Sustainability Disclosure Standards: Difference between Single Materiality and Double Materiality

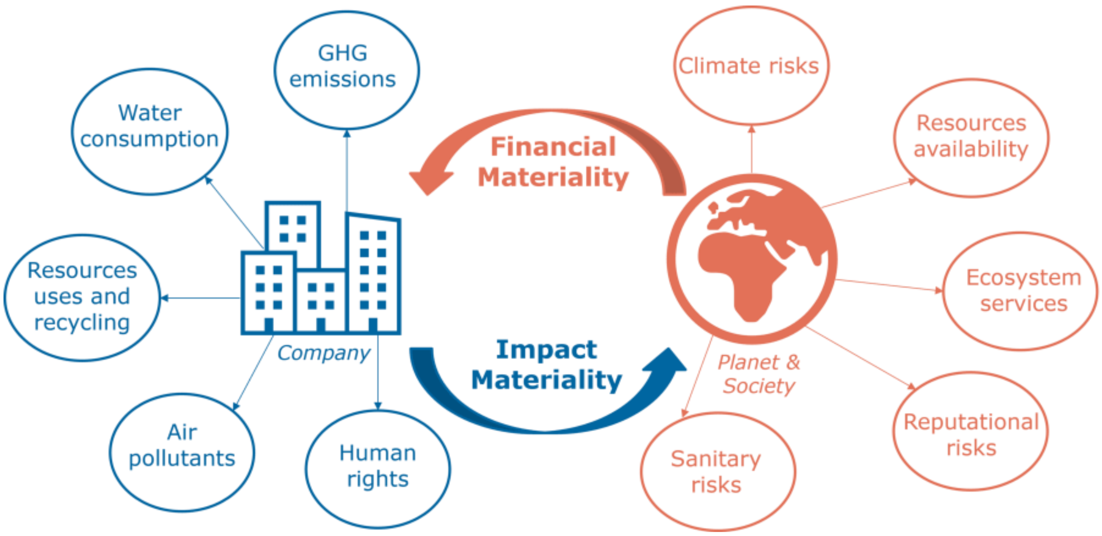
While a variety of complex topics make up the sustainability landscape, not every sustainability-related issue will be of equal importance to organization. Understanding the scope of materiality assessment and clearly articulating the boundaries that have been set is critical. To identify which issues are most relevant for business and stakeholders, companies should conduct their materiality assessment. Materiality is affected by perceptions of the information needs of intended users of the sustainability information. Materiality in the context of financial reporting focuses on the decision-making needs of investors. Materiality in the context of sustainability reporting often considers much broader stakeholders such as local communities, employees, suppliers, customers, consumers, and regulators.

Currently, there are two different approaches which are used in determining materiality which are single and double materialities. It is important to understand the difference between "single materiality" and "double materiality" approaches to assessing sustainability-related risks and opportunities. These two approaches are distinct but interconnected in evaluating and disclosing the impact on sustainability-related matters. Without understanding these impacts, it won’t be possible to get a complete overview of financial risks affecting companies.

Single materiality approach, which is used by International Sustainability Standards Board (ISSB), is a term used to describe how sustainability-related risks and opportunities can affect an organization's financial position and operating results as well as access to finance or cost of capital over the short, medium and long term. This approach focuses solely on the potential impacts to the organization (outside-in or financial perspective), rather than the organization's impacts on the environment (inside-out or non-financial perspective). The materiality of risks and opportunities should be assessed based on a combination of the likelihood of occurrence and the magnitude of financial effects. Under IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information), only material information needs to be disclosed. This means that an entity is not required to disclose any immaterial information, even if it is required by an IFRS Sustainability Disclosure Standards. In line with the definition of materiality in IFRS reporting, information is considered material if omitting, misstating, or obscuring, it could reasonably be expected to influence the decisions that the primary users make on the basis of that information.

On the other hand, *Double materiality* approach (Financial and Impact), which is used by Global Reporting Initiative (GRI) and also in European Sustainability Reporting Standards (ESRS), takes into account not only how these sustainability-related risks and opportunities may impact the organization's financial position and operating results but also how an organization affects the environment. Double materiality assessments are more comprehensive and complex than single materiality assessments, as they consider not only an organization's internal operations but also its influence on society and the environment. It covers the entity's own operations as well as its upstream (e.g. suppliers and pre-production activities) and downstream (e.g. post-production activities and end customers) value chain, when considering its material impacts, risks and opportunities. The materiality of impacts should be assessed based on a combination of the likelihood of occurrence and their severity. The assessment of the severity of its impacts whether they are material or not, is based on three factors: Scale (how beneficial the impact is), Scope (how widespread the impact is) and Irremediability (whether or not the impact can be mitigated or resolved). ESRS 1 (General Requirements) sets criteria for the materiality assessment but not specific thresholds to determine when a matter or information is material or not. Therefore, assessment requires the exercise of judgement and the need for judgement will be higher whenever the information and evidence about the materiality of a given impact, risk and opportunity is inconclusive.

The results of the above materiality assessment can help refine priorities for companies' strategy and enhance alignment across organization. However, conducting the materiality assessment should not be a one-time exercise. As risks change over time, it is critical for companies to reassess materiality regularly to help keep track of evolving sustainability priorities and support program relevance and effectiveness.



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