

## AECA's contribution to EFRAG's draft IG1: Materiality Assessment Implementation Guidance (DRAFT)

AECA is pleased to contribute to EFRAG's draft IG1: Materiality Assessment Implementation Guidance (MAIG). We appreciate this draft MAIG for providing guidance on a crucial concept in the European Sustainability Reporting Standards (ESRS).

It is acknowledged that EFRAG's guidance is limited to providing clarifications and examples for the ESRS, serving as non-authoritative guidance. This inherent limitation informs the nature and scope of our comments outlined below.

### GENERAL COMMENTS

#### Structure

We positively welcome the MAIG and appreciate it uses clear language, effectively elucidates some key elements on the materiality assessment with a well-designed structure, providing a roadmap to assist companies in formulating and undertaking this process.

Nonetheless, the understanding of MAIG may present challenges given its considerable size and extensive dependence on cross-references to both internal and external documents. We recommend EFRAG to consider adding hyperlinks for internal FAQs and paragraph references and for external references (i.e. Pilar 3 ESG). Additionally, quoting the relevant requirements directly in a distinct format within the guidance, with cross-references to ESRS rather than paraphrasing, could enhance clarity of the guidance, allowing to distinguish clearly between the requirements in ESRS and the non-mandatory application guidance.

Furthermore, users may encounter challenges in understanding specific terms employed in the MAIG, as these are defined in Annex II of the Delegated Act. We propose incorporating a preliminary note, either within the Disclaimer or Summary sections, directing attention to Annex II and highlighting these terms in bold, mirroring the format used in the ESRS.

In addition, more illustrative examples would be welcome with regard to demonstrating the application of these guidelines in:

- The assessment of IROs in the value chain, particularly challenging for entities with complex such as financial institutions, and multinational groups, as they have value chains.
- Stakeholder engagement (Section 3.5).
- Industry-agnostic examples of standalone financial materiality and thresholds.
- Quantitative scoring assessment of IROs (section 3.6 and FAQ 10) and the severity and likelihood assessment.
- Additional instances where further guidance and illustrative examples would be particularly beneficial are specifically highlighted in our response.

We value the guidance's structure, which incorporates a final section with FAQs to enhance understanding of its key elements. However, we suggest that in future revisions, EFRAG might consider separating clarifications and FAQs. Clarifications could be integrated into the ESRS when is open for revision, while FAQs could be included on the Q&A Platform. This approach

would eliminate duplications, the necessity for cross-references, and links, thereby facilitating navigation within the ESRS reporting ecosystem.

### **Other general comments**

We advocate for integrating the evaluation of materiality for sustainability reporting into an entity's existing risks and opportunities management and governance procedures. Consequently, we recommend EFRAG to consider providing clarification in the guidance, emphasizing that the materiality assessment is not a linear, step-by-step process not only conducted for reporting purposes but also for managing sustainability impacts, risks and opportunities.

The MA IG is not intended for use by non-listed small and medium-sized companies (SMEs), which may use the future Voluntary SME standard. It is understood that the materiality assessment to be incorporated into this standard will be a simplified version of the content outlined in this guide. Hence, we recommend emphasizing this point within the Disclaimer section for clarity.

Ultimately, we recommend that EFRAG collaborates with the ISSB and GRI to ensure alignment in their forthcoming guidance concerning materiality assessment matters.

### **SUMMARY**

**Paragraph 4.** The omission **shall be** is explicit for datapoints derived from other EU legislation (refer to ESRS 2 Appendix B for the list of these datapoints), and implicit in other cases.

**Paragraph 9.** We believe that adding a clear statement in the summary, specifying that the term IMPACT pertains to “impact materiality”, while RISKS and OPPORTUNITIES are associated with “financial materiality”, would be beneficial.

Paragraph 12. ~~ISSB~~ ISSB Standard / “also specifically on this topic” – redundant, it is not necessary.

### **CHAPTER 1: INTRODUCTION**

**Paragraph 22.** The following acronyms have been omitted: VC, VCIG and SASB.

### **CHAPTER 2: The ESRS approach to materiality**

**Paragraph 24.** We believe that this sentence should be completed “(...) financial materiality pertains to the material information about risks and opportunities related to a sustainability matter **that could significantly affect the undertaking’s financial conditions or performance in the short, medium, or long term**”.

**Paragraph 25.** We propose mentioning **"except for those included in ESRS 2 that are not subject to materiality assessment as stated in paragraph 4"** to clarify once again that the requirements outlined in ESRS 2 must be reported without exception, as they fall outside this materiality analysis requirement.

**Paragraph 35.** The figure 1a) is unclear for practitioners. Therefore, we recommend that EFRAG includes examples of standalone impact materiality matters and standalone financial materiality matters in the context of sustainability disclosure.

In addition, the lack of introductory text accompanying the figure 1b) makes it challenging to understand the key insights of the chart. Moreover, the arrows in the chart are not clearly aligned with the legend, further impeding easy comprehension.

**Paragraph 46.** The examples in paragraph 46 regarding the “harmful chemical substances” and “pollution of water” stop at the level of the disclosure requirement and don’t go down to the level of datapoint. Therefore, we suggest including more guidance and examples related to the materiality of datapoints in each disclosure requirement.

**Paragraph 47.** We suggest EFRAG clarifies the concept of “sufficient granularity” including additional guidance or illustrative examples.

### **CHAPTER 3: How is the materiality assessment performed?**

**Paragraph 97.** We acknowledge the value of the roadmap presented in Section 3, "How is the materiality assessment performed?". It provides a structured guide outlining the steps for conducting a good practice materiality assessment. However, we propose that EFRAG expands on "Step D: Reporting" to incorporate specific examples of what constitutes "material information" This expansion could supplement the FAQs provided in Section 5.6, "FAQs on reporting," providing a more illustrative and practical understanding. In addition, we suggest including more guidance and examples to clarify more the distinction between “material matters” and “material information”.

**Paragraph 102.** MNE - OECD Multinational Enterprises Guidelines are mentioned before in paragraph 18, but no acronym is inserted there (first use) and italic format is used. In addition, we recommend that EFRAG consider mentioning that “*the workers’ representatives’ opinion shall be communicated, where applicable, to the relevant administrative, management or supervisory bodies*” according to DIRECTIVE (EU) 2022/2464 (52). Same in the paragraph 136.

### **CHAPTER 4: How to leverage other sources?**

**Paragraph 134.** This paragraph highlights that in the ESRS, the evaluation of what is decision-useful takes into account both investors and other stakeholders. We suggest expanding the term 'investors' to encompass those who currently provide or may potentially provide resources to the undertaking in the future, aligning with ESRS 1p22 and the wording used in paragraph 115 of the MAIG.

### **CHAPTER 5: Frequently asked questions (FAQ)**

#### **5.1 FAQs on financial materiality**

##### ***FAQ 12: Should the materiality assessment be documented/evidenced?***

We acknowledge that ESRS do not prescribe specific documentation to support the materiality assessment. Nevertheless, beyond what is “reasonable to expect”, we recommend making it explicit that it is advisable to retain supporting documentation and evidence for both internal use and to facilitate the process of obtaining assurance.

##### ***FAQ 13: Doing the materiality assessment when the undertaking operates in different sectors***

AECA appreciates the clarifications that MAIG makes with regard to the level of disaggregation to be adopted in the materiality assessment process. However, there are some topics for that we would have welcomed additional guidance or illustrative examples on:

1. Practical implementation with regard to the assessment of "significant differences" between material IROs at group level and material IROs of one or more of the subsidiaries (ESRS 1p103), particularly relevant when considering financial materiality."
2. The interpretation of the term "appropriate level of consistency in methodologies and thresholds across the entire group" in paragraph 181. The example introduced in paragraph

119 only contributes to further confusion regarding this concept, particularly as the thresholds for evaluating the scope and probability of an impact may differ based on whether the assessment is conducted at the subsidiary or group level.

3. Interpretation of the aggregation and disaggregation principles concerning the identification of material IROs and for reporting purposes (paragraphs 96 and 179).
4. Operative implementation of the top-down and bottom-up approaches.

#### **5.4 FAQs on stakeholder engagement**

***FAQ 23: When an undertaking has actions in place to avoid, minimise, restore or compensate environmental impacts, shall it report on the impacts before those actions?***

As the paragraph 215 mentions that “the users of the sustainability statement will receive information on the actual impacts where no distinction is made between gross and net” is not clear if the materiality assessment should be made on gross or net basis. Though according to paragraph 217 actual impacts are always assessed before consideration of mitigation measures. Therefore, we recommend that EFRAG revises this statement to provide further guidance on the assessment of whether impacts should be evaluated on a gross or net basis. Regardless of whether the materiality assessment has been conducted on a gross or net basis, users of the sustainability statement will receive information about the actual material impacts.

**Paragraph 220.** Based on this paragraph, it appears that EFRAG might release forthcoming guidance concerning materiality assessments for social topics. Nevertheless, we highly recommend proactively addressing this concern within the current MAIG by furnishing additional examples and guidance.