

BDO Belgium

Double Materiality Assessment



The concept of double materiality assessment (DMA)

During this assessment, the company will evaluate which ESG topics are of importance for their business. Two perspectives, financial materiality and impact materiality, should be used to determine whether a topic is material.



Financial materiality covers the financial impact that ESG matters have or may have on matter such as the company's performance, cash flow and access to capital. The stakeholders that are most interested in this type of materiality include investors, credit lenders and suppliers.

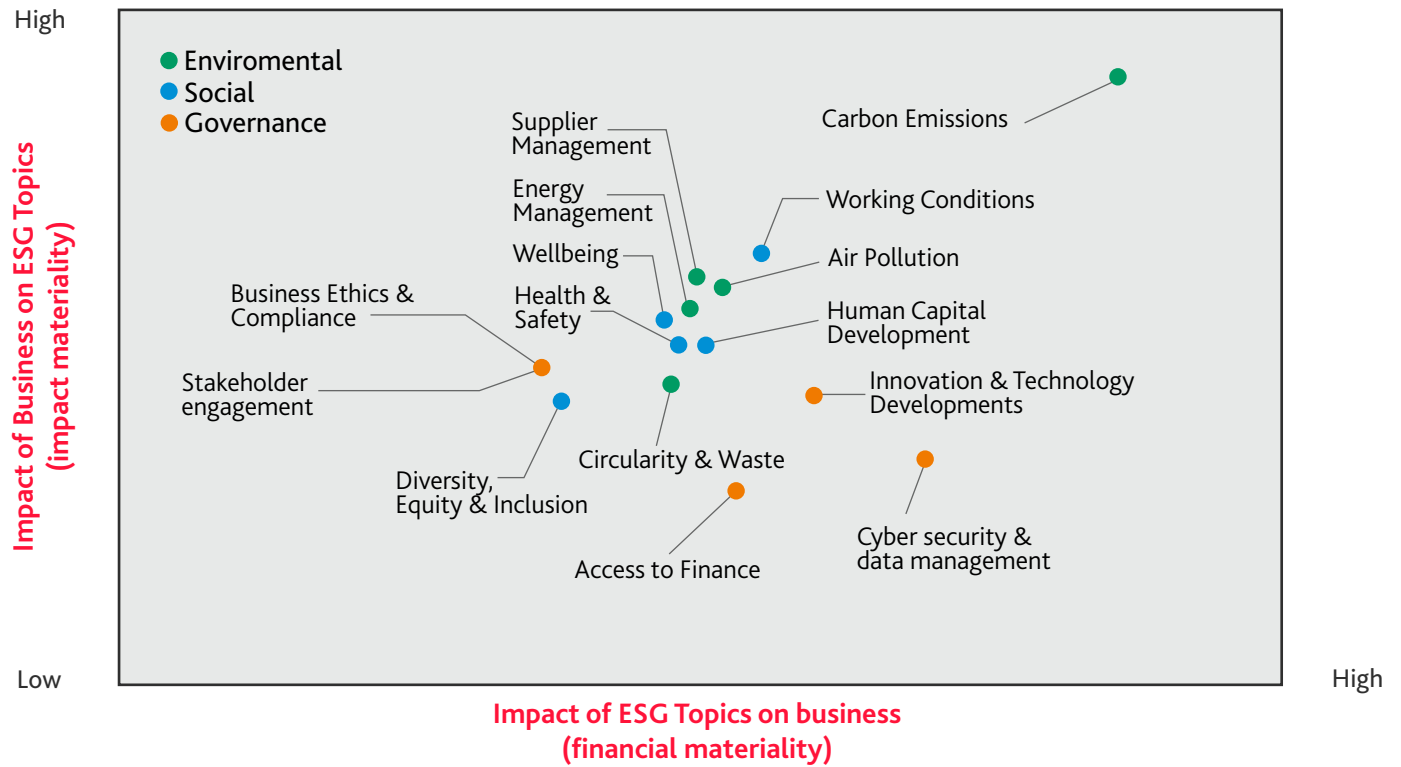
From the **impact materiality** perspective, a company evaluates its impact on people and the environment. The stakeholders that are most interested in this type of materiality include customers, employees and trade unions.

Double materiality combines these two ways to approach materiality. A topic is considered

material when it has been assessed material from either a financial materiality or impact materiality viewing point or both.

The double materiality assessment is not limited to the company's own operations. It should also consider impacts, risks and opportunities induced by its upstream and downstream value chain and by its business relationships.

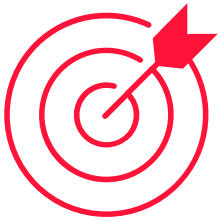
The outcome of a DMA can be visualised in different ways. The most common visualisation is a matrix, with the financial materiality on the horizontal axis and the impact materiality on the vertical axis.



It is essential to understand that a company will not only report on the topics that are in the high-high segment, but on all topics that show high importance to either financial materiality or impact materiality.

Six steps approach to perform a DMA

To perform a thorough and CSRD compliant double materiality assessment, we have defined six steps companies should follow:



BUSINESS CONTEXT & VALUE CHAIN

To start the double materiality assessment process, a company will first need to understand the context they are operating in and might engage in the following steps:

- Analysis of the business model and strategy
- Mapping of key activities, products/services and geographical locations of activities
- Mapping of the value chain, incl. business relationships & up and/or downstream value chain
- Gathering information from the due diligence process



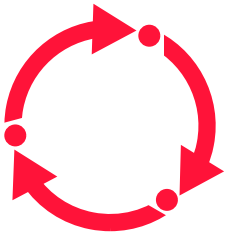
CREATION LONG LIST BASED ON ANALYSIS

Next, companies can identify a long list of potential material topics based on:

- Sector specific matters (for example: by GRI, SASB, MSCI)
- Analysis of existing and upcoming legal and regulatory landscape
- Peer analysis comparing material topics and specific best practices
- Sector trends & challenges, to identify risks and opportunities
- Media reports to gather more ESG insights
- Materiality tools such as SASB materiality finder, MSCI industry materiality map, MVO risk checker, WWF risk filter, etc.
- Previous work done, such as previous materiality assessments & current initiatives of the company

The outcome of this step is a list of potential material ESG matters.





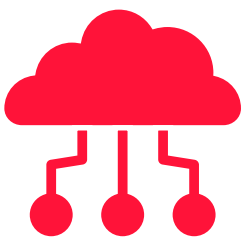
STAKEHOLDER ENGAGEMENT

Stakeholder engagement is the process of gathering feedback and input to confirm the important issues and understand the concerns related to sustainability. When conducting stakeholder engagement, we suggest the following steps:

First, **identify the key stakeholders** that can affect or be affected by the company or its value chain.

Next, companies should determine the **stakeholder engagement strategy**. For this step, prioritise the identified stakeholders' groups based on their influence on the firm, or how the firm's activities impact them. Different approaches to stakeholder engagement should be used for different groups of stakeholders that are best suited to interact with them, such as sending out surveys, organising interviews, workshops, or brainstorm sessions.

Based on the types and relationship with the prioritised stakeholders, relevant **input can be gathered** on, for example, what they find important, what their expectations are and how this is affecting them.



IRO ANALYSIS

This stage relates to the deeper analysis of each ESG matter identified in the previous steps, such as:

- Analysing whether the impact is positive/negative or whether it involves a risk or opportunity
- Analysing whether the impact is actual (present) or potential (future)
- Locating the IRO along the value chain, incl. determining whether the IRO originates from the company's own operations, its value chain or its business relationships
- Determining time horizons during which the IROs might materialise



SCORING

Building upon the information and insights gathered from the previous steps, these topics can be scored based on both their impact materiality and financial materiality.

Especially during the first years of performing a DMA, it is important for companies to focus on the objective and not engage in an endlessly complex exercise, such as setting up complex formulas and detailed topic-specific thresholds. The reporting journey and performing a DMA will be a continuous improvement effort.

We advise documenting the reasoning behind the attribution of specific scores, both as background for future reporting exercises and for the use of external auditors, as part of the assurance obligation.

Impact materiality includes impacts connected with the company's own operations and value chain, including through its products and services, as well as through its business relationships.

The scoring can be based on **severity** and, in the case of a potential impact, on **likelihood**, which is the probability that an impact will occur over the defined time horizon.

The severity will depend on the scale, scope and irremediability of that impact:

- **Scale:** The degree of the negative or positive impact on people or the environment resulting from the impact
- **Scope:** The extent to which the negative or positive impacts have spread or are present.
- **Irremediability:** Whether and to what extent the negative impacts could be reversed.

A possible scoring formula for each ESG matter is:

$$\frac{(\text{Scale} + \text{Scope} + \text{Irremediability})}{\text{Number of factors}} \times \text{Likelihood}$$

Financial materiality includes risks and opportunities that can trigger material financial effects on a company generated by the long list of ESG matters. Scale:

- **Magnitude:** The extent of the financial effects, possibly expressed in monetary units, over the short, medium and long term
- **Likelihood:** The probability that a risk or opportunity will materialise into financial effects in the defined time horizon

A possible scoring formula for each ESG matter is:

$$\text{Magnitude} \times \text{Likelihood}$$



DOCUMENTATION & VALIDATION

In this final step, reporting firms must consolidate the results of the impact and financial materiality assessment to obtain the list of material impacts, risks, and opportunities that will be the basis for ESG reporting.

This final list will need to be **validated by management** to conclude the double materiality process and assess its completeness.

Besides the fact that the ESRS (European Sustainability Reporting Standards) mandate some disclosures specifically related to the double materiality, **documenting the double materiality decision** process well is valuable for both internal purposes and for external assurance purposes.

Contact



IGNACE ROBBERECHTS
ESG partner
+32 495 80 12 30
ignace.robberchts@bdo.be



SANDER MOEYS
ESG senior consultant
+32 472 60 88 84
sander.moeys@bdo.be

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