

A Guide to Conducting a CSRD-aligned Double Materiality Assessment

As the EU's Corporate Sustainability Reporting Directive (CSRD) aims to harmonize ESG reporting, companies are required to include granular sustainability disclosures alongside their financial reporting. To determine which topics to report against to comply with CSRD, companies must conduct a double materiality assessment, reviewing sustainability topics on both impact and financial dimensions.

IMPACT MATERIALITY:

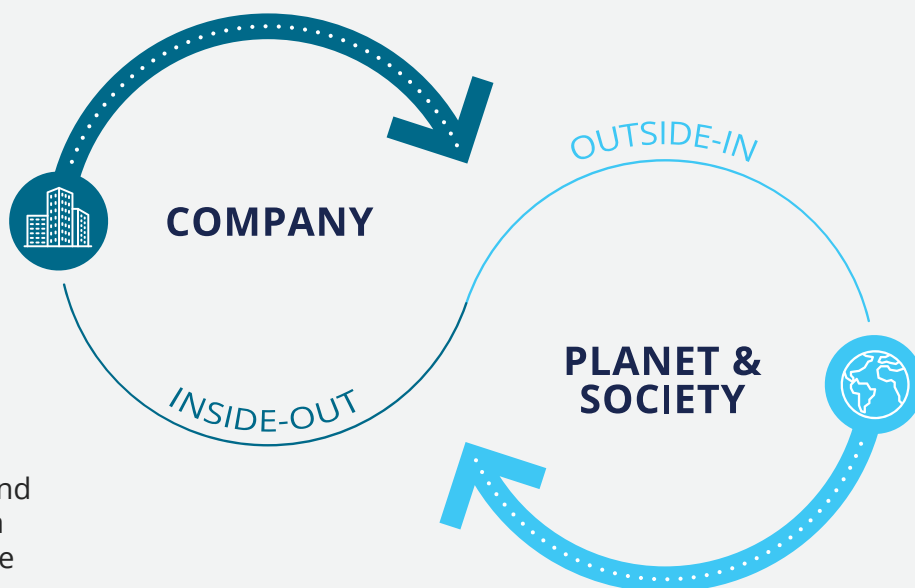
THE "INSIDE-OUT" PERSPECTIVE

The sustainability-related impacts on the environment and wider society, associated with a company's direct and indirect operations.

FINANCIAL MATERIALITY:

THE "OUTSIDE-IN" PERSPECTIVE

The sustainability-related risks and opportunities which may affect a company's business performance over time.



The double materiality assessment enables companies to identify and assess the impacts of their operations as well as the risks and opportunities which may affect their business performance over time.

Our Double Materiality Assessment Process

At Rivel we use our extensive experience in assisting clients on materiality assessments, ESG strategy development and corporate sustainability reporting to support companies in conducting a CSRD-aligned double materiality assessment. By incorporating guidance from the European Financial Reporting Advisory Group (EFRAG) on double materiality implementation and the European Sustainability Reporting Standards (ESRS), we partner with companies to conduct bespoke assessments to identify and assess the impacts, risks and opportunities associated with their sector, location and value chain operations.

1 Understand the context and key stakeholders.

To conduct an effective double materiality assessment, companies should lean on their strong understanding of the business strategy, activities and relationships. This is essential in mapping the direct operations along with those of the full value chain, both upstream and downstream—a requirement of CSRD. Identifying key affected stakeholders along the value chain can also be used to efficiently inform the double materiality assessment and enable companies to accurately consider all appropriate impacts, risks and opportunities associated with their business. It is important to consider how and where stakeholders are impacted throughout the entire double materiality processes.

2 Establish an initial list of sustainability topics.

The next step is to establish a list of relevant environmental, social and governance sustainability topics. ESRS guidance provides a list of sustainability matters for companies to consider as part of their double materiality assessment, which includes 10 topical ESRS standards, as well as relevant subtopics and sub-subtopics where appropriate.

Companies are advised to also incorporate sector and entity-specific issues. Insights from competitor and peer benchmarking, stakeholder engagement, internationally recognised frameworks, sector standards, market trends as well as existing internal strategy, priorities and processes should be used to enhance the initial list provided within the ESRS.

3 Identify impacts, risks and opportunities.

In this step, companies should evaluate each sustainability topic to identify the related actual and potential impacts on the environment or society, as well as the related risks and opportunities that may affect the company.

To do so, companies can leverage existing processes and internal expertise as well as external sources including feedback from stakeholders and industry guidance. Throughout this step, companies should define impacts as either positive or negative and identify where each impact, risk or opportunity is applicable to the company or its value chain, as well as an associated time horizon.

4 Assess and determine material impacts, risks and opportunities.

Following the identification of impacts, risks and opportunities, the next step is to assess their materiality. Companies will have to establish a scoring methodology which is bespoke to them, incorporating appropriate qualitative and quantitative materiality thresholds. Here it is recommended to use existing processes and frameworks including previous materiality and risk assessments, while incorporating guidance from the ESRS criteria for impact and financial materiality. External sources such as industry research can also be used to support internal subject matter experts when assessing each impact, risk and opportunity.

Financial materiality – Assess the actual or potential magnitude of financial effects over the short, medium and long term.

Impact materiality – Assess the severity (scale, scope and irremediable character) of each impact.

When assessing both the financial and impact materiality of potential impacts, risks and opportunities, it is important to also consider the likelihood of this issue occurring and how that may change over time.

5 Consolidate and review findings.

Now that all impacts, risks and opportunities have been assessed, they can be consolidated to form a list that includes findings from both financial and impact materiality assessments.

This list should rank the impacts, risks and opportunities from high to low materiality, creating a view of the importance of each associated sustainability matter. Applying a threshold can then help to narrow down a prioritized list of material matters for the company. Here it is important to review the list with those who contributed throughout the process, as well as decision makers across the business, to sense check the combined results with real time context of the business.

6 Report.

To comply with CSRD, companies are required to disclose details of their double materiality assessment and report the findings, and the material impacts, risks and opportunities. Companies should use the outcomes of the double materiality assessment to inform which ESRS topical standards they will report against. In addition, this will determine which areas require the development of measures to reduce impacts, mitigate risks and capitalise on opportunities.

KEY CONSIDERATIONS FOR DOUBLE MATERIALITY ASSESSMENTS



Consider the activities, business relationships and locations of the company and its entire value chain, not only owned operations.



Look beyond the ESRS sustainability matters list and consider topics that are sector and company-specific.



Make sure to leverage internal expertise and initiate cross-departmental engagement with core business functions to identify and assess impacts, risks and opportunities.



Use existing stakeholder engagement and communication channels to understand stakeholder views and expectations.



Document findings throughout the assessment, including processes, assumptions, and decisions made, in order to ensure that your auditors can follow the data and documentation trail.

Using the Findings to Inform Future Strategic Planning

In addition to meeting reporting requirements, companies can use the findings from their double materiality assessment to ensure they develop a resilient business strategy. By considering material sustainability matters in their strategic decision-making processes, companies can allocate resources and invest appropriately across the business to reduce future risk, as well as capitalize on opportunities to strengthen their market position within a decarbonized economy. Outcomes of the double materiality assessment should be shared across the organization and integrated into action plans aiming to manage the environmental and social impacts identified throughout the process.

About Rivel

Since 1991, Rivel has been advising management teams and boards on how aligning attitudes and behaviors of key stakeholders can make the difference between success and failure in their business. Rivel works with **two-thirds of the S&P 100** and **over half of the S&P 500**, and **companies across six continents**.

Rivel's Governance and Sustainability team is well-versed in emerging regulations and related frameworks, including SEC rules, IFRS/SASB standards and ISSB, TCFD, TNFD, UN SDGS, GRI and CDP, as well as European regulations, including the EU Taxonomy, SFDR and CSRD/ESRS. We help companies understand and communicate their corporate governance and sustainability value proposition, embed structure, develop strategies, provide directional guidance and create disclosures for internal and external audiences.

Rivel Has 5 Areas of Focus

GOVERNANCE & SUSTAINABILITY

ESG consulting, corporate governance advisory, board evaluations

TRENDLIGN

Investor perception research conducted within the investment community

STORYLIGN

Strategic investor communications, presentations; investor day messaging, design

GUIDELIGN

Investor Relations best practices and advisory

RIVEL BANKING RESEARCH

Research conducted among bank customers and prospects

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