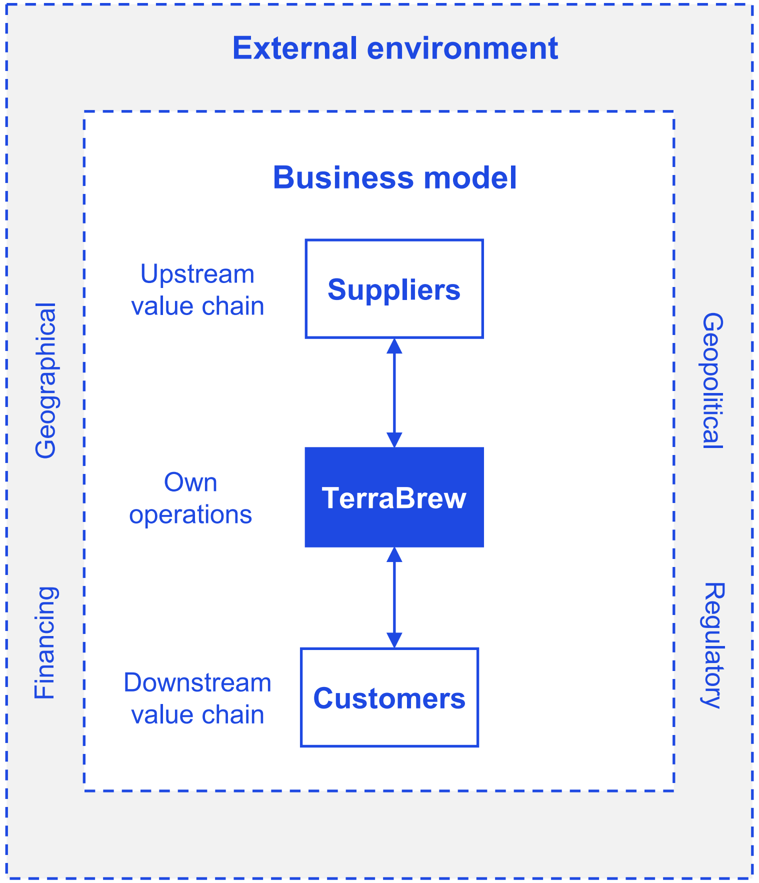
- Premium organic and fair-trade roasted coffee beans

Operational footprint

- Coffee bean sourcing from Countries A, B and C
- Roasting and packaging in Country M
- Retail coffee shops and direct-to-consumer online sales, primarily in North America

Mission statement

- "To craft exceptional, ethically sourced coffee that strengthens communities, protects our planet and enriches everyday moments."



Understand the population of impacts and dependencies

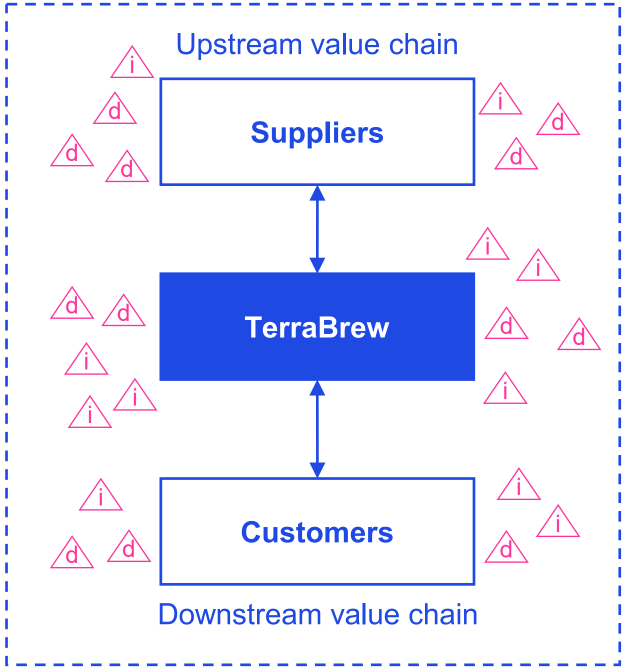
Step 1

Reminder

The value chain encompasses everything that a company uses and relies on to create, consume and dispose of its products or services.

A company considers:

- What is the **life cycle** of its products/services?
- With whom does it **interact**, and how?
- What **relationships** does it depend on or affect?
- What **resources** does it depend on or affect?
- What is the **impact** of the external environment?



A company identifies impacts and dependencies by assessing its value chain. [p. 3]

In Step 1 of its analysis, **TerraBrew reviews** the extent and quality of documentation about its value chain from existing sources, including process manuals, investor presentations and other reporting.

TerraBrew determines that the existing information is not prepared in a way that allows it to identify its population of impacts and dependencies. Therefore, **TerraBrew undertakes** the following activities.

- Conducts **value chain mapping** workshops with supply chain, operations, R&D, sales, customer service and sustainability teams to identify major activities, key resources and business relationships.
- Develops **resource dependency** diagrams categorising the resources it uses and depends on into the following types: natural, human, intellectual, social and relationship, financial and manufactured. [p. 6]
- Reviews **business strategy documents** to understand how impacts and dependencies relate to its business model.
- Analyses **geographic footprint** to understand regional variations in impacts and dependencies.
- Consults **external information** on industry-specific, sustainability-related impacts and dependencies. [pp. 4–5]
- Assesses the **legal** and **regulatory landscapes** in relevant jurisdictions to understand key aspects of the external environment.

TerraBrew's output

Step 1

At the end of Step 1, **TerraBrew identifies** the following impacts and dependencies within its value chain.

Value chain stage	Activities	Resource/relationship: Impact	Resource/relationship: Dependency
1. **Sourcing of raw coffee beans (Upstream)**	• Purchasing organic coffee beans from farms in Countries A, B and C • Farmer relationship management and cooperative support	• **Natural**: Land use, biodiversity, water use, pesticide use • **Social**: **Farmer livelihoods**, community economic stability, **labour conditions**, indigenous community rights	• **Natural**: Fertile land, **water availability**, **climate stability** • **Social**: Stable **relationships with farming communities**, cooperatives • **Financial**: Fair-trade premium payments, stable global coffee prices
2. **Transportation and logistics from farm to roasting (Upstream)**	• International sea shipment of coffee beans • Storage at regional warehouses	• **Natural**: GHG emissions, **fuel** consumption, air pollution • **Social**: Working conditions of logistics providers	• **Manufactured**: Port **infrastructure**, transportation networks, reliable shipping vessels • **Financial**: **Fuel** costs, shipping rates • **Social**: Dock workers and transport labour relations
3. **Roasting and packaging (Own operations)**	• Coffee roasting, blending, quality control, packaging processes at Country M facilities	• **Natural**: Energy consumption (electricity, natural gas), emissions, waste generation • **Social**: Worker health and safety, labour standards, wage fairness	• **Manufactured**: Reliable machinery, energy availability, packaging materials supply • **Human**: Skilled workforce (roasters, quality control specialists) • **Financial**: Capital investment, operational liquidity

TerraBrew's output (cont.)

Step 1

Value chain stage	Activities	Resource/relationship: Impact	Resource/relationship: Dependency
4. **Distribution (Downstream)**	• Domestic and international distribution to retailers and direct-to-consumer shipping (online sales) • Inventory management in distribution centres	• **Natural**: Emissions from transport, packaging waste, energy use in distribution centres • **Social**: Labour conditions, fair wages, logistics workforce safety	• **Manufactured**: Transportation infrastructure, warehouse facilities, reliable energy supply • **Social**: Logistics workforce, drivers • **Financial**: Transportation costs, insurance coverage
5. **Retail and customer interaction (Own operations)**	• Operating coffee shops (in-store consumption) • Online direct-to-consumer sales and customer support	• **Natural**: Waste (packaging, cups), energy and water consumption at retail stores • **Social**: Labour conditions, fair wages, customer health and safety, data privacy, customer satisfaction and feedback	• **Human**: Trained baristas, customer service personnel • **Social**: Customer preferences, reputation, community support • **Financial**: Consumer purchasing power, market trends

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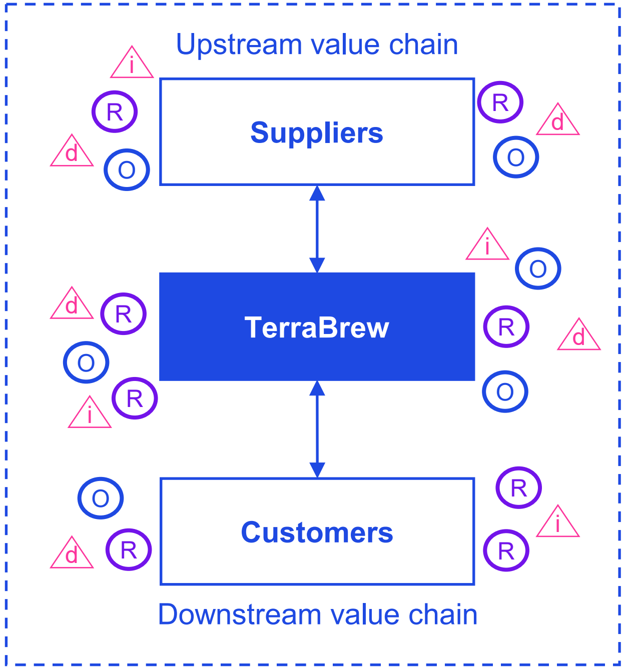
Identify potentially relevant risks and opportunities

Step 2

Reminder

A company considers:

- What **impacts and dependencies,** and underlying **resources and relationships** were identified in Step 1?
- What sustainability-related risks are already **managed**?
- Could a change in a resource or relationship affect its **business model**?
- Could a change in a resource or relationship affect its **strategic advantage**?
- What **guidance** applies to identify potentially relevant risks and opportunities? [p. 10]



A company identities sustainability-related risks and opportunities that are potentially relevant from its impacts and dependencies.

Potentially relevant risks and opportunities arise when changes to underlying resources or relationships could affect the business model or result in a strategic advantage. [p. 11]

In Step 2 of its analysis, **TerraBrew evaluates** whether the impacts and dependencies identified in Step 1 could materially affect its business model or offer a strategic advantage. It cannot refer to previous analysis or reporting as a relevant input because it is performing its materiality assessment for the first time.

To identify potentially relevant risks and opportunities, **TerraBrew considers**:

- **IFRS S1** *General Requirements for Disclosure of Sustainability-related Financial Information* and **IFRS S2** *Climate-related Disclosures*;
- disclosure topics within applicable **SASB Standards**:
  - Non-Alcoholic Beverages;
  - Agricultural Products; and
  - Food Retailers & Distributors;
- existing **risk management processes** – sustainability-related risks it monitors via its Enterprise Resource Planning systems;
- responses to **ESG ratings questionnaires** and recent questions asked by investors; and
- **peer benchmarking** – sustainability reports of industry peers to identify risks and opportunities. [pp. 12, 15]

d Dependency   i Impact   R Potentially relevant risk   O Potentially relevant opportunity

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TerraBrew's output

At the end of Step 2, **TerraBrew identifies** the following potentially relevant risks and opportunities[2].

Dependency/impact from Step 1	Potential sustainability-related risk	Potential sustainability-related opportunity
Water availability and **climate stability** affecting coffee bean yields and quality	Increased volatility and costs due to **climate-related impacts** (droughts, changing rainfall patterns) potentially **disrupting coffee supply** and pricing	
Farmer livelihoods, **labour conditions** and **relationships with farming communities**	Inadequate **labour conditions and human rights practices in sourcing communities** could result in reputational damage, supply disruptions and the loss of sourcing agreements, with potential adverse financial impacts	Potential opportunity to strengthen market position and brand reputation by being recognised as a trusted buyer with strong ethical sourcing practices, supporting long-term supplier relationships and sourcing stability
Reliable global transportation **infrastructure** and **fuel** sources	Exposure to higher logistics costs and disrupted supply chains due to fuel price volatility or infrastructure disruptions (e.g. ports, shipping routes)	Potential to access new suppliers and offer new products through identifying alternative transportation routes and regional diversification of supply chains
Data privacy	Reputational risks and potential financial penalties related to customer **data breaches**	

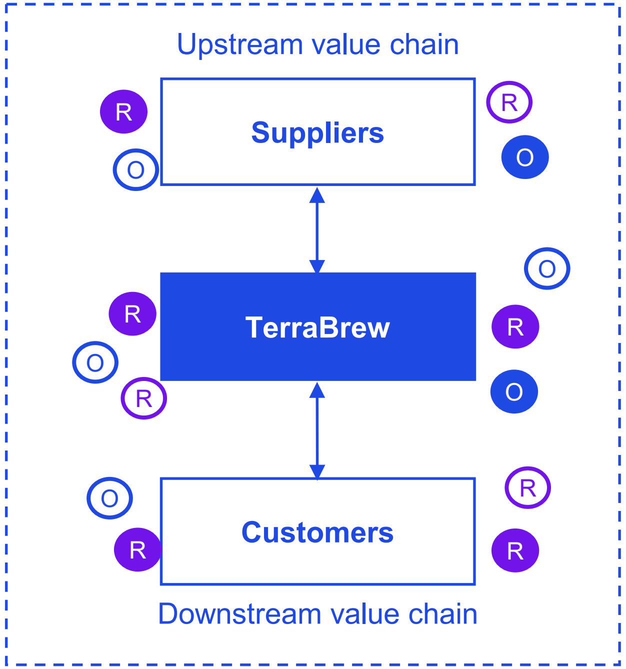
[2] Not every part of the 'output' is carried through each step of the analysis. Parts of the 'output' that are carried forward to subsequent steps are in **pink** text.

Determine relevant risks and opportunities

Reminder

A company considers:

- What **potentially relevant risks** and **opportunities** were identified in Step 2?
- Could the potentially relevant risk or opportunity affect its **cash flows**, **access to finance** or **cost of capital**?
- Which **time horizons** are relevant for the potentially relevant risks and relevant risks and opportunities?
- Would **users'** expectations differ from those of management?
- Are there **mitigation activities** in relation to the relevant risk?



A company considers the potentially relevant risks and opportunities when determining which are, in fact, relevant.

Risks and opportunities are considered relevant if they could reasonably be expected to affect a company's prospects. [p. 16]

In Step 3 of its analysis, **TerraBrew assesses** the **potentially relevant risks** and **opportunities** identified in Step 2 to determine which could reasonably affect the company's prospects – specifically its **cash flows**, **access to finance** or **cost of capital** over the short, medium or long term.

To determine relevant risks and opportunities, TerraBrew considers:

- the potential **magnitude** and **likelihood** of the effects of the potentially relevant risk or opportunity;
- whether the topic is a **priority for investors**;
- if the risk or opportunity could **affect key value drivers** of the business;
- the **pervasiveness** of potential risks across its business model and value chain; and
- the **stage of mitigation activities** that it is undertaking in response to a risk, as well as the **specific facts and circumstances** associated with the underlying risk.

R Potentially relevant risk | O Potentially relevant opportunity | R Relevant risk | O Relevant opportunity

TerraBrew's output

At the end of Step 3, **TerraBrew documents** the key judgements made in determining the relevant risks and opportunities.

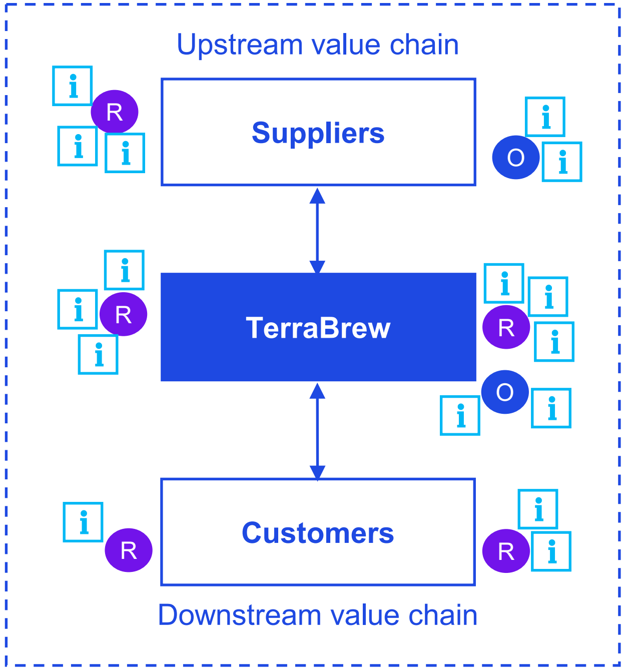
Potentially relevant risk or opportunity from Step 2	Could it affect cash flows, access to finance or cost of capital?	User expectation vs management view	Can mitigation activities be considered? [pp. 21–26]	Relevance
Climate-related impacts disrupting coffee supply	Yes – disruption in supply directly impacts costs, profitability and revenue stability	Users perceive high climate-related vulnerability; management aligns with investor views	Yes, activities are in place – e.g. supplier diversification and investments in climate-resilient agriculture training programmes at coffee farms – however, some risk remains	Relevant risk – management determines that the risk could affect prospects, is of interest to investors and is not fully mitigated
Labour conditions, human rights in sourcing communities	Yes – violations could damage brand reputation and consumer trust, reducing consumer demand and market share. They could also lead to increased compliance, remediation and sourcing costs, thereby negatively affecting cash flows and enterprise value	Users strongly expect significant social risk given industry practices; management confirms this view, particularly due to socially conscious customer base	Yes, activities are in place – e.g. robust supplier code of conduct enforcement, independent third-party audits, fair-trade certifications and active involvement in community support initiatives – however, some risk remains	Relevant risk – management determines that the risk could affect prospects, is of interest to investors and is not fully mitigated
Data breaches	Yes – potential reputational harm and regulatory fines possible	Users are aware of general data privacy risks but there are no risks specific to TerraBrew; management has not identified company-specific risks associated with data privacy	Yes, activities are in place – e.g. stringent cybersecurity controls, routine audits, regular employee training on consumer data protection – however, some risk remains	Not relevant – management's assessment indicates that current controls effectively mitigate the risk; management determines that information about the mitigation measures is not material

Identify potentially material information

Reminder

A company considers:

- What **relevant risks** and **opportunities** were identified in Step 3?
- What **guidance** applies?
  - Required: IFRS Sustainability Disclosure Standards as applicable, otherwise SASB Standards
  - Permitted: Other frameworks (CDSB, ESRS, GRI, other investor-focused), industry or local practice
- Is there any other information that may be **relevant** to users and **represent** the company's facts/circumstances?



A company identifies all potentially material information about its relevant risks and opportunities.

Potentially material information is information that may meet users' needs. It is identified using the applicable sources of guidance and other information available. [p. 27]

i Potentially material information   O Relevant opportunity   R Relevant risk

In Step 4 of its analysis, **TerraBrew performs** the following to identify potentially material information.

- Applies **IFRS S2**, including reviewing the industry-based guidance, to identify required disclosures for relevant risks and opportunities.
- Refers to and considers **SASB Standards** to identify industry-specific metrics:
  - Non-Alcoholic Beverages;
  - Agricultural Products; and
  - Food Retailers & Distributors.
- Consults **GRI Standards** and **ESRS** for additional metrics and disclosures.
- **Interviews business unit leaders** to identify additional information relevant to investors that represents company-specific circumstances, including questions from earnings calls. [p. 28]
- Reviews **annual reports** and **other financial information** in which material information about sustainability-related issues may be disclosed.

TerraBrew's output

At the end of Step 4, **TerraBrew identifies** the following potentially material information.

Relevant risk or opportunity from Step 3	Guidance considered/ Relevant guidance	Potentially material information (quantitative and qualitative)
Climate-related impacts disrupting coffee supply	IFRS S2	**Proportion** of coffee supply **sourced from climate-vulnerable regions** [IFRS S2.29(b)] **Historical data** on coffee yield **variability** and climate-related disruptions [IFRS S2.15(a)] **Projected impact** of climate scenarios on sourcing regions [IFRS S2.9(b), S2.13, S2.15–21] Financial impact of sourcing disruptions on costs, margins and profitability [IFRS S2.9(b), S2.9(d), S2.13] Mitigation investment details (amount and nature of investments – e.g. climate-resilient practices) [IFRS S2.14(a)(ii–iii)]
	IFRS S2 *Industry-based Guidance* SASB FB-AG *Agricultural Products*	Identification of principal crops and description of risks and opportunities presented by climate change [FB-AG-440a.1]

TerraBrew's output (cont.)

Step 4

Relevant risk or opportunity from Step 3	Guidance considered/ Relevant guidance	Potentially material information (quantitative and qualitative)
Labour conditions and human rights in sourcing communities	SASB FB-AG *Agricultural Products* SASB FB-NB *Non-Alcoholic Beverages* SASB FB-FR *Food Retailers & Distributors*	**Proportion** of coffee beans **certified to a third-party environmental or social standard** [FB-AG-430a.1] Suppliers' social and environmental responsibility audit (1) non-conformance rate and (2) associated corrective action rate for (a) major and (b) minor non-conformance [FB-AG-430a.2, FB-NB-430a.1] Discussion of strategy to manage environmental and social risks arising from contract growing and commodity sourcing [FB-AG-430a.3] List of priority beverage ingredients and discussion of sourcing risks related to environmental and social considerations [FB-NB-440a.2] **Revenue** from products third-party **certified to environmental or social sustainability sourcing standards** [FB-FR-430a.1]
	GRI 413 *Local Communities*	Percentage of operations with implemented local community engagement, impact assessments and/or development programmes [GRI 413-1.a] Operations with significant actual and potential negative impacts on local communities [GRI 413-2.a]

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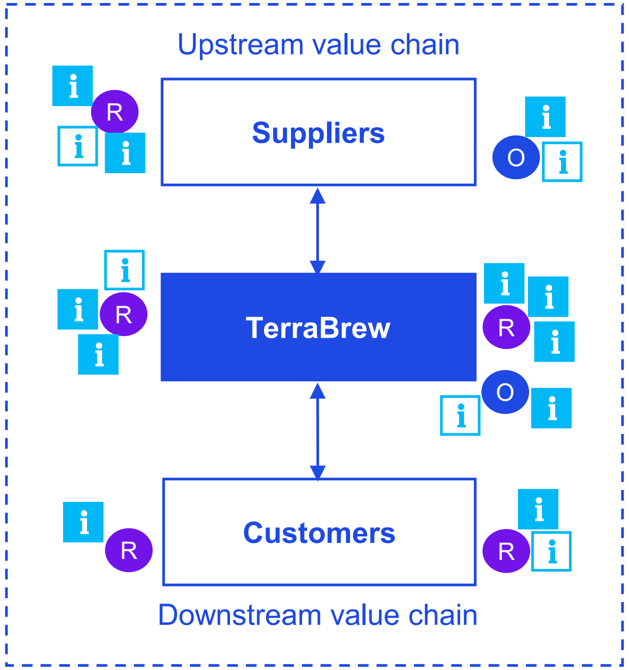
Assess and determine material information

Reminder

A company considers:

- What **potentially material information** was identified in Step 4?
- Could the potentially material information **influence users' decisions**?
- What **quantitative** and **qualitative factors** are relevant?
- Does the potentially material information meet users' **collective information needs**?
- Does the potentially material information allow users to understand the **amount, timing and uncertainty of future cash flows**?



A company assesses all potentially material information about its relevant risks and opportunities to determine what is, in fact, material.

A company filters out information that would not influence user decision-making based on its specific facts and circumstances. [p. 30]

In Step 5 of its analysis, **TerraBrew evaluates** the potentially material information from Step 4 to determine whether it would realistically influence investors' decisions. In making this assessment, TerraBrew:

- establishes a **materiality assessment panel** with representatives from finance, investor relations, sustainability and strategy teams;
- develops materiality **assessment criteria** based on investor decision-making relevance;
- conducts **high-level financial analysis** of the company's exposure to risks and opportunities, considering the magnitude of potential effects and the likelihood of possible outcomes;
- **validates key assumptions** about investor information needs through discussions (without disclosing specific company information); and
- **documents materiality judgements** with supporting rationale for each information item. [pp. 31–33]

i Material information   i Potentially material information   O Relevant opportunity   R Relevant risk

TerraBrew's output

At the end of Step 5, **TerraBrew documents** the key judgements made in determining the material information.

Potentially material information identified in Step 4	Relevant to users' decisions?	Reflects amount, timing and uncertainty of future cash flows?	Is the underlying information supportable?	Conclusion on materiality[3]
Proportion of coffee supply **sourced from climate-vulnerable regions** [IFRS S2.29(b)] **Projected impact** of climate scenarios on sourcing regions [IFRS S2.9(b), S2.13, S2.15–21]	Yes – investors are highly sensitive to climate-driven risks in agricultural supply chains, given their direct effect on production costs, margins and profitability	Yes – directly impacts future cash flows, increases volatility in procurement costs and affects supply reliability. Significant uncertainty and potential magnitude warrant disclosure	Yes – information derived from credible historical records, scenario analyses and verified mitigation investments	Material
Historical data on coffee yield **variability** and climate-related disruptions [IFRS S2.15(a)]	Yes – however, disclosed at a high level as part of assumptions in the climate-related scenario analysis and management commentary	Yes – historical variability may indicate future cash flow impacts, though it is difficult to isolate the financial effect of yield variability	Yes – historical data is considered reliable, though it is difficult to isolate the impact of the climate-related events amongst a variety of contributing factors	Material

[3] In this example, all potentially material information carried forward from Step 4 is assessed as material. This may differ in other scenarios because a company's conclusion on materiality will depend on its specific facts and circumstances.

TerraBrew's output (cont.)

Step 5

Potentially material information identified in Step 4	Relevant to users' decisions?	Reflects amount, timing and uncertainty of future cash flows?	Is the underlying information supportable?	Conclusion on materiality
Proportion of coffee beans **certified to a third-party environmental or social standard** [FB-AG-430a.1]	Yes – labour rights issues directly affect brand reputation, consumer perception, regulatory compliance and sales revenues – core investor concerns	Yes – potential negative events (controversies or legal penalties) could significantly disrupt cash flow through decreased revenues or increased costs, with uncertain timing and potentially severe impact	Yes – verified through third-party audits, certifications and corrective action reports	Material
Revenue from products third-party **certified to environmental or social sustainability sourcing standards** [FB-FR-430a.1]	Yes – TerraBrew provides revenue data in the financial statements and includes the proportion of beans certified as part of its sustainability-related financial disclosures	Yes – indications of sales from sustainably sourced products could indicate how future cash flows might be affected	Yes – sales figures subject to financial statement audit and certifications endorsed by accredited third-parties	Material – TerraBrew considers how best to disclose the information given the connectivity between the sustainability-related information and the financial statements

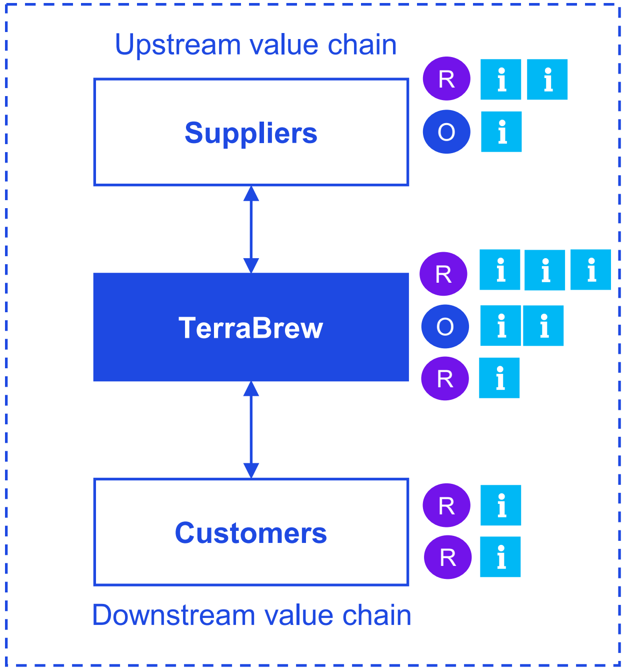
Organise and report material information

Step 6

Reminder

A company considers:

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



A company organises all material information about its relevant risks and opportunities in a clear and structured manner.

It organises material information in its disclosures in a way that tells a clear, concise and connected story. [p. 40]

In Step 6, **TerraBrew organises** its sustainability-related financial disclosures as part of its general-purpose financial reporting package, applying IFRS S1 and IFRS S2.

In preparing its disclosures, TerraBrew ensures that material information:

- provides **faithful representation** of its sustainability-related risks and opportunities;
- is **aggregated appropriately**; and
- is **not obscured** by other information.

Key risks and opportunities are grouped thematically and aligned with the company's value chain.

TerraBrew performs a **holistic review** of its sustainability-related financial disclosures to assess whether users will understand the information provided in connection with its full reporting package.

It also considers whether users will understand the **key judgements** made and what **guidance** was used in preparing the disclosures.
[pp. 41–43]

i Material information   O Relevant opportunity   R Relevant risk

TerraBrew's output

In following Steps 1 to 5, **TerraBrew identifies** the material information it needs to report about its relevant sustainability-related risks and opportunities.

IFRS Sustainability Disclosure Standards require TerraBrew to include sustainability-related financial information in its general purpose financial report.

However, they do not mandate how TerraBrew structures its report.

As part of Step 6, **TerraBrew determines** the best way to:

- present the information clearly and coherently;
- link effectively with broader sustainability reporting; and
- avoid duplication.

The Standards allow flexibility in presenting material information about sustainability-related risks and opportunities. Therefore, TerraBrew tailors its disclosures to its own circumstances and to meet specific jurisdictional requirements.

Consistent with this flexible approach to reporting, the illustrative sustainability disclosures in our separate guide can help.

They provide a range of options with many illustrative examples to inspire companies' reporting and help them tell their strategic story.

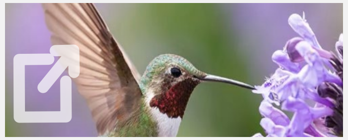
Resources and acknowledgements

IFRS Sustainability toolkit

Our essential resources for preparing a sustainability report in accordance with IFRS Sustainability Disclosure Standards.

First Impressions

In-depth guidance to help you understand the requirements



Disclosure checklist

Potential disclosures that may be required in your sustainability report

Materiality how-to guide

Unlocking the materiality assessment with six practical steps

Global Corporate Reporting Institute

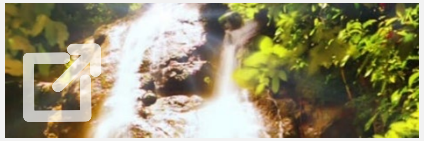
We deliver insights, high-level guidance and detailed analysis.

IFRS Accounting

Our latest insights and guidance on IFRS Accounting Standards

IFRS Sustainability

Our latest insights and guidance on IFRS Sustainability Disclosure Standards



EU Sustainability

The latest on European Sustainability Reporting Standards

Connected Reporting

Aligning strategic, sustainability and financial information

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