https://kpmg.com/xx/en/our-insights/ifrg/2024/qa-issb-materiality-guidance-sustainability-reporting.html

Assessing materiality

Helping companies to decide what's material for sustainability reporting

21 November 2024

Materiality judgements are fundamental to sustainability reporting – they determine the volume, type and precision of information to be reported. To meet users' information needs cost effectively, companies need to balance providing enough information about the topics that matter without obscuring useful information with immaterial content.

Many companies are considering IFRS® Sustainability Disclosure Standards alongside other frameworks that take a different approach to materiality, such as GRI[1] Standards or European Sustainability Reporting Standards (ESRS). Understanding how the principles in these different standards fit together practically is essential for companies wanting a robust and efficient process.

> **The ISSB's guidance can help companies focus their disclosures on the information that is truly important. Given the ISSB and EU expect financial materiality assessments to provide an aligned outcome, the guidance can also be helpful for those ESRS preparers who are getting started on their journey.**
>
> **Mark Vaessen**
> Partner, KPMG Netherlands

What's the issue?

The International Sustainability Standards Board (ISSB) has issued guidance that can help companies to understand and apply its approach to materiality.

The ISSB™ guidance explains:

- how companies identify sustainability-related risks and opportunities that could reasonably be expected to affect their prospects; and
- how they determine whether information about them is material.

Having identified sustainability-related risks and opportunities that could reasonably be expected to affect their prospects, the guidance suggests a four-step process[2] to support companies in making materiality judgements about what information to provide.

What's the impact?

To report effectively under IFRS Sustainability Disclosure Standards, it is essential that companies understand the ISSB's approach to materiality. The additional guidance will help companies to understand the conceptual principles in its Standards and support them in preparing for first-time reporting.

The guidance includes some observations around the interoperability of the ISSB's approach with ESRS, building on the earlier joint statement from EFRAG[3] and the ISSB.

The four-step process in the guidance can help companies establish due process over their sustainability reporting materiality judgements. It may be particularly helpful for those companies that are new to sustainability reporting or that currently report sustainability-related information under frameworks that do not focus on investor needs.

What's next?

Use the ISSB's guidance when making materiality judgements. Bookmark our ISSB Standards Today page so that you can stay up-to-date as we provide more answers to your key questions.

Your questions answered

1. Are companies required to follow a specified materiality assessment process?

No. Under IFRS Sustainability Disclosure Standards, companies provide material information specified by the standards when it could reasonably be expected to affect investors' assessments of:

- the company's cash flows; and
- management's stewardship of the company's economic resources sufficiently to influence their decisions.

When making materiality judgements, companies can follow the ISSB's four-step process; however, they are not required to follow a specific process.

2. Is there a difference between materiality judgements made under IFRS Sustainability Disclosure Standards and IFRS Accounting Standards?

Materiality judgements under IFRS Sustainability Disclosure Standards and IFRS Accounting Standards are made on a similar basis – i.e. by considering the ability of the information to influence investor and other primary user decisions.

However, the objectives of each set of standards differ, and therefore the type of information required also differs. Sustainability-related financial disclosures provide information about sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects. Financial statements provide information about a company's assets, liabilities, equity, income and expenses.

This means that disclosures required by IFRS Sustainability Disclosure Standards:

- include information that is not required to be included in the financial statements (e.g. information about the company's strategy); and
- may be material even though there is no corresponding financial statement impact (e.g. information about a potential change in strategy that has not yet affected the financial statements).

3. Can a company that is dual reporting under IFRS Sustainability Disclosure Standards and ESRS make use of its ESRS double materiality assessment to identify sustainability-related risks and opportunities?

Yes, to a large extent. Companies that have already performed an ESRS double materiality assessment to identify material impacts, risks and opportunities (IROs) are likely to find this assessment represents 'reasonable and supportable information'[4] and, therefore, forms an input into their process to identify sustainability-related risks and opportunities that could reasonably be expected to affect their prospects. However, companies also need to consider other requirements – e.g. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* requires companies to refer to and consider SASB[5] Standards.

Under both ESRS and IFRS Sustainability Disclosure Standards, companies then need to assess what information is material to provide. As the ISSB's four-step process illustrates how a company can assess what information about a sustainability-related risk or opportunity is material, this may also be useful fo ESRS preparers.

The definition of material information for investors and other primary users is aligned under ESRS and IFRS Sustainability Disclosure Standards. This means that information that is financially material under ESRS is likely to be material under the IFRS Sustainability Disclosure Standards. However, companies will still need to consider the relevant disclosure requirements under each set of standards when deciding what information to report.

---

[1] Global Reporting Initiative.

[2] Companies applying IFRS Practice Statement 2 *Making Materiality Judgements* may already be applying a similar process for their financial reporting.

[3] The advisory body to the EU on corporate reporting.

[4] IFRS S1 does not include ESRS as a source of guidance that may be used to identify sustainability-related risks and opportunities that could reasonably be expected to affect prospects; however, it does require a company to consider reasonable and supportable information that is available to the company without undue cost or effort.

[5] Sustainability Accounting Standards Board, now part of the IFRS Foundation.

© 2024 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.