The reality of materiality

Insights from real-world applications of ESG materiality assessments

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1 Summary

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Urgent action is needed to accelerate the transformation by 2050 to a world where over 9 billion people live well within planetary boundaries. This is journey is set out in the World Business Council for Sustainable Development´s (WBCSD) Vision 2050. A crucial piece of the puzzle is the move to a form of capitalism that brings true value – where environmental, social and governance (ESG) issues are part of how success is defined and enterprise value determined.

For this shift to occur, capital markets and shareholders need robust, comparable and decision-useful information on material ESG issues provided through corporate disclosure. Materiality and the materiality assessment process are considered vital for helping companies effectively identify, manage and report on significant ESG risks and opportunities.

As materiality involves a user- and purpose-based judgment about what information is relevant, there are challenges in consistently applying an effective approach based on today's guidance, expectations and practice. This is a pertinent issue; the various applications of materiality profoundly affect corporate disclosures, strategies and objectives.

The purpose of this report is to investigate and discuss the "reality of materiality", and materiality assessment, as it relates to ESG in current guidance and practice. It builds on WBCSD´s ESG Disclosure Handbook that helps companies improve their ESG reporting strategy and focus on what really matters.

The Challenges in materiality discusses six different challenges identified through a review of ~95 white papers, guidance documents and thought leadership articles: 1) The multiple perspectives on materiality; 2) Inconsistent guidance on materiality methods; 3) Multiple stakeholders, multiple opinions; 4) Materiality is dynamic; 5) Materiality and fiduciary duty; and 6) It's not financial information. In addition, practical considerations for companies are provided when making choices about materiality.

The Materiality assessments in practice discusses research findings on current practice based on an analysis of 551 WBCSD member company reports and one-to-one interviews with 20 companies. The investigation sets out findings around seven key steps involved in conducting a materiality assessment: 1) Purpose of a materiality assessment; 2) Materiality cycle; 3) Perspective on materiality; 4) Identifying the topics; 5) Stakeholder involvement; 6) Calculating the materiality scores; and 7) Selecting the material topics.

A central observation from both the literature and practice reviews is that there is not always effective guidance available to companies when they make decisions related to ESG materiality and these decisions can define the final outcomes. To ensure the materiality assessment responds to the company's goals, companies should strategically and consciously apply judgment and clear decision-making when planning and applying a materiality assessment.

Another principal observation is the broad adoption of the two different perspectives of materiality: 1) The business cases perspective, indicating that a topic is material when it has significant (positive or negative) impact on the financial performance of the company; and 2) The societal impact perspective, indicating that a topic is material when it matters to society and the company significantly impacts this topic.[1] The boundaries between these two perspectives are less clear in reality than they are in the theoretical setting of reporting standards development.

The research also highlights that materiality can be a broader tool for the integration of ESG topics in strategic decision-making, where the outputs are used to evaluate current strategies and inform future priorities. With this more integrated purpose, the materiality assessment can fulfill its objective to enhance transparency on company priorities and how the company arrived at these priorities while at the same time providing an opportunity to systematically integrate feedback from stakeholders into future priorities and plans.

② Introduction

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A key enabler of the transitions towards a world where over nine billion people are living well within planetary boundaries will be the fundamental transformation of our financial system to one which rewards true value creation, not value extraction. This is highlighted in WBCSD's recently published Vision 2050.[2] The disclosure of material, decision-useful ESG information by companies, and the effective use of this information by the financial markets, will be key to this transition.

The materiality assessment process is vital to help companies effectively identify, manage and report on pertinent ESG risks and opportunities. However, as we´ll see in this document, there are challenges in its effective application based on existing guidance, expectations and practice for efficient reporting on material ESG issues.

There is increasing demand for transparency for good quality corporate ESG information. One contributor is the wide-scale recognition that to achieve global sustainable development objectives, such as the Sustainable Development Goals (SDGs) and the Paris Agreement, a significant amount of capital must be directed toward solutions for a low carbon economy and a more equitable future.[2] Directing private finance towards these objectives will require businesses and investors to have a clear understanding of companies´ material risks and opportunities. Transparency and complete corporate disclosures are key in establishing this understanding.[3]

Second, investors are increasingly asking companies to understand and manage their long-term value drivers including ESG aspects.[4] Between 2017 and 2019, sustainable investments rose 34 % to USD $30.7 trillion.[5] Signatories to the UN Principles for Responsible Investment (PRI) more than doubled in five years reaching 3,000 in 2020.[6] For investors to efficiently and effectively allocate capital, they need comparable, robust and decision-useful information on material ESG issues.

Third, there is growing consensus that companies should respond to the needs of their shareholders and also serve a wider set of stakeholders.[7,8] This movement towards a stakeholder-oriented form of capitalism helps to ensure businesses mitigate risks and gain opportunities such as talent acquisition and retention, securing licenses to operate, reputation management and other benefits.

The needs of stakeholders go beyond the financial output of a company to include broader value creation and impact and dependencies such as ESG aspects. In answering such needs, transparent, relevant and robust communication is vital. Reporting on ESG allows companies to show which stakeholders' needs they are responding to and in what way. It allows the company to communicate the challenges in responding to stakeholders' needs, opening up an honest conversation about the barriers to sustainable development.

Responding to expectations, companies are increasingly reporting on ESG. However, there has been a lack of consensus on materiality and the materiality assessment process. This has made it hard for companies to apply a systematic approach to materiality and they must navigate various factors in determining their materiality and its reporting.

COMPLEXITY OF THE ESG REPORTING LANDSCAPE

In recent years, the ESG reporting landscape has changed dramatically. The Reporting Exchange, an online tool developed to help corporates navigate the landscape of ESG reporting requirements, highlights that there are over 2,000 voluntary reporting frameworks, mandatory reporting requirements, methodologies and protocols across 71 countries for company measurement and disclosure of ESG information by companies.[9]

In a stock take of the ESG topics discussed in nine voluntary reporting frameworks, the Reporting Exchange's ESG indicator library identified 1,424 potential indicators that companies could use to disclose their ESG performance.[9] Not only is it practically impossible for companies to report on all these indicators, not all these topics are material to each company. In addition, as highlighted in WBCSD's ESG Disclosure Handbook, companies are required to make many decisions on what to include and what to exclude in their ESG disclosures.[7]

To make an informed choice, ESG standard setters recommend companies conduct a materiality assessment. How such assessments should be conducted remains an area of ongoing debate. Different applications of materiality profoundly affect corporate disclosures, strategies and objectives.

The lack of clarity can hinder users of company disclosures in interpreting a company's positive or negative contributions to long-term value creation and sustainable development.
A frequent complaint by users of ESG information is the significant variability and divergence in materiality practices related to format, measurement and time frames. Concepts are misinterpreted or mixed up – for instance, relevancy and materiality are often used interchangeably.[10,11,12] Material ESG topics may also be presented through multiple channels and several ESG reporting standards require companies to include non-material topics in their general annual reports.[11]

ALIGNING IN ESG REPORTING AND MATERIALITY

The good news is that discontent among preparers and users of ESG disclosures is being recognized by voluntary standard setters and major accounting bodies, spurring them into action. Several recent events illustrate a journey towards alignment:

- At the beginning of 2021, the International Financial Reporting Standards (IFRS) announced plans to create a Sustainability Standards Board and a working group to accelerate convergence.[13] This move shows financial reporting standard-setters are recognizing the materiality of ESG information and the need for an international governing body to coordinate the development of ESG reporting standards.[14]

- The International Organization of Securities Commissions (IOSCO) set up a Task Force on Sustainable Finance in 2020. IOSCO welcomed the IFRS Foundation´s plan of action on Sustainability Standards and announced a technical expert group to observe the work. IOSCO are developing guidance for principles-based standards to inform market regulators on ESG reporting. This guidance is likely to endorse and encourage use of standards developed by the IFRS.[15,16]

- CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) (also referred to as 'the Five') announced their intention to work together under Impact Management Project. The project aims to provide clear, technical input into regulatory efforts. This statement and a subsequent paper on climate-related financial disclosure provide a comparison of materiality definitions as a first step towards alignment on materiality practices.[17,18]

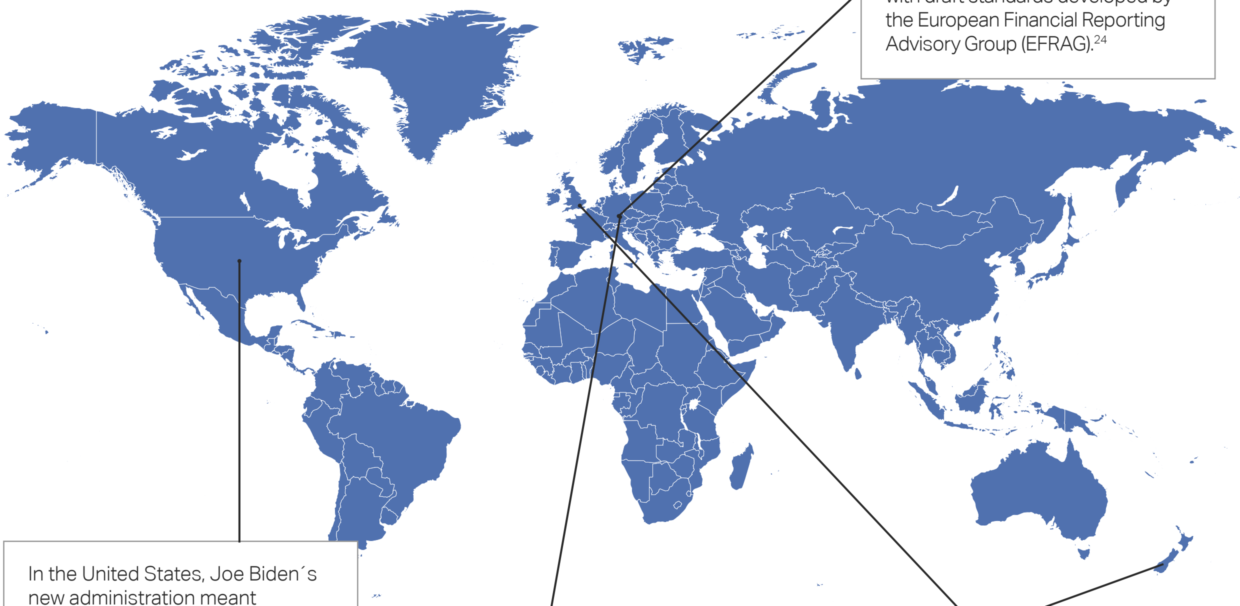
- IIRC and SASB subsequently have announced their intent to merge, forming the Value Creation Foundation. This is perceived as a major step towards simplifying the corporate reporting landscape.[19]

- The World Economic Forum (WEF) released a set of universal ESG metrics and disclosures to advance stakeholder capitalism and help companies demonstrate long-term value creation in mainstream reporting. It was developed with Bank of America, the Big Four and the International Business Council (IBC) – a community of over 120 global CEOs – after a consultation process following the 2020 Annual Meeting in Davos.[20]

At the same time, new regulations are driving alignment in ESG reporting standards. An increase in mandatory ESG reporting is evident, with regulators generally selecting one voluntary standard to follow or synthesizing the standards into their own definitions, as illustrated below by recent events:

These various actions and initiatives demonstrate the growing importance of ESG reporting in mainstream business. They show standard-setters are en route towards more globally aligned approaches to ESG disclosure.

In April 2021, the European Commission (EC) adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD). The proposal extends a requirement to all large companies and all companies listed on regulated markets to audit reported information and introduces more detailed reporting requirements. It requires companies to digitally 'tag' reported information so it is machine readable and feeds into the European single access point. The first set of standards will be adopted by October 2022 with draft standards developed by the European Financial Reporting Advisory Group (EFRAG).[24]



In the United States, Joe Biden´s new administration meant changes and new expectations at the Securities and Exchange Commission (SEC). SEC´s Acting Chair, Allison Herren Lee, gave a speech in March 2021 which focused on meeting investor demand on climate and ESG, announcing the SEC's Enforcement Task Force on Climate and ESG disclosures to identify material gaps in issuers' disclosures, and launching a public consultation on climate change disclosures.[26,27,28]

As part of the EU Green Deal action plan on financing sustainable growth, a Technical Expert Group (TEG) of the EC on sustainable finance published its final report in March 2020. Responding to the first stage of the action plan, the report presents an EU taxonomy for categorizing sustainability activities. The guide aims to help investors systematically assess which economic activities to invest in and to guide policy makers, industry and investors in their decision-making processes.[25] Financial market participants will be required to complete a first set of disclosures against the Taxonomy, covering activities related to climate change mitigation and/or adaptation, by 31 December 2021 for disclosure in 2022.[25]

Disclosures aligned with the TCFD recommendations are becoming mandatory in the UK and New Zealand.[21,22] Over 110 governments and regulators across the globe support the TCFD, including Belgium, Canada, Chile, France, Japan and Sweden. By April 2021, there are over 1,900 supporters across 78 countries of the TCFD.[23]

③ The purpose of this report

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While waiting for a more aligned approach to materiality, companies still need to make informed decisions on which ESG topics to report and in which ESG topics to invest their time, energy and resources.

The purpose of this report is to investigate the "reality of materiality" on a number of levels. First, it seeks to show the diversity of perspectives of a broad number of actors – including standard setters, regulators, consulting companies, stock exchanges and other international institutions – on the topic of materiality and to observe the role of these actors in shaping disclosure at a corporate level.

Second, the report seeks to build on the ESG Disclosure Handbook discussion around materiality by examining the extent to which companies appear to be defining a reporting strategy and conducting materiality assessments consistent with the recommendations set out in the Handbook.[7]

Thirdly, by examining the challenges and tensions associated with materiality assessment and how these manifest in the disclosure process, the report provides insight into the opportunities, good practices and recommendations for companies to manage and overcome these challenges.

This report is intended to discuss current existing guidance and practice in ESG materiality and materiality assessment practice. It is not meant to be seen as prescriptive or complete guidance on ESG materiality.

WHO IS THIS DOCUMENT FOR?

The intended audience for this report is companies who wish to understand the different approaches to materiality and how to further develop their internal processes and external disclosure practices.

We also hope it will be helpful for those engaged in developing and defining global standards for ESG disclosure by providing insights into the challenges and opportunities for an aligned approach to assessing, determining and disclosing material ESG information in corporate reports.

4 Challenges around ESG materiality

④ Challenges around ESG materiality

Materiality is a widely debated topic in ESG reporting circles. Our literature review identified around ~95 white papers, guidance documents and thought leadership articles that discuss the concept of ESG materiality and materiality assessment.

We found an overarching theme is that the existing materiality reporting practices may not be effectively serving the needs of preparers or users of ESG disclosures.[29] To increase effectiveness, there needs to be mainstreaming and consolidation of materiality approaches – preferably as soon as possible. Calls for rapid alignment have been acknowledged by major voluntary sustainability reporting frameworks such as the Five[a] through their Statement of Intent[17] and Statement of Common Principles of Materiality.[30]

Our literature review identified five broad challenges that can arise for businesses around the current concept of ESG materiality and materiality assessments. For each, we provide a summary of actions for corporates to consider during the materiality assessment process.

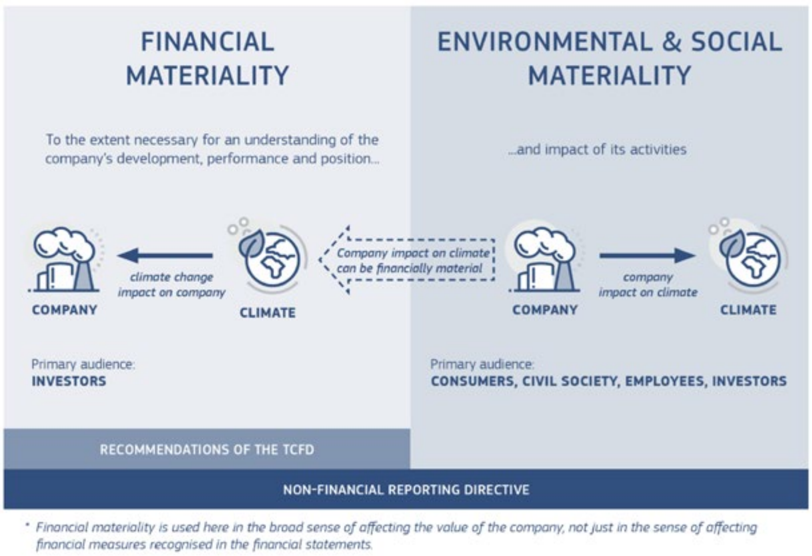
CHALLENGE 1: MULTIPLE PERSPECTIVES ON MATERIALITY

Current perspectives on ESG materiality across different frameworks and guidance - including the Five and TCFD - can be divided into two perspectives:[b]

1. The business case perspective which indicates that a topic is material when it has significant (positive or negative) impact on the financial performance of the company;
2. The societal impact perspective which indicates a topic is material when it matters to society and the company significantly impacts this topic.[31]

The EC combines these two perspective with the so-called "double materiality" perspective. Introduced for the EU Non-Financial Report Directive (NFRD),[1] the double materiality perspective requires companies to assess the materiality of ESG topics using both the business case and the societal impact perspective. This double materiality is clarified under the Corporate Sustainability Reporting Directive (CSRD) proposal which removes ambiguity that companies should report information necessary to understand how sustainability matters affect them, and information necessary to understand the impact they have on people and the environment

Graph 1: The double materiality perspective of the Non-financial Reporting Directive[1]



[a] CDP, CDSB, GRI, IIRC and SASB

[b] A full overview of materiality conceptions of the main financial and sustainability standard setters and organizations is compiled in the Annex of this guidance document.

and aligns the CSRD with the ambitions of the European Green Deal and Sustainable Finance Disclosure Regulation and the Taxonomy regulation.[32,33]

Our research highlights a lack of clarity on these perspectives of materiality in guidance documents issued by some standard setters, regulators and stock exchanges.[10,11,31,34–38] For example, communications on materiality perspectives do not always provide clear definitions or reference generally accepted ones. If definitions are provided, they may vary based on different concepts of value creation, time, intended users and scope and the extent to which these perspectives converge is context-dependent.

This variance is significant because a company's interpretation of the materiality perspective and its application will have an impact on the issues deemed as material. The selected materiality perspective is also likely to have consequences on the design and results of the materiality assessment process, including the scope and boundaries, that reflect on the reported content[10,11,35,37,39,40] and the reporting channel.[41-43] Users of disclosed information also report that knowing which materiality perspective has been applied is as important as which topics are disclosed as material.[44]

For more information on the definitions of materiality used by standard setters and major actors, refer to Annex 1.

As a result, companies are recommended to assess how they apply the concept of materiality and clearly articulate what perspective on materiality has been applied during the materiality process.

CHALLENGE 2: CONFLICTING GUIDANCE ON MATERIALITY PROCESS AND TOPICS

As highlighted above, there is general agreement across the literature for the need for more consistent and standardized methods for determining ESG materiality.[17,30] Our research highlights three areas where greater consistency could drive more aligned practices.

Firstly, although there any many guidance documents aimed at supporting companies undertaking a materiality assessment process, many highlight that materiality is company-specific, leaving room for interpretation on how an effective ESG materiality assessment is conducted.[29,61,62] We noted varying degrees of focus on prioritization, audience, framing, boundaries, scope, characteristics of materiality and limited practical guidance on the methodologies to collect, measure and analyze data on materiality.[40,47–51]

We also observed that current guidance offered by standard setters[52] does not provide extensive details on how to assess the relative importance of topics or how to compare them. For example, how to compare a broader ESG subject such as climate change with a specific one such as serious injury rate.

The SASB materiality map proposes lists of material ESG topics by sector.[53] This can help identify material topics but the topics listed might not precisely overlap with the company-specific circumstances. In practice, we have observed that common approaches are emerging and this is discussed in the following chapter.

Thirdly, some reporting requirements require certain ESG topics and indicators to be reported regardless of whether the topic is determined to be material by the reporting entity. For example, many jurisdictions require companies to report on respect for human rights across their operations such as prescribed by the EU´s NFRD and UK´s Modern Slavery Act. Other actors provide core subjects to be reported on across all companies such as the WEF Stakeholder Capitalism metrics,[20] the United Nations Conference on Trade and Development´s (UNCTAD´s) core indicators for the SDGs[54] or greenhouse gas emissions (GHG).[55]

Companies need to take these multiple factors into account and identify the potential implications when undertaking the materiality assessment process. This will help clarify the purpose of the materiality assessment and ensure the information disclosed is specific, concise and decision-useful for the intended audience.

CHALLENGE 3: MULTIPLE STAKEHOLDERS, MULTIPLE OPINIONS

There is increasing pressure on companies to be responsive to multiple stakeholders.[46,56] This pressure gives rise to one of the foremost challenges of the materiality process: who decides whether a given topic is material? What may be material from one stakeholder's viewpoint may not be material for another. Taking the views of all stakeholders into account risks running into a "everything is material to someone" scenario.[34,57]

In financial reporting, the audience and parameters are usually clearly defined and disclosures are expected to be used by people who have certain level of understanding of finance. In contrast, the audience for ESG disclosures may more diverse, making it difficult to define the audience of ESG reports and their level of knowledge.[12]

Selecting a specific disclosure audience will support companies in determining information needs but it does not solve the heterogeneity of viewpoints challenge. Differences in views on what is material can exist both between and within stakeholder groups. For example, some investors may be primarily concerned with information that is material for determining their return-on-investment (ROI) but the information needs of investors increasingly goes beyond the materiality conception of US SEC.[58] In addition to investment timespan differences, the investor landscape is diversifying and investors are increasingly seen to have broader interpretations that reflect a values-driven or impact investing orientation.[39]

Finally, determining and articulating the appropriate audience for reported information has implications of the assurance of that information, particularly as jurisdictions move towards external validation of materiality analyses and ESG reports.[33] When undertaking an assurance assignment, assurance providers may consider materiality from different perspectives at report level, qualitative information level and quantitative level. If the audience for the ESG report is not defined, determining whether the information is free from material misstatement, how to set thresholds and how to assure the material assessments come into question.[36] Surprisingly, stock exchange guidance documents rarely mention or provide guidance on internal controls or assurance practices to ensure the quality of reported material ESG information for intended users.[59–61]

Supporting strategic approach to materiality and disclosure
ESG Disclosure Handbook

WBCSD's ESG Disclosure Handbook provides guidance on how to tackle the audience conundrum through the question "for whom should ESG information be reported?". It states that evaluating whether ESG information "satisfies the needs of the intended audiences" is a fundamental component of the materiality assessment process.[7] In addition to defining the intended audience, disclosing which stakeholders were considered during the materiality assessment will provide further clarity. Helpful considerations include who are the key stakeholders of company, who should be consulted for the materiality assessment, what could be the possible biases and who is the reported information for.[7]

CHALLENGE 4: MATERIALITY IS DYNAMIC

In a recent paper, the Five present a conceptual approach and position to nested and dynamic materiality.[18] This dynamic concept recognizes that sustainability topics can move from being topics of sustainability interest in the broadest sense to being likely to influence enterprise value creation to being directly recognized in the financial statements. Other literature highlights that the materiality lens can evolve and shift over time.[29,62–65] Although guidance refer to short-, medium- and long-term timeframes, specific timespans aren´t commonly given. The question of what the appropriate time horizon is to remain responsive to a dynamic environment.

In addressing big picture sustainability issues which manifest over decades, time horizons are longer than traditional business planning and reporting cycles. Previous research has observed a disconnect in the time horizons for risk assessments applied to mainstream financial reports and those applied to the materiality process.[68] This undermines the effectiveness of the materiality assessment if the relevant information is not used internally to guide decision-making.

For companies, this means that effective evaluation of risks, opportunities, ROIs, and forecasting may require consideration of ESG issues that are not categorized as material today.

Articulating the time horizons used and how frequently materiality topics will be reviewed should be central to any robust materiality assessment process. This would include reviewing the links to company risks, opportunities and strategy and assessing how this connectivity is reflected in reported information such as key performance indicators (KPIs), management discussion and comparability of information. Establishing a process or methodology for assessing future materiality based on past data, using techniques such as expert elicitation and scenario analysis, could be considered as way to identify topics that may become material in the future.[34,38,57,66,67]

Connecting the dots - material ESG issues and enhanced risk assessment

The global risk landscape continues to change. Monitoring and managing ESG-related risks and opportunities is crucial to business resilience in an economy that experiences more frequent and severe risk impacts than ever before. Not managing ESG-related risks can mean missing out on opportunities and suffering detrimental impacts.

WBCSD research found that only 44% of companies in 2019 showed some alignment between what they said was material in their sustainability report and what they disclosed in their legal risk filings. Although not all material issues translate into risks and vice versa, this disconnect demonstrates that organizations find it challenging to integrate emerging ESG information into existing mainstream business processes – including risk management.

Working with member companies, WBCSD engaged KPMG, through its process known as Dynamic Risk Assessment, to enhance ESG risk management. Application of the dynamic risk assessment approach has highlighted that the complexities and connectivity of ESG-related risks mean companies must assess risks not just individually, but as an interconnected, aggregated and dynamically dependent group. By considering risks as part of an interconnected network, it is possible to identify the most influential risks and better target and apply risk mitigation techniques to positively impact key challenges. By extending and introducing new risk dimensions, the analysis illustrated the importance of considering connected clusters of risks and exploring how the occurrence of one risk may trigger or influence the timing and occurrence of other connected risks. The analysis highlighted the greater aggregated severity and more rapid onset of closely connected, clustered risks, compared with traditional approaches that assess the impacts of individual risks and ignore their interactions.

As materiality assessments are used by companies to support the identification of relevant risks, strengthen risk assessment can help better understand the interconnectivity between material ESG topics and their dynamic nature to an enhance risk management and disclosure. Effective risk management – especially with longer time horizons – also means understanding what ESG subjects are material today and what can are likely to be material in the future. For more information, see the full report and work at https://www.wbcsd.org/fumnc

CHALLENGE 5: MATERIALITY AND FIDUCIARY DUTY

For investors and asset managers, the conventional viewpoint is that fiduciaries are not required to "account for the sustainability impact of their investment activity beyond financial performance".[8] However, there are strong calls within the literature for clarification on the role of fiduciaries, including whether or not they should be obliged to incorporate both financially material ESG factors into investment decision-making and the sustainability preferences of clients - whether or not these preferences are financially material in the traditional sense.[8,63] It has been suggested that fiduciaries who do not consider material ESG topics in their investment practices may be breaching their stewardship obligations.[69]

For companies, the implications of fiduciaries paying closer attention to material ESG topics may result in increased scrutiny of the materiality assessment process and requests to integrate context based, multi-capital assessments, cumulative impacts and scalability into future materiality approaches.[70]

As the Board of Directors of a company have a fiduciary duty to ensure its long-term success, it is essential that boards understand the material issues of the business and their impacts and dependencies on stakeholders to effectively exercise their fiduciary duties. Our research highlighted that the guidance of stock exchanges frequently refer to the role of board oversight in ensuring strategic direction regarding material ESG issues due to the link to value creation[59,71–78] and that there has been an increase in ESG litigation as companies have mismanaged or misreported relevant or material ESG issues.[79,80]

Material ESG issues should be elevated to the board to ensure full awareness of important risks and opportunities effecting value creation to enable the board to be able to fulfill its fiduciary duties. Ultimately, the board should play a role in scrutinizing the materiality assessment to ensure robust and relevant information as it falls to them to ensure that stakeholder tensions are resolved.

CHALLENGE 6: IT'S NOT FINANCIAL INFORMATION

Our final observation relates to the contrast between finance and ESG reporting. Reporting on financial material topics is rooted in accounting practice and regulation and supported by robust underlying data. In contrast, when deciding if an ESG topic is material, supporting infrastructure and underlying information may not necessarily exist.[49,81] To assess materiality of ESG issues, companies need to investigative what could be material through a materiality assessment e.g., by soliciting views of relevant stakeholders. This can create a situation where new and emerging ESG material issues are not currently accounted for and the company may not have data collection, control and management systems in place. As a result, companies will need to assess if further work is needed to integrate respective management and data systems for the identified material ESG subjects to support robust reporting on these issues.

5 Materiality assessments in practice

⑤ Materiality assessments in practice

In conducting a materiality assessment, companies need to navigate the different perspectives on materiality and the challenges highlighted in the previous chapter. To understand current practice and approaches, 551 reports of members of WBCSD were analyzed. A total of 428 reports contained a materiality assessment. Table 1 provides an overview of the main report types and characteristics. Our investigation showed that there are seven main steps in conducting a materiality assessment. These steps may be influenced by the guidance provided by voluntary reporting standards but our observations in this chapter are derived from evidence from the company reports and interviews.

1) PURPOSE OF A MATERIALITY ASSESSMENT

As highlighted in Chapter 4, while the materiality assessment is used in reporting to determine the sustainability topics that are important to the company, our research shows that the materiality assessment can be used for three purposes:

1. To determine the content of the sustainability or integrated reports. This purpose was stated in the vast majority of reports.
2. To evaluate the current strategy of the company.
3. To develop a new strategy for the next three to five years.

The same materiality assessment can be used for all three purposes, only the results are interpreted differently.
For determining the content of a report targeted at a specific stakeholder group – for example, investors – the company can highlight the results of the materiality assessment that relate to the information needs of this stakeholder group.
For each material topic, the business activities concerning the material topic are summarized and one or more indicators regarding the topic are reported. For a more forward-looking view, the company can also disclose planned goals and activities for each material topic. Less material topics are not reported on or they are disclosed less extensively.

For evaluating an existing strategy, the results of the materiality assessment are compared with the previously set strategic goals to see whether the priorities indicated in the strategy still align with the priorities of today. If a topic is more material than previously expected, the company can decide to adjust its KPIs or redistribute resources across strategic goals.

In developing a new strategy, the most material topics inform the strategic goals and the related KPIs. Since KPIs need to be monitored, material topics also influence the set-up of the information systems of the company. Less material topics can still be monitored and reported on, but they do not directly inform the main goals of the company.

Table 1: The characteristics of the 428 reports investigated

	reports	% total
Regions		
EMEA	226	52.8%
Asia Pacific	105	25%
North America	75	17.5%
Latin America	20	4.7%
Types of reports		
Sustainability	284	66.4%
Integrated	85	19.9%
Combined Annual Report	59	13.8%
Year published		
2017	131	30.6%
2018	138	32.2%
2019	159	37.1%
Total	**428**	

2) MATERIALITY CYCLE

Because companies and the external environment are constantly changing and evolving, an effective approach to materiality needs to be seen as dynamic. These developments can lead to a reshuffling of topic priorities, changes in the terminology used to describe topics or appearance of new topics (see section 4 'identifying topics').

Our research highlighted the importance of regularly repeating the materiality assessment to support a company in picking up these changes. Typically, where the materiality assessment is considered part of the reporting cycle, an annual update of the assessment is common. This annual assessment may not be as extensive every year. It is common practice to conduct one extensive assessment and then, in the two to three years that follow, to conduct smaller assessments to see whether there were major changes until doing another extensive assessment in the year to follow. Other companies conduct an extensive assessment and report the same materiality results for 2-3 years until conducting the next extensive update. In the majority of the reports analyzed, the timeframe for review was not indicated and it was not always clear if the materiality assessment was conducted in the reported year or whether it concerned a previously conducted assessment.

Although companies conduct the materiality assessment regularly, that does not mean that they compare the results over time and report changes. According to the interviewees, the main barrier for conducting comparisons are changes in the materiality assessment process which make the results of multiple assessments less comparable. For example, if one year a company asks stakeholders to rank topics and the following year they are requested to score topics from 1 to 5, the materiality scores are not measured in the same way and are difficult to compare. Changes in topic names and descriptions also make comparison more difficult. Whether or not to report these changes in materiality is indicated by the interviewees as being dependent on audience needs. Although focusing on dynamics has been expressed as an improvement in corporate reporting, companies struggle to find a clear manner in which to present changes. Interviewees highlighted concern that presenting these changes will raise more questions from their audience, for example, about the causes of changes. The company may not always have an answer to these questions or the time or space to discuss them in depth.

3) PERSPECTIVE ON MATERIALITY

As indicated in Chapter 4, there are two main perspectives on materiality: 1) the business case perspective; and 2) the societal impact perspective. These two perspectives were reflected in the many but not all of the analyzed reports and interviews. In the reports with a materiality assessment, 35% did not clearly indicate which perspective on materiality was used. When the report did indicate the perspective, it was most clearly visible in the figures and tables used to present the materiality results, such as the axes of the materiality matrix. In 61.2% of materiality assessments companies reported using multiple perspectives on materiality.

From the business case perspective, a sustainability topic is material when it significantly influences the financial

Table 2: The materiality cycles as reported by companies

	reports	% total
Not reported	227	53%
Annually	101	23.6%
2-3 years	87	20.3%
>3 years	13	3.0%

performance of the company. The business case perspective was also referred to in the interviews and reports as 'materiality in the traditional sense', 'financial materiality' and 'ESG-related risks and opportunities'. In 246 (57.5%) materiality assessments, companies indicated that they used the business case perspective as one of the dimensions in the materiality assessment.

From the societal impact perspective, a sustainability topic is material when it reflects a significant part of the company's economic, environmental or social impact on society. This perspective was also referred to as 'impact of the company', 'impact on society' or 'environmental and social impact'. The societal impact perspective was specifically mentioned in 7.5% of materiality assessments.

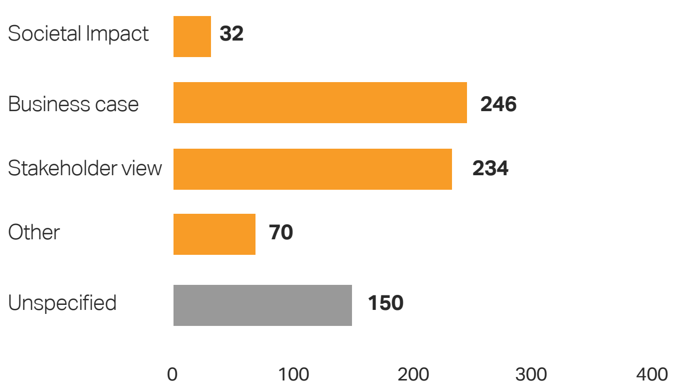
In describing their perspective on materiality, companies often referred to the importance of topics according to (external) stakeholders. In 234 reports (54.7%), this description was represented by labels such as 'stakeholder importance', 'external stakeholder views' or 'impact on stakeholders.' When presenting a materiality matrix, the most common combination was the business case perspective on the x-axis and the 'stakeholder view' on the y-axis. To measure the stakeholder view, companies would ask a selection of stakeholders which topics they think are most important.
The difficulty with this question is that it is not very specific and thus open to multiple interpretations, as indicated by the interviewees. Do the stakeholders think topics are important because of their impact on the business? Or do they prioritize them according to the company's impact on society? Without providing stakeholders with a specific question and guiding them on which perspective they should use, it is hard to determine why the stakeholder perceived a topic as important. Understanding this reasoning can be crucial to determine what follow-up actions to take concerning the topic and also for reader of the report to interpret the results of the assessment.

Another advantage of specifying the perspective on materiality, instead of using a general stakeholder perspective, is strategic alignment. In the interviews, companies indicated that their perspective on materiality should align with their vision on why and how the company becomes more sustainable. When driven by the risks and opportunities sustainability provides, the company can select the business case perspective. When driven by the need to provide long-term value to society, the company can select the societal impact perspective. As indicated by the EC,[32] the company can select both perspectives to perform a double materiality assessment. Whichever perspective is selected, the company should transparently report their perspective to allow the audience to effectively interpret the outcomes of the materiality assessment.

4) IDENTIFYING THE TOPICS

In defining the topics, it is common practice to take topics as defined in sustainability reporting standards, for example the sustainability issues in the SASB materiality map or the titles of GRI's topic-specific disclosures. However, these topics can be perceived as too vague and not adjusted to the company context.

Figure 1: The perspective on materiality reported by companies



Interviewees indicated that topics are frequently translated into a more specific term that resonates better with the company's employees and stakeholders. Another practice is to split the broader topic into multiple sub-topics which may result in the list of topics becoming very long. To shorten the list, companies are seen to either exclude topics that are seen as least material by the company or to regroup them into broader 'bucket' topics.

In specifying and narrowing down the topic list, five potential issues can be observed in reports:

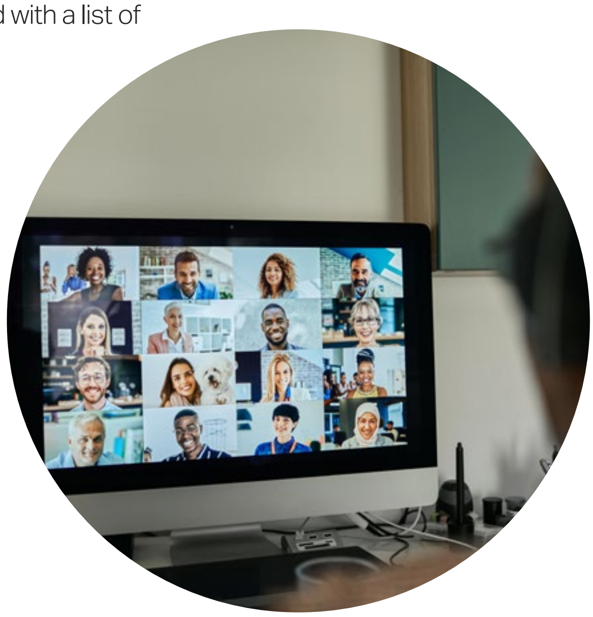
1. **Overlap between topics.**
   In several reports, there was an overlap between topics. For example, one assessment included the topic 'climate change' as well as the topic 'greenhouse gas emissions.' Having overlapping topics in an assessment confuses participants who are asked to rank the topics as well as users of the report.

2. **Vague topic labels.**
   When 'bucketing' topics, the risk is that labels become too general to interpret, such as: 'Indirect impact and influence', 'Social responsibility' or 'Constructing a sustainable society'. Although providing detailed descriptions of all topics within the 'bucket' may help with interpretation, providing one materiality score for all topics will still be difficult. For example, what score to give the general topic 'social responsibility' if the sub-topic 'supporting local entrepreneurship' is material to the company but the other sub-topic 'community safety' is not?

3. **Incomparable framing.**
   In contextualizing a topic, companies are seen to frame topics perceived as more material as a business activity (e.g., CO_2 management systems) or direct business output (e.g., low carbon operations), while topics that are seen as less material are framed as long-term outcomes (e.g., reduction of CO_2 emissions) or abstract societal issues (e.g., climate change). Using diverse framings in one assessment makes topics less comparable. For example, how to compare societal issues like 'climate change' with activities like 'supply chain management' or 'whistleblower procedures' or outcomes like 'gender equality in the workforce'?

4. **Hidden excluded topics.**
   Although excluding less material topics in the assessment is common practice, companies rarely report which topics were excluded and participants in the assessment are not always informed about excluded topics. Although participants are often allowed to add topics to the list, they are not provided with a list of excluded topics from which to choose. Additionally, added topics are often not incorporated in the ranking exercise of other participants and thus will not turn up in the list of material topics, which questions the purpose of this option.

Most of these problems are preventable. By using one particular framing for all topics – preferably as specific as possible – companies can prevent incomparability and overlap of topics. Avoiding 'bucketing' as much as possible and using clear descriptions of topics (referencing the topic list of reporting standards) can support participants and users in interpreting the topics and their scores. If topics are excluded before the assessment, participants can be asked whether they would like to move topics from the excluded list to the included list. When multiple stakeholders indicate that a topic should be moved, the company can include it in their assessment or report it as a topic to be included in the next assessment.



5) STAKEHOLDERS' INVOLVEMENT

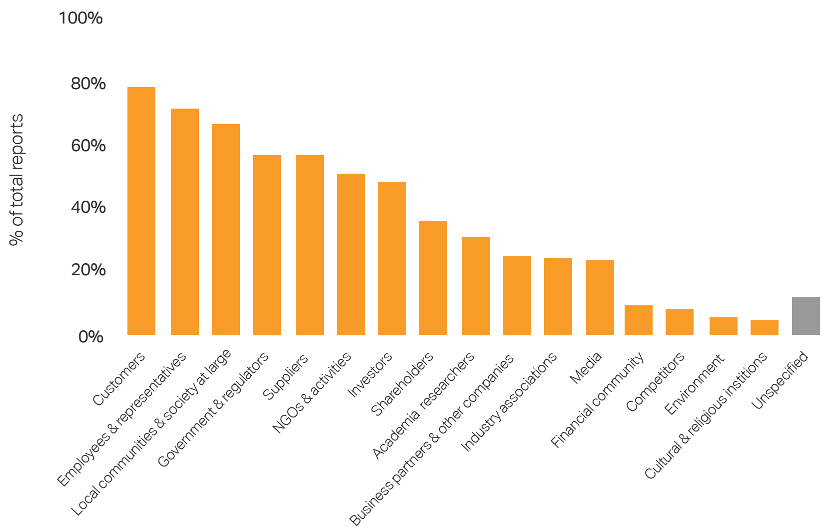
To determine the materiality of sustainability topics, most companies request insights and opinions from their stakeholders. Selecting the stakeholders to be included is an important step in the materiality assessment. In Figure 2, an overview is given of the stakeholder groups engaged with according to the reports analyzed. While companies indicated that they engaged with these groups, not all groups were included in the materiality assessment. Interviewees indicated that a selection was made as to which groups to include and that these selections were not always specified in the descriptions of the materiality assessment in reports.

The selection of stakeholders is observed to differ between the business case perspective and the societal impact perspective. To determine whether a sustainability topic is a financial risk or opportunity, companies are more likely to consult their own management teams and internal topic experts. To gain an outsider's perspective, external experts regarding financial markets and operational risks are also asked for their opinion. To determine the most important societal impacts of the company, mostly external experts are engaged. This engagement is, in some cases, limited to first-tier stakeholders (e.g. customers, business partners, investors and employees), while other companies also include second-tier stakeholders (e.g. academia, government officials and NGOs).

In this stage of the process, the main challenge is prevention of selection bias. Most companies select stakeholders from their own network. For example, in the case of NGOs, companies select organizations that they directly collaborate with those directly linked to their companies. Although these stakeholders might have the most knowledge about a company's activities, they are also likely to use the same information sources as the company to determine what is important. By using a similar lens to the company, these stakeholders are less likely to detect new risks or opportunities for the company or alternative ways in which a company impacts society. To combat selection bias, interviewees indicated actively contacting organizations or individuals not previously engaged with. However, the response rate of these stakeholders was lower than other actors.

Although selection bias was acknowledged by the interviewees, assigning weights to stakeholder groups can further emphasize its effect. Several interviewees indicated using weights was common practice, but this was not communicated explicitly and was only observed in 3.0% of the reports. While scientific researchers use weights to correct for underrepresented groups in a sample, in materiality assessments weights are often determined by the influence each group has on the company's short-term financial performance: the bigger the influence, the higher the weight. According to interviewees, using such weights would provide a more realistic image of the stakeholder pressures their company experiences. Besides disregarding already overrepresented stakeholder groups in the selected sample, these weights represent a business case perspective on materiality, which questions whether they are appropriate to use for the societal impact perspective.

Figure 2: Stakeholders engaged with, as reported by companies



Note: not all these stakeholder groups are included in the materiality assessments of every company

6) CALCULATING THE MATERIALITY SCORES

To determine the materiality of a topic, the company needs to collect information on a topic and, based on this information, assess the priority of the topic. This information can be a collection of data measured for other purposes, also called secondary data sources. These sources can include risk calculations, regulatory updates and market trend analyses.

Of the investigated reports published in 2019, 30.9% used secondary data on stakeholder behavior and views, often externally created by traditional and online media publications. Additionally, in 20.1% of the reports, data from stakeholder meetings organized throughout the year was re-used to determine materiality.

Companies can also use primary data methods which are specifically designed to collect data on materiality. This direct engagement with stakeholders for the materiality assessment was done in the 2019 reports through surveys (30.2%), interviews (20.9%) and focus groups (9.4%) in which participants are asked to indicate the priority of sustainability topics.

Our observations are that there also appears to be no consensus on an appropriate balance between primary and secondary data collection. For both types of data collection, the company needs to translate materiality into a measurable construct that is comparable across topics. This raises two challenges: a) how to collect insights on the materiality of a topic; and b) how to combine insights into one materiality score.

In interviews and surveys, materiality is often scored by asking participants to either rank topics or give topics a score (1-5 or 1-10) based on how important they think they are. According to the interviewees, a complaint from participants is that the question is vague and can be interpreted in many ways. Take, for example, the question 'Which topic is most important to you?'. A stakeholder can see a topic as more important for diverse reasons, including:

- it affects the stakeholder's wellbeing directly;
- the stakeholder is an expert in the topic;
- the stakeholder has vested interests in the topic;
- the topic got a lot of media attention;
- the stakeholder is disappointed or not informed about the company's actions on this topic, and
- because the stakeholder is disappointed about the industry's actions on this topic.

Each of these reasons requires a different strategy of the company to act upon the topic. If the stakeholder is concerned about its own wellbeing related to a topic, the company might investigate how it can minimize the negative impact on the stakeholder. If a stakeholder is not informed about the company's actions and performance on a topic, communication about the topic needs to be improved. If the stakeholder is disappointed by poor performance at the industry level, the company might invest in collaborative projects, voluntary standards or industry targets. Interviews allow these reasons to be explored but, for closed questionnaires, the question could be made more specific using the dimensions mentioned.

For example, 'Which topic do you think has the most impact on the financial performance of the company?' or 'Which topic do you think represents the biggest economic, environmental and social impact of the company on society?". To be even more specific, the stakeholders can be asked to score topics on multiple aspects such as scale, scope or the irreversibility of the impact, as suggested by the recent GRI exposure draft.[45]

In using secondary data for the materiality assessment, interviewees highlighted that multiple measurements and sources can be used. For example, one interviewee provided the example of the SASB materiality map, where a committee consults several data sources and provides a score between 0-3 on five criteria of materiality for each topic. When developing a measurement system using secondary data, it is important to reflect upon: a) what is measured; and b) whose viewpoints do the selected sources represent. For example, if an ESG topic scores high in a media analysis, does this mean that the topic is more urgent or that the topic is considered good clickbait, and which specific stakeholders or geographic regions are represented in the selected media sources? In compiling the list of measurements and sources, companies should consider whether they are measuring the 'impact on the business' or 'impact on society' and whether any stakeholders' views are missing from their sources. For example, an enterprise risk assessment concerns the impact of topics on the company's financial performance and could focus only on short- and medium-term risks. If the company wants to also take into account long-term impact on society, only using data from such a risk assessment will not be sufficient to measure the materiality of topics.

The last challenge is combining all the data collected to calculate one overall materiality score per topic. This calculation is only possible with quantitative data, as qualitative data from interviews don't allow a comparison between sources. These materiality scores are often based on scales of subjective views on materiality. Interviewees indicated that the main reason for using these scales is that there are currently no objective measures that capture financial, social, environmental and governance-related impact in a comprehensive and comparable manner. Additionally, even when a company decides to only measure the business case perspective on materiality, the materiality scores still require combining diverse insights gained from a variety of sources including multiple stakeholder groups, geographical contexts, secondary sources and measurements. Interviewees indicated struggling to define a score that provides a clear indication of which topics are material while at the same time being representative of the diversity of views within and between stakeholder groups.

7) SELECTING THE MATERIAL TOPICS

With the materiality scores of each topic calculated, topics can be compared and a final selection of material topics made. The most common figure used to present this decision is the materiality matrix: 56.5% of the reports contained this matrix. In 21.2% of reports, the company chose to present the selection in a table or a figure different from a matrix. The matrix was often complemented with a table (26.0%) or other graphic (3.0%).

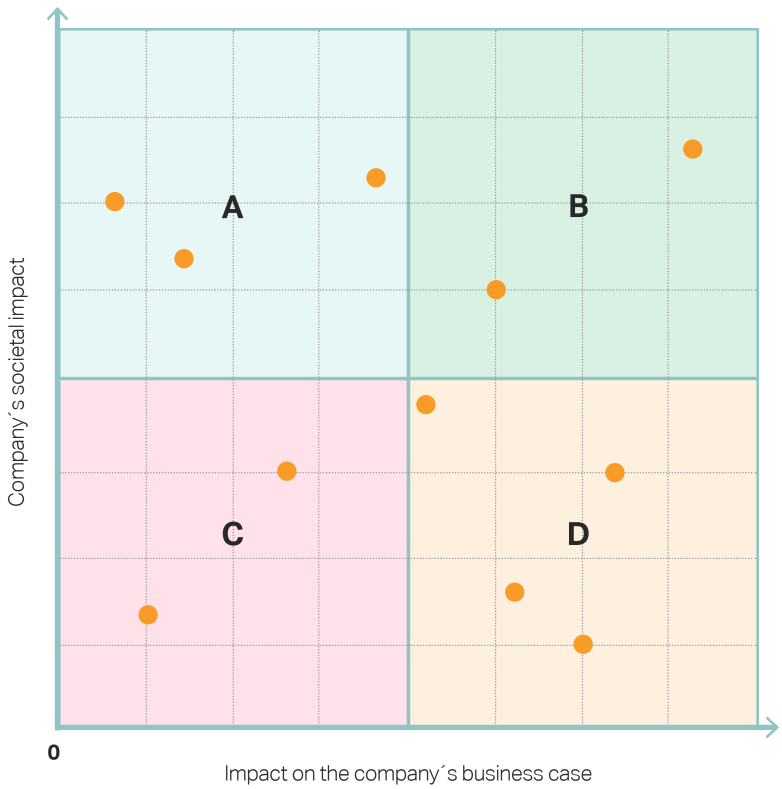
Although commonly used, there were challenges and drawbacks indicated by interviewees in the use and development of the matrix. The two axes of the matrix represent different perspectives on materiality. When these perspectives are separately measured with rigorous methods, the matrix can highlight tensions between the two materiality perspectives. For example, interviewees highlighted that topics that score high on the societal impact axis but low on the business case axis represent investments that are expected to improve societal impact but not directly improve financial performance. On the other hand, topics scoring high on the business case axis and low on the societal impact perspective are seen as important for sustaining financial performance but are of limited importance to the societal impact of the company. These topics are most likely to cause tensions within the business model of the company and its organization. The reports show that the majority of companies do not select these topics as material for the company. Instead, they focus solely on topics that score high on both axes, the so-called win-wins. Often, only these topics are displayed in the matrix and topics that show tensions are excluded.

Another drawback of the matrix is that it is an oversimplified picture of reality that does not show the diversity of viewpoints within or between stakeholder groups. In recognizing this drawback, companies are seen to complement the materiality matrix with a table or figure that displays materiality scores per stakeholder group. Within-group differences may be too detailed to be presented in a report but can be insightful for decision-making within the company. Interviewees indicated a company should not treat a stakeholder group (such as investors) as a homogenous group and should look beyond average group scores. In doing so, the materiality assessment can provide the company with valuable insights, such as who to turn to for support on more sustainable strategic decisions.

In practice, materiality measurement (including the data collection) is often outsourced to consultancies or other agencies specialized in data analysis. Their experience in developing and conducting assessments supports the efficiency of the process and provides the company with knowledge on common practices across industries. However, in outsourcing the process the active engagement of the company is still needed. As shown in this chapter, many of the decisions taken in the development of the materiality measurement and during data collection reflect the company's vision on materiality and can have a big impact on the outcomes of the assessment. When developing materiality measurement in-house, the interviewees indicated that they were able to further contextualize the assessment and make sure each decision in the analysis represents the company's vision of materiality and overall corporate sustainability. This ownership allows companies to take their materiality assessments to the next level. It could mean a toolkit for materiality measurement across subsidiaries or geographic markets, or even an information system that can consistently measure materiality across time to provide insights in real-time to all departments. Such systems are used for better top-down and bottom-up alignment on material topics and, thus, on the strategic priorities of the company.

Figure 3: An illustration of a materiality matrix showing the two perspectives as referred to as 'double materiality'

A matrix is often used to present the results of the materiality assessment, but by using these two axes can also be used to identify tensions between materiality perspectives.



6 Summary of recommendations

⑥ Summary of recommendations

Materiality assessments are most effective and meaningful when the company:

METHOD OF MATERIALITY ASSESSMENT

- Indicates a **clear purpose** of the materiality assessment describing how the results of the assessment will be used (for reporting, internal decision-making, input into strategy, etc.)
- Articulates **time horizons and how frequently** materiality topics will be reviewed
- Conducts the assessment **regularly and compares results** with previous assessments to allow changes in materiality to be identified and reported
- **Articulates which perspective(s)** on materiality will be used and ensures this perspective is reflected in the factors used to identify and prioritize ESG issues (e.g. external trends, risks and opportunities, magnitude and likelihood of impacts, changes in materiality)
- Includes a **thorough analysis of key stakeholders** of company to identify which stakeholders should be consulted during the assessment and possible **biases in this selection**
- **Considers a broad range of stakeholders** including those typically outside normal spheres of influence
- Where appropriate, takes into account **divisional and geographical differences**
- Considers that stakeholder groups (such as investors) are **not a homogenous group** and looks beyond average group scores
- Asks stakeholders to **score topics on multiple aspects** such as the scale, scope or the irreversibility of the impact
- Ensures information is of **high-quality and seeks assurance** on material information, both from internal and external sources

INTERNAL INTERPRETATION AND VALIDATION

- Communicates the results of the materiality assessment **to the board to ensure awareness** of important risks and opportunities effecting company value creation
- Communicates the process and results to **other departments**, such as risk management
- Considers how the results of the materiality assessment are r**eflected in the company's strategy, targets, incentives, risk assessments and business opportunities**

EXTERNAL REPORTING

- Considers **who the reported information is for** and how the materiality assessment reflects **their needs** for information
- **Clearly describes what perspective on materiality** has been applied, explaining any judgments and assumptions
- **Describes specific steps taken to identify, prioritize and validate material topics**, including how the views of the organization and key stakeholders were taken into account
- Use clear descriptions of **all topics included in the assessmen**t (with reference to topic list of reporting standards) to support participants and users in interpreting topics and their scores
- Discloses **the results of the assessment** through a matrix or prioritized list of material issues
- Reports on **changes over time and how often** the materiality assessment is conducted
- Includes **relevant and material information in a specific, concise way**, steering away from boiler-plate language and immaterial information
- Demonstrates **internal validation and follow-up** of the results of the materiality assessment
- Explains how **third parties contributed** to the assessment process or validation of outcomes

7 Conclusion

6 Conclusion

This report seeks to provide perspectives on the reality of materiality to support companies and those involved in defining global standards on ESG disclosure. Our analysis of the literature identified six broad challenges associated with the application of materiality assessments which are frequently observed in corporate reporting practices. The results can be summarized in three key take-aways.

IT COMES DOWN TO PERSPECTIVE

A principal observation is the broad adoption of the two different perspectives of materiality. The boundaries between these perspectives are less clear in reality than they are in the theoretical setting of reporting standards development. In 150 of the 428 reports reviewed the materiality perspective was not clearly explained. This could suggest that companies are unaware of the multiple perspectives of materiality or do not recognize it as important to communicate their perspective on materiality. At the same time, our analysis found that in 61.2% of the reports multiple perspectives on materiality are combined. This would suggest that the majority of companies in our sample are aware of multiple perspectives on materiality and that these perspectives provide different but complementary insights. The double materiality concept set out by the EU is seen to follow this line of reasoning. The complementarity of the perspectives used in practice to identify "win-win" scenarios i.e., the ESG topics that score high on both enterprise value creation and societal impact or stakeholder interest. Interestingly, a few companies were also seen to highlight ESG topics that can create tensions within the organization. For example, tensions can arise from ESG topics that are important for societal impact but less material for financial performance. Such insights can be used to anticipate topics that may become more financially material in the future.

TRANSPARENCY ON DECISION-MAKING = TRANSPARENCY ON MATERIALITY

The ESG Disclosure Handbook sets out that materiality should be applied to determine how much information should be included in corporate reports to achieve reporting objectives and make information useful to audiences, including investors.[7] The disclosures reviewed show that companies could do more to effectively articulate their reporting objectives and approach to materiality. Many of the decisions made during the materiality assessment are not reported, making it difficult for users of the disclosure to evaluate whether the company made the right decisions in selecting the reported information. For example, 53% of companies in our sample do not discuss when the previous assessment was conducted and only a relatively small number of companies compare the results of a previous assessment with the new materiality results. Furthermore, 41.5% of reports did not indicate which type of engagement was used with stakeholders during the materiality assessment process.

This underreporting is not difficult to resolve and we provide suggestions on what to report for each of the seven steps of the materiality assessment. Ultimately, the materiality assessment is tool to internally ensure a systematic approach for setting priorities and to transparently communicate to external stakeholders how the company decides on its priorities, and the challenges in doing so.

USING THE MATERIALITY ASSESSMENT TO ITS FULL POTENTIAL

If the materiality assessment becomes a tick-the-box exercise only for the purpose of fulfilling the requirements of a reporting standard, this may limit the value of the process. Significant resources may be employed to undertake a thorough materiality assessment. Our research highlights that materiality can be a broader tool for the integration of ESG topics in strategic decision-making, where the outputs are used to evaluate current strategies and inform future priorities. The engagement with stakeholders during the assessment can support companies in anticipating opportunities, tensions and changes in their environment. When seen in this way, the materiality assessment can fulfill its objective to enhance transparency on company priorities and how the company arrived at these priorities and, at the same time, provide an opportunity to systematically integrate feedback from stakeholders into future priorities and plans. Only with this more integrated purpose can the materiality assessment be used to its full potential and ensure efficient and effective use of resources.

Appendix

Organization	Definition of Materiality	Source
FASB	"Materiality is entity specific. The omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item."	82
FRC	"Information is considered to be material if its misstatement or omission individually or in aggregate could influence the economic decisions of users on the basis of the financial information provided."	49; 83
IASB/IFRS	"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."	84
IIRC/IR	"A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term."	85
OECD	"Material information can be defined as information whose omission or misstatement could influence the economic decisions taken by users of information."	86
UNCTAD	"Defining materiality as an entity-specific aspect may create a conflict with the criterion of universality. In the context of Goals-related reporting, materiality has a new dimension. Adoption of the Goals required multi-stakeholder consultations, and all parties agreed that certain aspects of economic, environmental and social activities were material to them. "	66
US SEC	A matter is "material" if there is a substantial likelihood that a reasonable person would consider it important.	88
US Supreme Court	"There must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information available." Put differently, there must be "a substantial likelihood that a reasonable shareholder would consider (the omitted information) important in deciding how to vote."	89
AccountAbility	"Materiality, in the sustainability context, relates to identifying and prioritizing the most relevant sustainability topics, taking into account the impact each topic has on the organization and on its stakeholders. Materiality includes the disclosure of risks and opportunities posed by these issues affecting environmental, social, and governance (ESG) domains that have impacts on corporate performance and on stakeholders in the long-term."	90
CDSB	Environmental information is material if: • The environmental impacts or results it describes are, due to their size and nature, expected to have a significant positive or negative impact on the organization's financial condition and operational results and its ability to execute its strategy; • Omitting, misstating or obscuring it could reasonably be expected to influence the decisions that users of mainstream reports make on the basis of that mainstream report, which provides information about a specific reporting organization.	91
CDP	See CDSB. Note: "Relevance of emissions should not be limited to sustainability topics that have a significant financial impact on your organization, or "materiality"."	30; 55; 92

Organization	Definition of Materiality	Source
CRD	"material information is any information which is reasonably capable of making a difference to the conclusions reasonable stakeholders may draw when reviewing the related information."	30
Capitals coalition	"An impact or dependency on natural capital is material if consideration of its value, as part of the set of information used for decision making, has the potential to alter that decision."	93; 94
GRI	"'Material Aspects' are those that reflect the organization's significant economic, environmental and social impacts; or that substantively influence the assessments and decisions of stakeholders." GRI revised its definition of materiality in an 2020 exposure draft to: "the organization prioritizes reporting on those topics that reflect its most significant impacts on the economy, environment, and people, including impacts on human rights"	95; 45
EU	"information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters" "In effect, the Non-Financial Reporting Directive has a double materiality perspective: - The reference to the company's "development, performance [and] position" indicates financial materiality, in the broad sense of affecting the value of the company… - The reference to "impact of [the company's] activities" indicates environmental and social materiality. Climate-related information should be reported if it is necessary for an understanding of the external impacts of the company."	1; 96
EFRAG	"Identifying sustainability matters that are material in terms of the impacts of the reporting entity's own operations and its values chain (impact materiality), based on: (i) the severity (scale, scope and remediability) and, when appropriate, likelihood of actual and potential negative impacts on people and the environment; (ii) the scale, scope and likelihood of actual positive impacts on people and the environment connected with companies' operations and value chains; (iii) the urgency derived from social or environmental public policy goals and planetary boundaries. Financial materiality: Identifying sustainability matters that are financially material for the reporting entity based on evidence that such matters are reasonably likely to affect its value beyond what is already recognised in financial reporting.."	87
ISO	['materiality' = 'significance'] "The identification of relevant issues should be followed by an assessment of the organization's impacts. The significance of an impact should be considered with reference both to the stakeholders concerned and to the way in which the impact affects sustainable development."	97
SASB	"SASB identifies financially material issues, which are the issues that are reasonably likely to impact the financial condition or operating performance of a company and therefore are most important to investors."	98
TCFD	"Importantly, in determining whether information is material, the Task Force believes organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings. In addition, the Task Force cautions organizations against prematurely concluding that climate- related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks."	41
WEF	"This project uses the term "material" to mean information that is important, relevant and/or critical to long-term value creation."	62

Relevant resources

- WBCSD (2019). ESG Disclosure Handbook. Available at: https://www.wbcsd.org/2mtf7
- WBCSD and CDSB (2018-2019). The Reporting Exchange ESG reporting reports and case studies. Available at: https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/The-Reporting-Exchange/Resources
- WBCSD (2018-2020). Task Force on Climate-related Financial Disclosures (TCFD) Preparer Forums. Available at: https://www.wbcsd.org/Programs/Redefining-Value/External-Disclosure/TCFD
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