



FISER CONSULTING
FINANCIAL SERVICES



Double Materiality Assessment



July 2024

EXECUTIVE SUMMARY



In response to evolving sustainability regulations, **FiSer Consulting is introducing a proposal** to guide European companies through the complexities of sustainability reporting. **This slide-deck focuses on the Double Materiality Assessment**, a key element of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS).



The concept of **double materiality** expands reporting obligations for European companies to **encompass not only how external ESG issues impact their financial performance (financial materiality) but also how their operations affect the environment and society (impact materiality)**. A Double Materiality Assessment involves a multi-stakeholder approach across the entire value chain and forms the basis for preparing sustainability disclosures mandated by CSRD and ESRS.



This presentation provides a **comprehensive framework for conducting a Double Materiality Assessment, exploring methodologies to establish financial and impact materiality**. We outline a structured approach, illustrating how organizations can effectively identify and manage material sustainability **impacts, risks, and opportunities (IROs)**.



Through **practical examples of defining action plans, targets, and KPIs for material topics**, we demonstrate how FiSer Consulting can support clients in navigating the current regulatory landscape, ensuring compliance and fostering sustainable business practices. With a **detailed timeline of key milestones for CSRD**, European companies can prepare for upcoming requirements accordingly.



To support organizations in meeting these regulatory requirements, **we introduce our proposal for conducting a Double Materiality Assessment within 10 to 14 weeks**. FiSer Consulting's **five-step systematic approach** provides tailored guidance to ensure the assessment aligns with ESRS standards.



Prepare for upcoming regulatory requirements by **leveraging FiSer Consulting's expertise and collaborating with our dedicated colleagues** to navigate the complexities of ESRS compliance and unlock the benefits of sustainable reporting for your organization's success.

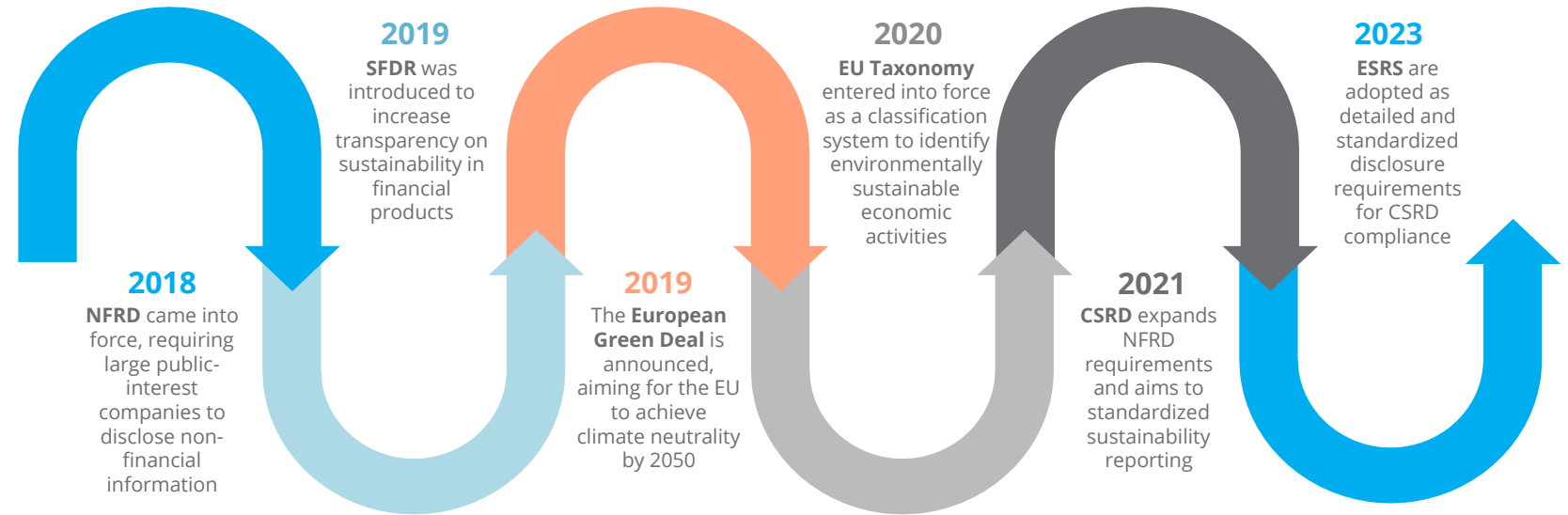
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SUSTAINABILITY REGULATIONS

Evolution and importance

By the end of 2019, the European Parliament adopted a resolution declaring a climate emergency and urged the European Commission to ensure that future legislative and budgetary proposals aligned with the objectives of the **Paris Climate Agreement**. As a result, the Commission introduced the **European Green Deal** as a roadmap for a climate-neutral Europe, which triggered sustainability regulations such as CSRD and ESRS.



In today's environment, **sustainability is crucial for companies** not only to achieve regulatory compliance but also to ensure long-term existence by:



Protecting the environment

Reduce ecological footprint of operations



Contributing to society

Promote social equity and support communities



Impacting the economy

Achieve long-term economic sustainability and resilience



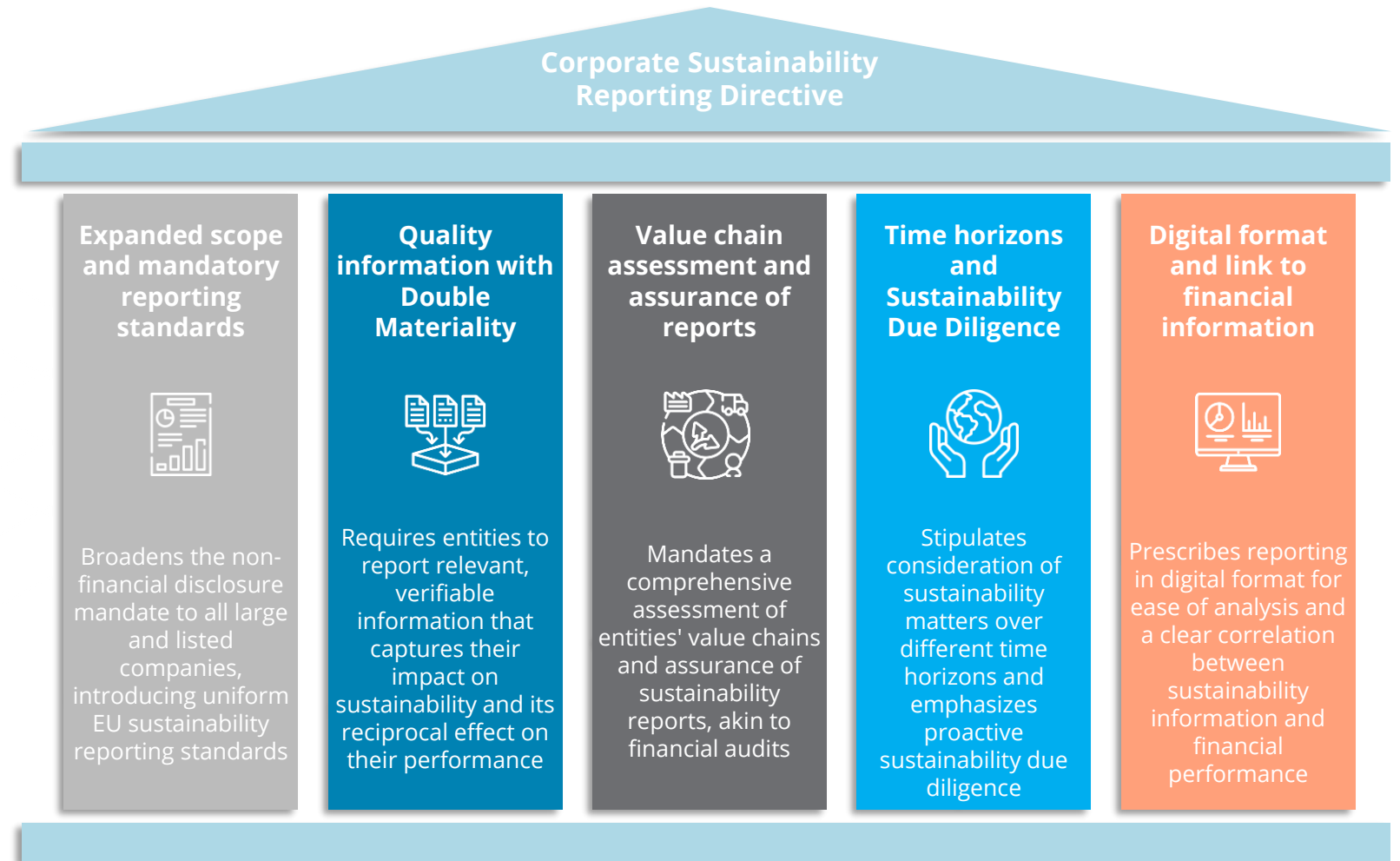
Responding to consumer preferences

Adopt sustainability practices and ensure market competitiveness

CSRD

Enhancing
transparency in
financial markets

The Corporate Sustainability Reporting Directive (CSRD) **builds upon the Non-Financial Reporting Directive (NFRD)** to enforce robust sustainability reporting for approximately 50,000 companies. It mandates **regular, detailed sustainability reports**, highlighting the following areas regarding their ESG performance:

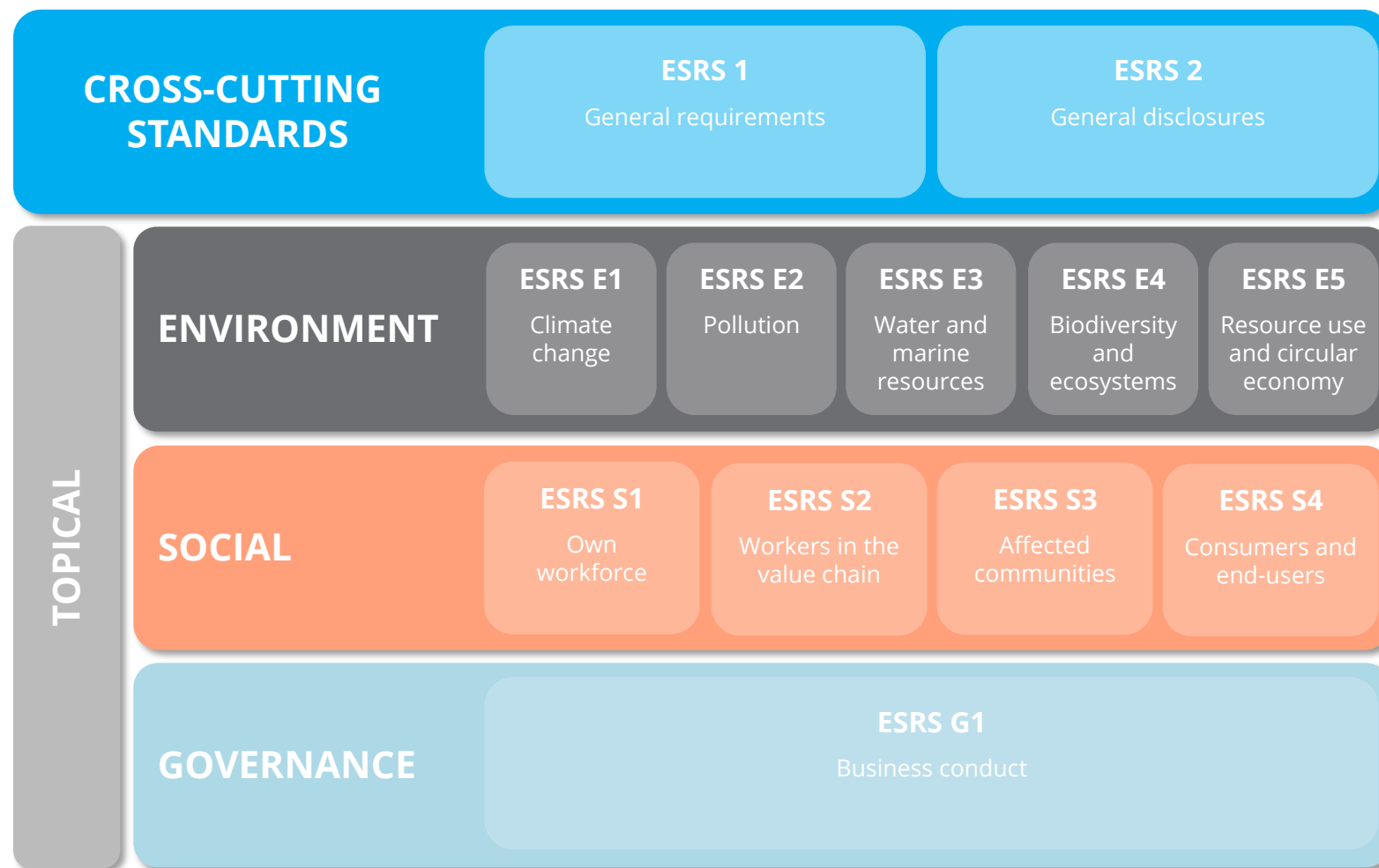


The CSRD requires transparent and regular sustainability reporting in accordance with the European Sustainability Reporting Standards (ESRS). This requirement will enable companies to better manage ESG risks and foster a resilient economic system

OVERVIEW OF ESRS

Initial set of standards

In July 2023, the European Commission adopted the initial set of **ESRS**, comprising 12 standards and following the CSRD regulation to cover environmental, social and governance matters. The set includes **sector-agnostic standards**, which are further divided into **cross-cutting and topical categories**:



The standard's framework includes company-specific disclosures for matters not covered by ESRS. Additionally, sector-specific, SMEs, and non-EU parent companies' standards are currently under development for release in the upcoming years

DOUBLE MATERIALITY

Assessing two dimensions

CROSS-CUTTING STANDARDS

ESRS 1

ESRS 2

CSRD and ESRS incorporate the concept of double materiality for companies **to assess how external ESG issues impact (positively or negative) financial performance and how their operations affect (positively or negative) the environment and society.**

To prepare the sustainability disclosures, companies can find support in **the Materiality Assessment implementation guidance by the European Financial Reporting Advisory Group (EFRAG)**. Companies can also build upon the International Sustainability Standards Board (ISSB) standards and the Global Reporting Initiative (GRI) guidelines for financial and impact materiality assessments, respectively, if already in use.

Financial materiality

 **(outside-in)**

Refers to **how ESG issues can significantly affect a company's financial health**, influencing investment and operational decisions in the short, medium or long-term. Materiality is assessed based on the **magnitude and likelihood** of the potential financial effect



Impact materiality

(inside-out) 

Assesses **a firm's effects on environmental and social issues**, guiding its sustainability efforts and societal contributions over the short, medium or long-term. This assessment encompasses impacts throughout a company's **upstream and downstream value chain** and is based on their **scale, scope, irremediability, and likelihood**



Companies are required to conduct a Double Materiality Assessment to comply with CSRD and ESRS. This assessment helps define the scope and content of their ESG data collection and reporting, focusing on topical factors relevant to the firm

DOUBLE MATERIALITY

Framework to conduct the assessment

Double materiality involves identifying both how environmental and social issues impact a company (**financial materiality**) and how that company impacts the environment and society (**impact materiality**). In accordance with ESRS 1 and following industry best practices, **the process of assessing materiality should consider:**

1) Map the context

Understand the value chain, business activities, geographies, and engage with stakeholders to **identify potentially relevant sustainability-related matters**

3) Consolidate material IROs

By applying a **threshold or cut-off point**, sustainability matters can be split into material and not material IROs. This can be done by **creating a matrix** to map the financial materiality against impact materiality for each issue

5) Develop an action plan

By focusing on areas of highest materiality, define steps to **mitigate risks, capitalize on opportunities, and address significant impacts** on the environment and society, using KPIs, targets and policies



2) Measure IROs

Evaluate the significance of an **organization's impacts, risks and opportunities (IROs)** by conducting the financial and impact materiality assessments. **If necessary, disaggregate matters disclosed at group level** for better understanding

4) Validate the results

Thoughtfully discuss the findings with stakeholders and senior management to **prioritize the most material matters** that the organization can focus on from a strategic perspective

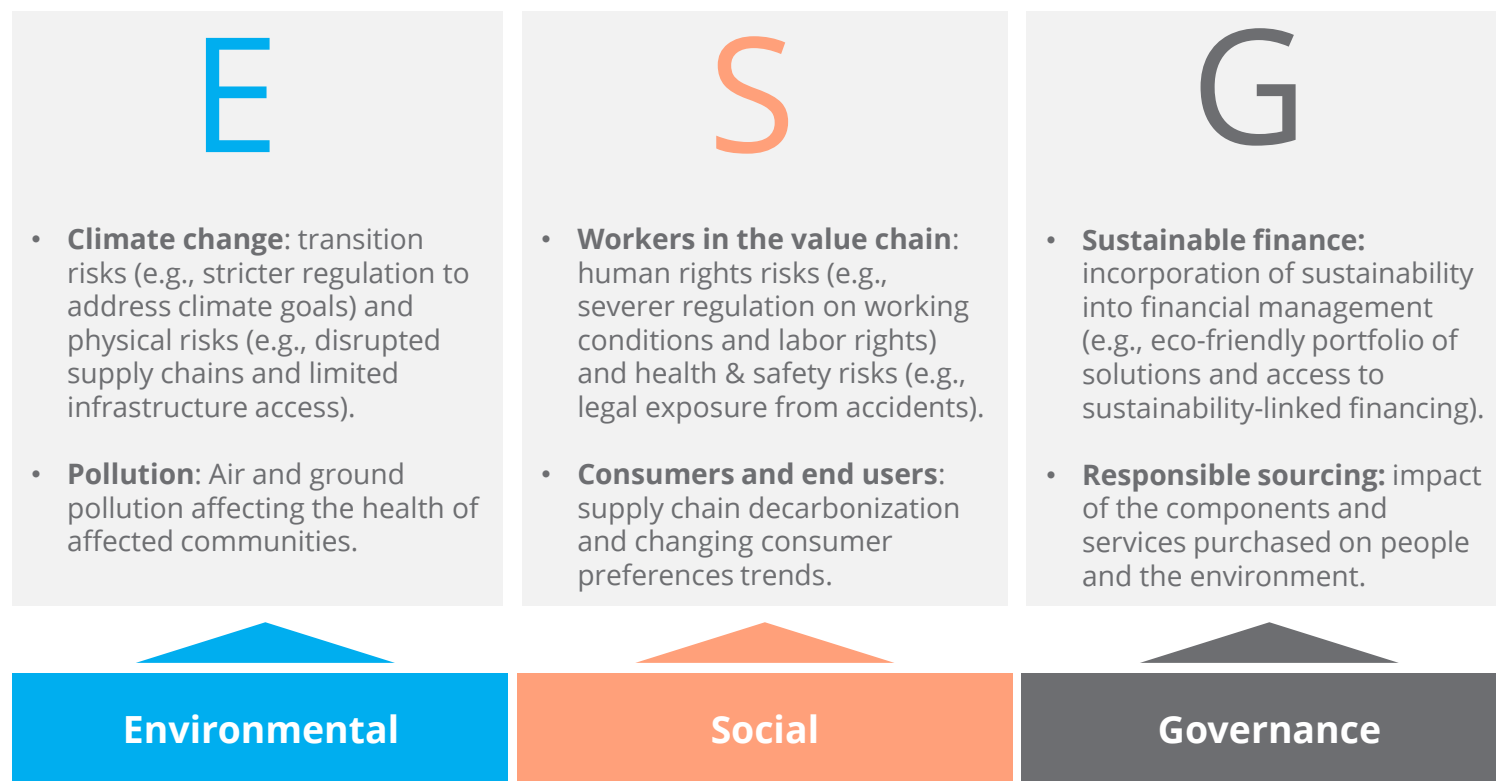
This approach provides a structured way to perform a Double Materiality Assessment, helping integrate sustainability into strategic decision-making. Note that it is essential to document the process to obtain assurance on the disclosures from the auditors

DOUBLE MATERIALITY

An illustrative example

A Double Materiality Assessment requires **performing due diligence across the value chain and engaging with stakeholders to identify potential sustainability matters**. The ESRS provide a list of sector-agnostic sustainability matters that organisations should consider in their materiality assessment, but organizations are also required to identify entity-specific sustainability matters not explicitly mentioned in the ESRS.

Following **the first step of FiSer Double Materiality Framework**, and given the nature of business activities of European companies, it is highly likely that material issues arise, including but not limited to, within the following categories:



As an illustrative example, Air Pollution will be analysed as a potentially material issue for a European company in a hypothetical Double Materiality Assessment conducted by FiSer's framework and shown in the following slides

IMPACT MATERIALITY

An illustrative example

Determining Impact materiality is a challenging exercise. Impacts related to any sustainability matter on people and the environment can be **positive or negative, actual or potential, and interconnected with impacts from other topics**. Understanding the timeline of these impacts crucial, as they can occur in the **short, medium, or long-term** and relate to present or future events and activities across the value chain.

Impacts	Positive	Negative
Actual	Severity (beneficial impact): <ul style="list-style-type: none">- Scale (how beneficial)- Scope	Severity (negative impact): <ul style="list-style-type: none">- Scale (how negative)- Scope- Irremediability
Potential	Severity x Likelihood	Severity x Likelihood

In consideration of **an illustrative example for Air Pollution as a potential material topic**, the impact materiality assessment for this sustainability matter arising from the business activities could indicate the presence of both material and non-material issues:

Low		Medium		High		Impact materiality				
Sustainability matter	Impact on people or environment		Impact classification		Scale	Scope	Irremediability	Likelihood	Is the matter material from an impact perspective?	
E2 Pollution: Air pollution from manufacturing processes	Health impacts in local communities		Negative	Actual				-	No	
	Air quality in local communities		Negative	Actual				-	Yes	
	Habitat loss and damage		Negative	Potential (long-term)					Yes	
	R&D financing for alternative processes		Positive	Actual			-	-	No	

Impact materiality needs to be assessed from various perspectives, including the company's product and service mix, its geographic reach, and other considerations that reflect the company's capabilities to address specific sustainability matters

FINANCIAL MATERIALITY

An illustrative example

Sustainability matters can generate **risks and opportunities** that materially influence a company's development, financial position, performance, cash flows, access to finance, or cost of capital over the **short, medium or long-term**.

Risks and opportunities **emerge when significant impacts or dependencies intersect with a company's operations**. These can be categorized into three main types: **impact-driven** (stemming from the company's direct influence on issues like biodiversity), **dependency-driven** (arising from the company's reliance on natural, human, and social resources), and from **other contexts** (such as regulation or consumer preference).

To determine financial materiality, the financial effects need to be calculated, whether through a **qualitative or quantitative approach, considering both their magnitude and likelihood**:

Financial materiality	Financial effects
Risks	Magnitude (negative financial effects) x Likelihood
Opportunities	Magnitude (positive financial effects) x Likelihood

Low Medium High					Financial materiality		
Sustainability matter	Likely financial effects	Classification		Source	Magnitude	Likelihood	Is the matter material from a financial perspective?
E2 Pollution: Air pollution from manufacturing processes	Fines from negative health impacts in local communities	Risk	Medium-term	Impact			No
	Cost to remedy negative impact from air quality in local communities	Risk	Short-term	Impact			Yes
	Costs to find new input sources due to ecosystem loss upstream	Risk	Long-term	Dependency			Yes
	New product offerings with lower pollution footprint	Opportunity	Medium-term	Other			No

Following the illustrative example for a hypothetical European company, materiality for a given topic would be triggered if there are any risks or opportunities related to the topic that exceed the thresholds set by the company

MATERIAL TOPICS

An illustrative example

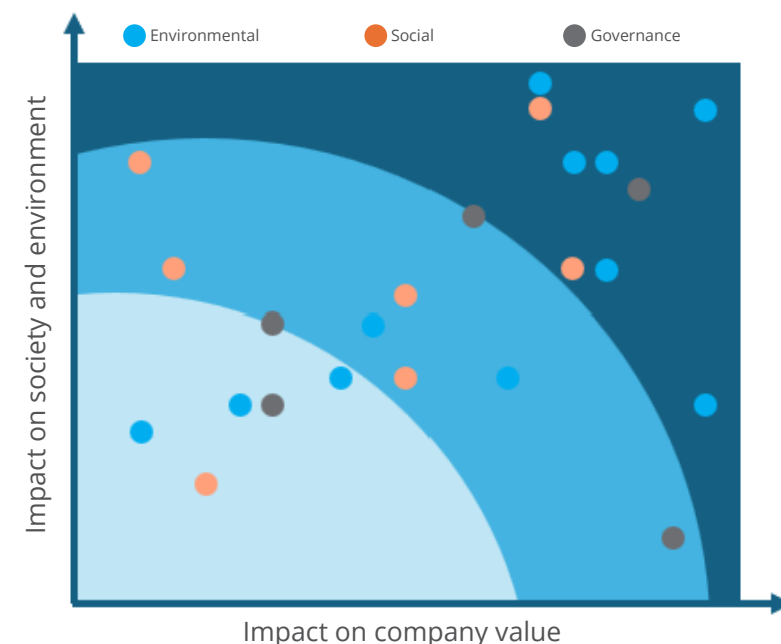
After assessing all impacts, risks, and opportunities, a company can consolidate both negative and positive impacts, risks, and opportunities. By **applying a threshold or cut-off point**, these can then be split into material and non-material categories.

While companies have flexibility in defining criteria and thresholds, a common practice involves using a **visual representation of material sustainability matters, such as a Double Materiality Matrix**.

Additionally, in compliance with reporting standards, companies are mandated to **disclose the process and outcomes of their materiality assessments at the IRO-level**. Leveraging existing frameworks and guidelines can streamline this process.

Sustainability matter	Double Materiality Assessment			Examples of topics
	I	R	O	
E1 Climate change	-			GHG emissions
E2 Pollution	-			Air pollution
E3 Water and marine resources				Water consumption
E4 Biodiversity	-			Continued access to raw materials
E5 Circular economy	+/-			Waste management
S1 Own workforce	+/-			Workforce diversity
S2 Workers in the value chain	-			Human rights, Health & Safety
S3 Affected communities	+/-			Indigenous rights
S4 Consumers and end users				Changing consumer preferences
G2 Business conduct	+/-			Sustainable Finance

Low Medium High



After consolidating all material IROs, validation with stakeholders is crucial. This process would help understand a company's interaction with its strategy and business model, enabling the development of an action plan for high-priority topics

MANAGING MATERIAL TOPICS

An illustrative example

After conducting the Double Materiality Assessment, a European company might identify several critical material topics. **According to ESRS, the company must address these topics through comprehensive action plans, specific targets, and measurable KPIs** to ensure compliance and drive sustainable growth. The following examples illustrate how companies can manage material topics in each dimension of ESG:

1. Air Pollution from manufacturing processes

Action Plan:

- Transition to cleaner energy sources (e.g., renewable energy) to reduce emissions
- Install advanced air filtration and purification systems in manufacturing plants

Targets:

- Increase the proportion of energy sourced from renewables to 50% by 2030
- Reduce air pollutant emissions by 20% within three years

KPIs and Metrics:

- Proportion of energy sourced from renewable sources
- Percentage reduction in key air pollutants and number of air filtration systems installed

2. Diversity and Inclusion (D&I) in the workplace

Action Plan:

- Develop a comprehensive D&I policy, including training programs
- Establish employee resource groups for underrepresented groups

Targets:

- Ensure all employees undergo diversity training annually
- Achieve a 50% increase in the representation of underrepresented groups in management positions by 2030

KPIs and Metrics:

- Employee satisfaction scores related to inclusivity and percentage of employees completing diversity training
- Number of employee resource groups established and active and diversity ratio in recruitment and promotions

3. Sustainable Finance and Investments

Action Plan:

- Integrate ESG criteria into the investment decision-making process
- Provide or use green finance products (e.g., green bonds, sustainability-linked loans)

Targets:

- Allocate 25% of the investment portfolio to sustainable finance projects by 2030
- Issue \$200 million in green bonds/loans over the next five years

KPIs and Metrics:

- Percentage of the investment portfolio in sustainable finance
- Amount of capital raised through green finance products

Companies need to be ready for the transparency of providing granular disclosures about their policies, action plans and targets across all material topics, as the standards will bring greater visibility and scrutiny of their plans

SCOPE AND TIMELINE

Guide to key milestones

In accordance with CSRD, **ESRS requirements (including Double Materiality Assessment) have been in effect since January 1st, 2024**. There is a phased introduction of disclosures, as shown in the following roadmap of **key reporting implementation dates and deadlines**:

Scope	Description	2024	2025	2026	2027	2028	2029	2030
Selected Large corporations	<i>Companies subject to the NFRD</i>							
Other large EU corporations	<i>Meet the size criteria*</i>							
Listed SMEs	<i>Small and non-complex financial institutions</i>							
Non-EU parent corporations	<i>At least 1 subsidiary or branch in the EU</i>							
Other listed SMEs	<i>End of the 2 year transitional period</i>							

Preparation
 Reporting deadline
 Reporting requirement

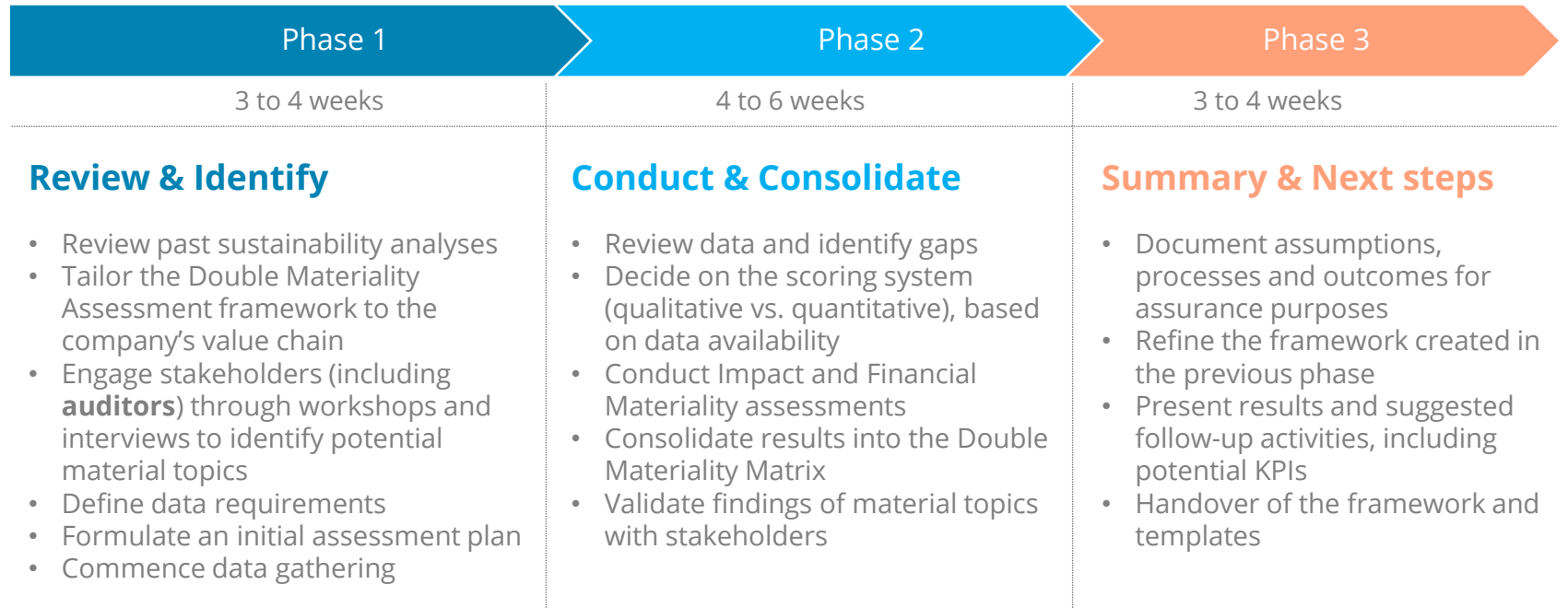
Organizations are faced with the challenge of complying with ESRS, requiring substantial investment and guidance in preparation for the new reporting obligations

* Exceed two or more conditions: Employees > 250, Net turnover > € 50mn, Total assets > € 25mn

OUR SOLUTION

Timeline, activities and deliverables

Urgency for European companies to conduct a Double Materiality Assessment is required, as the exercise is complex, the deadlines are approaching, and some corporations have already started reporting in compliance with CSRD. **FiSer can streamline this process by applying our framework to your company's specific needs, offering a phased approach that delivers an initial assessment within 10 to 14 weeks***, ensuring timely regulatory compliance.



Deliverables

At the end of the project, the project will deliver the following documents:

- Double Materiality Assessment Framework (PPT)
- Initial assessment of material IROs, including a Double Materiality Matrix (PPT and Excel)
- Action plan suggestions, including potential KPIs (PPT)

Requirements

To accomplish the assessment FiSer needs:

- Access to relevant company data on business activities, products, geographies, policies, and procedures
- Availability of relevant business stakeholders in key impacted areas

**Timeline is subject to data availability and the results of the gap analysis*

ENSURE COMPLIANCE

Overcoming challenges with FiSer Consulting

FiSer Consulting provides **tailored ESG and sustainability consultancy services**, ensuring alignment with evolving industry trends and regulatory demands. Our range of solutions assists in **assessing and implementing regulatory requirements under CSRD and ESRS** effectively, as well as achieving compliance with standards and best practices.

With our proven track record, FiSer can facilitate a **seamless transition** to the upcoming regulatory environment, identifying opportunities and positioning your organization to be responsive. **Our consultancy approach involves a five-step systematic process:**

Double Materiality Assessment

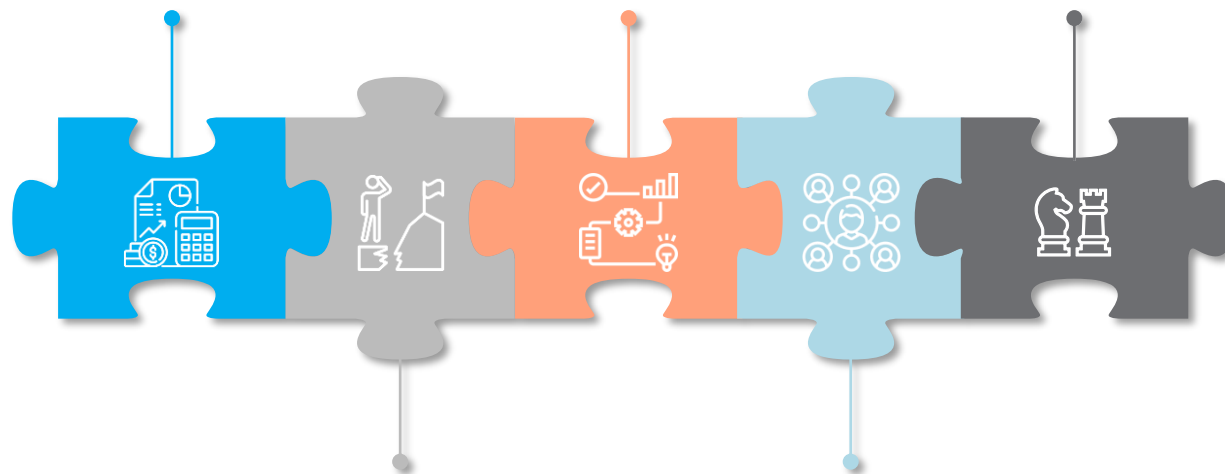
Analyse impacts, risks and opportunities in ESG factors, developing a strategy and targets for prioritized matters

Implementation Roadmap

Design a roadmap with clear steps, timelines, resource requirements and controls to achieve compliance on regulatory reporting

Ongoing Expert Advice

Provide continuous consultation to navigate complexities of governance and data management, ensuring successful delivery



Gap Analysis

Agree on definitions and scope of CSRD/ESRS and conduct a thorough analysis to identify data gaps and other areas of enhancement

Stakeholder Engagement

Foster continuous steering with all stakeholders, facilitating alignment with reporting requirements to obtain assurance

GET IN TOUCH – BEYOND COMPLIANCE WITH FISER CONSULTING

Our team of experts at FiSer Consulting boasts a **profound understanding of sustainability regulation**, its complexity, and the necessary strategies to comply with the latest reporting standards. By seamlessly **combining regulatory and technical expertise**, we offer comprehensive guidance and support to address the unique needs of your business. Meet our dedicated colleagues who can assist you in successfully adopting the ESRS:



Dirk Worm – Managing Partner

Dirk has nearly 30 years of experience in the financial services industry, particularly in the fields of Treasury & Financial Markets and Risk & Finance, specializing in program management and advisory. His consulting skills include advising, managing, and delivering strategic, company-wide change initiatives at the board level across business and technology. Dirk's key strengths are his structured and consistent approach to work and his resourcefulness in achieving goals.



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Camila Herrera – Senior Consultant

Camila is a banking professional with a background in Asset & Liability Management, Funding, and Debt Capital Markets, including sustainability-related transactions. Over eight years of leading cross-functional projects such as the first AT1 perpetual bond and the first bond with ESG criteria for Santander-Chile, to finance SMEs owned or led by women. Camila holds an ESG Investing Certificate by the CFA Institute, and she is intrinsically motivated to guide the financial sector in contributing to sustainable development.



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Gabor Lorincz – Consultant

Gabor is a consultant in the Banking practice, focusing on risk advisory services for banks. His proficiency in model development and validation was acquired through previous roles at Zanders and OTP Bank. He also has valuable experience in energy and climate financial models. He excelled in business case competitions, including delivering various sustainable solutions, and attended various sustainability courses. Recently gained certification of Leading Sustainable Corporations Programme from Oxford University.



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