

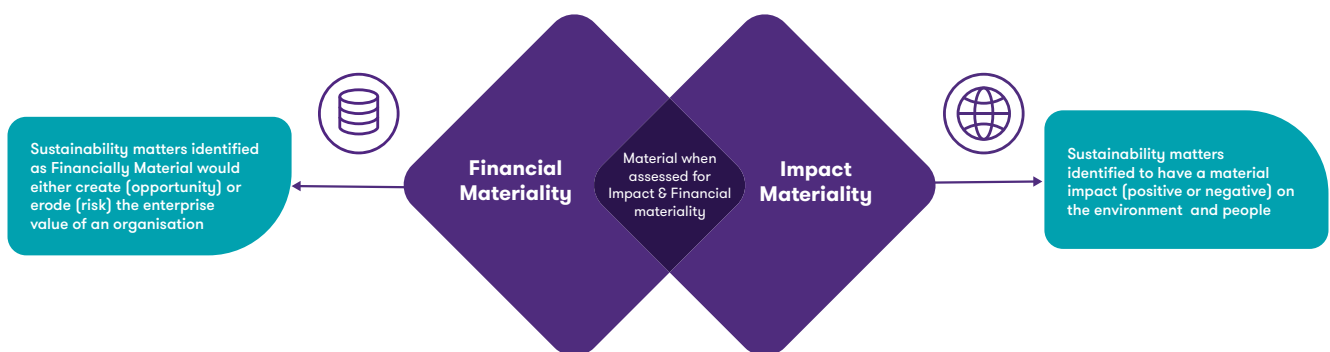


Getting started with double materiality

The European Union Corporate Sustainability Reporting Directive (“CSRD”) requires organisations in scope to conduct a double materiality assessment to identify material topics across Environmental (‘E’), Social (‘S’) and Governance (‘G’) areas. This then determines applicable disclosures they are required to make within their sustainability statements prepared under the European Sustainability Reporting Standards or “ESRS”

What is double materiality?

Traditional materiality for financial reporting purposes looks at financial impacts and measures. The CSRD introduces the concept of double materiality in the context of sustainability, which adds **non-financial measures of impact to people and the environment** to be included as part of a materiality assessment.



Financial materiality

Organisations in scope for CSRD will have to disclose risks and opportunities (across Environment, Social and Governance (‘ESG’) topics) that have a material influence (or reasonably expected to have influence) on the entities cash-flows, development, performance, cost of capital or access to finance over short, medium or long-term time horizons.

Financial materiality therefore takes an “outside in” approach. A sustainability matter is material from a financial perspective when it triggers material financial effects for the organisation.

Impact materiality

In addition to financial impacts, organisations in scope for CSRD will have to disclose actual or potential, positive and negative impacts it has through its own operations, products, services and/or business relationships on people and the environment over the short, medium and long-term time horizons.

Impact materiality takes an “inside out” approach. A sustainability matter is material from an impact perspective when activities of the organisation trigger external impacts, which can be positive or negative on people and the environment.

What is a double materiality assessment?

A double materiality assessment is the process by which an organisation identifies and assesses its impacts, risks and opportunities or “IROs” across the E, S and G topics. This assessment is applicable to material impacts, risks and opportunities linked to its own operations, products, services and/or through its business relationships (including its upstream and downstream value chain).

Material IROs identified through the double materiality assessment process then determine the disclosures to be included within the organisation’s sustainability statements as part of the annual management report. These disclosures are set out in the European Sustainability Reporting Standards (ESRS) for organisations in scope for CSRD.

Getting started with double materiality

Conducting a double materiality assessment for the first time can be challenging in particular for organisations with a low level of maturity with respect to their sustainability journey or for those who have not previously compiled sustainability report(s) or information.

As a first step, an initial “stock-take” or readiness review should be completed to understand the context in which the organisation operates with a sustainability lens incorporating E, S and G topics and its wider governance, risk and strategy frameworks.

A Readiness Review should include:

Organisational Review

An initial review of the organisation’s regulatory and business landscape, which includes its strategy, geographical footprint and sectors in which it operates, in addition to any other regulatory reporting requirements or commitments around sustainability. This information is required both for disclosure and double materiality assessment purposes

Business Process Review

A review and mapping of the organisation’s business model, activities, products and services, which will feed into identification and assessment of impacts, risks and opportunities across E, S, and G topics and identify business relationships as well as relevant value chain actors for inclusion.

Stakeholder and value chain review

Identification of the organisation’s key internal and external stakeholders (including value chain actors) and stakeholder groups for mapping to material topics once identified through the materiality assessment process. Engagement with affected stakeholders and users of sustainability statements will be required as part of the double materiality assessment process to validate material topics and their impacts.

Sectoral Review

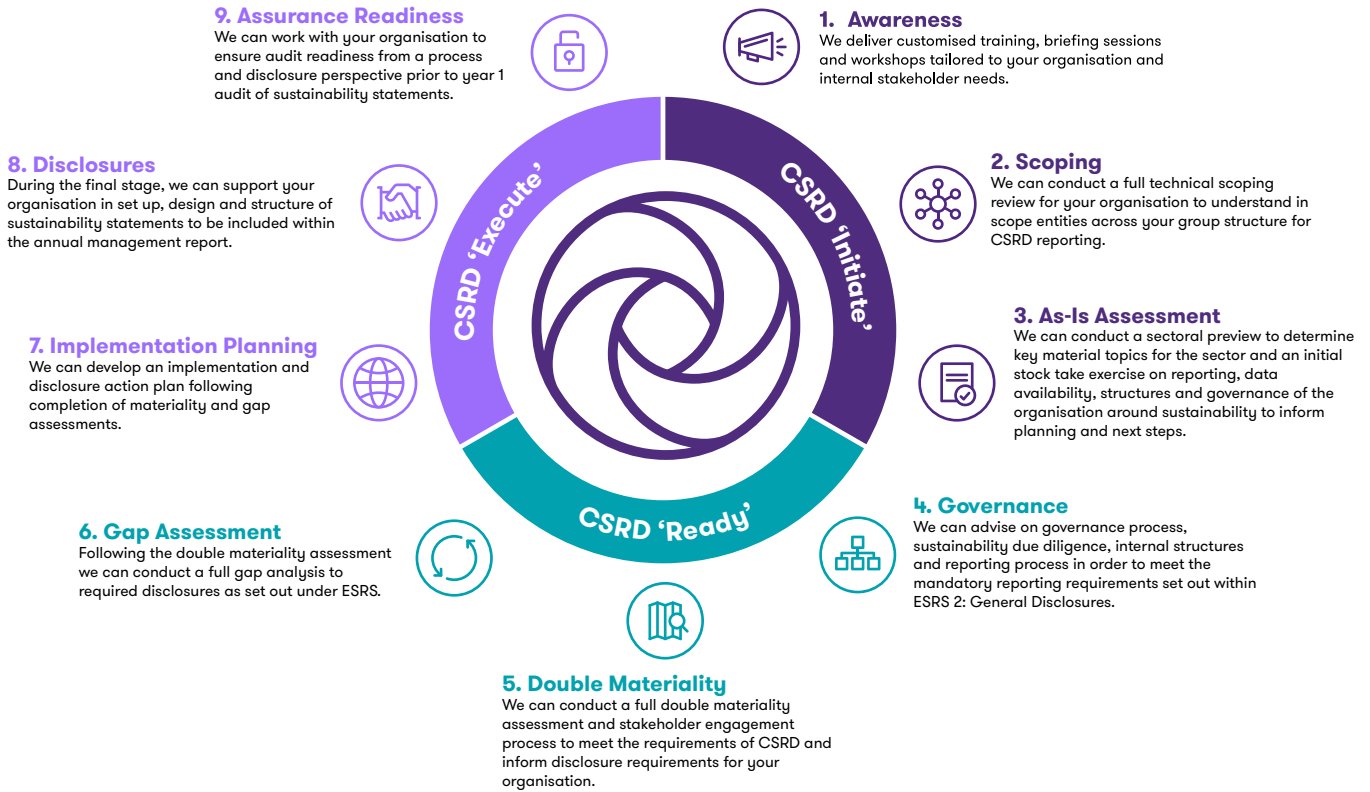
An initial sectoral preview and peer benchmarking exercise to key organisations operating globally within the sector of the reporting entity, with comparable products, services and activities reviewing any sustainability reporting or information available to support drafting of an initial material topics list.

Purpose of the readiness review

- The outputs of the initial research, documentation of the “as-is” and organisational review steps will allow the reporting entity to create a draft of key material topics for assessment and internal review.
- Completion of this stock-take should allow the organisation to draft a clear roadmap for completion of the double materiality assessment and effective stakeholder engagement and other future planning to bring them to CSRD compliance.
- This initial stock-take exercise will also act as a data and documentation gathering exercise, which can feed into the organisation’s sustainability due diligence process and help to identify any gaps in that process that need to be remediated in order to meet disclosure requirements under ESRS 2: General Disclosures. These disclosures are mandatory for all reporting entities.

How Grant Thornton can help

Our comprehensive **CSRD “Comply” Framework** is designed to help organisations to navigate through the requirements of CSRD and disclosures under ESRS from initial stock-take to assurance readiness.



About Us

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms. These firms help dynamic organisations unlock their potential for growth by providing meaningful, forward looking advice. More than 58,000 people across over 138 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.



Amanda Ward

Partner, Head of Consulting
T +353 1 433 2440
E Amanda.Ward@ie.gt.com



Janice Daly

Partner, Sustainability
T +353 1 760 5348
E Janice.Daly@ie.gt.com



Orla Carolan

Director, Sustainability
T +353 1 680 5986
E Orla.Carolan@ie.gt.com



Catherine Duggan

Director, Sustainability
T +353 1 433 2535
E Catherine.Duggan@ie.gt.com



Aisling McCaffrey

Director, Sustainability
T +353 1 436 6502
E Aisling.McCaffrey@ie.gt.com



© 2023 Grant Thornton Ireland. All rights reserved. Authorised by Chartered Accountants Ireland (CAI) to carry on investment business.

Grant Thornton Ireland is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see www.grantthornton.ie for further details. (804)