

Double materiality assessment according to CSRD

Double-materiality has two dimensions:

- Material materiality
- Financial materiality
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Materiality and financial materiality assessments are interlinked and the interdependence between these two dimensions must be taken into account. In general, the starting point is an assessment of the effects. A sustainability impact can be economically significant from the outset or become economically significant when it becomes investor-relevant.

A **sustainability issue is material** when it concerns the company's:

- Significant actual or potential, positive or negative effects on humans or the environment
- In the short, medium and long term.
- The impact is caused by the company, either as directly linked to its own activities, products or services, or through its business relationships.
- Business relationships include the company's upstream and downstream value chain and are not limited to direct contractual relationships.

The **financial materiality** assessment process includes, but is not limited to:

Identification of information useful to investors, lenders and other creditors

when assessing, as primary users of general purpose financial reporting, the impact of sustainability issues on the company's cash flow, development, performance, position, cost of capital or access to finance.



The materiality assessment process

Example of Telefonica's materiality assessment process:



Stakeholder perspective is (still) important!

STAKEHOLDER EXAMPLES

Employees
Unions
NGOs
Sustainability-related institutes and organisations
Governmental organisations
Municipalities
Academia
Customers
Suppliers
Investors
Online communities
Media
Specialist consultants
Social entrepreneurs



Step 1: Assessment of the severity of the **negative** impact on people and the environment & business

Scope of the effect	
Impact/significance for climate	
5	Total
4	Large
3	Medium
2	Low
1	Minimal
0	None

Scale of effect	
Affected areas and people	
5	Global
4	Regional
3	National
2	Concentrated
1	Limited
0	None

Remediation	
Mitigation/restoration of affected climate-related areas	
5	Cannot be remedied/irreversible
4	Very difficult to remedy or long term
3	Difficult to remedy or medium term
2	Time and cost to remedy
1	Relatively easy to remedy in the short term
0	Easy to remedy



EXAMPLE: materiality assessment

ESRS	Topic	ESRS Sub	Subtopic	Sub sub	Kommentarer						Finansiell impact	Probability
					Scope	Scale	Remidation	Achievement	Probability			
E1	Climate change	E1-4	Climate change adaptation and mitigation									
E1	Climate change	E1-5	Energi - Energi mix		LAERGE 4 Large impact due to use of coal and fuel	NATIONAL 3 Impact in DK	DIFFICULT/LONG TERM Planned transition to renewable energy		POSSIBLE Decision on transition plan		LARGE 50 mio. +	POSSIBLE Board and investor demand
E1	Climate change	E1-6	GHG emissions - Scope 1-3									



Step 2: Assessment of the potential for **positive** impacts on humans and the environment & the business

The scope of the effect		Demarcation		Benefits achievement	
Impact/significance for climate		Affected areas and people		Achieving benefits for affected climate-related areas	
5	Total	5	Global	5	Easy to achieve benefits
4	Large	4	Regional	4	Relatively easy to achieve short-term benefits
3	Medium	3	National	3	Time and cost-heavy to achieve benefits
2	Low	2	Concentrated	2	Difficult to achieve medium-term benefits
1	Minimal	1	Limited	1	Very difficult to achieve benefit or long-term
0	None	0	None	0	Benefits cannot be obtained



Step 3: Overall assessment of the severity of the adverse effect, the possibilities for positive effect and the likelihood of the effect occurring

Impact on humans and the environment					
Score	Severity and opportunity				Probability
	Scope <i>The impact on the environment and society</i>	Demarcation <i>Affected areas/people</i>	Remedy <i>In relation to negative impact</i>	Recovery <i>In terms of positive impact</i>	
5	Total	Global	Cannot be remedied/irreversible	Easy to benefit	Very likely
4	Large	Regional	Very difficult to remedy or long term	Relatively easy to benefit in the short term	Likely
3	Medium	National	Difficult to remedy or medium term	Time and cost-heavy to achieve benefit	Possible
2	Low	Concentrated	Time and cost to remedy	Difficult to create medium-term benefit	Low probability
1	Minimal	Limited	Relatively easy to remedy in the short term	Very difficult to achieve benefit or long term	Minimal probability
0	None	None	Easy to remedy	Benefit cannot be obtained	No probability

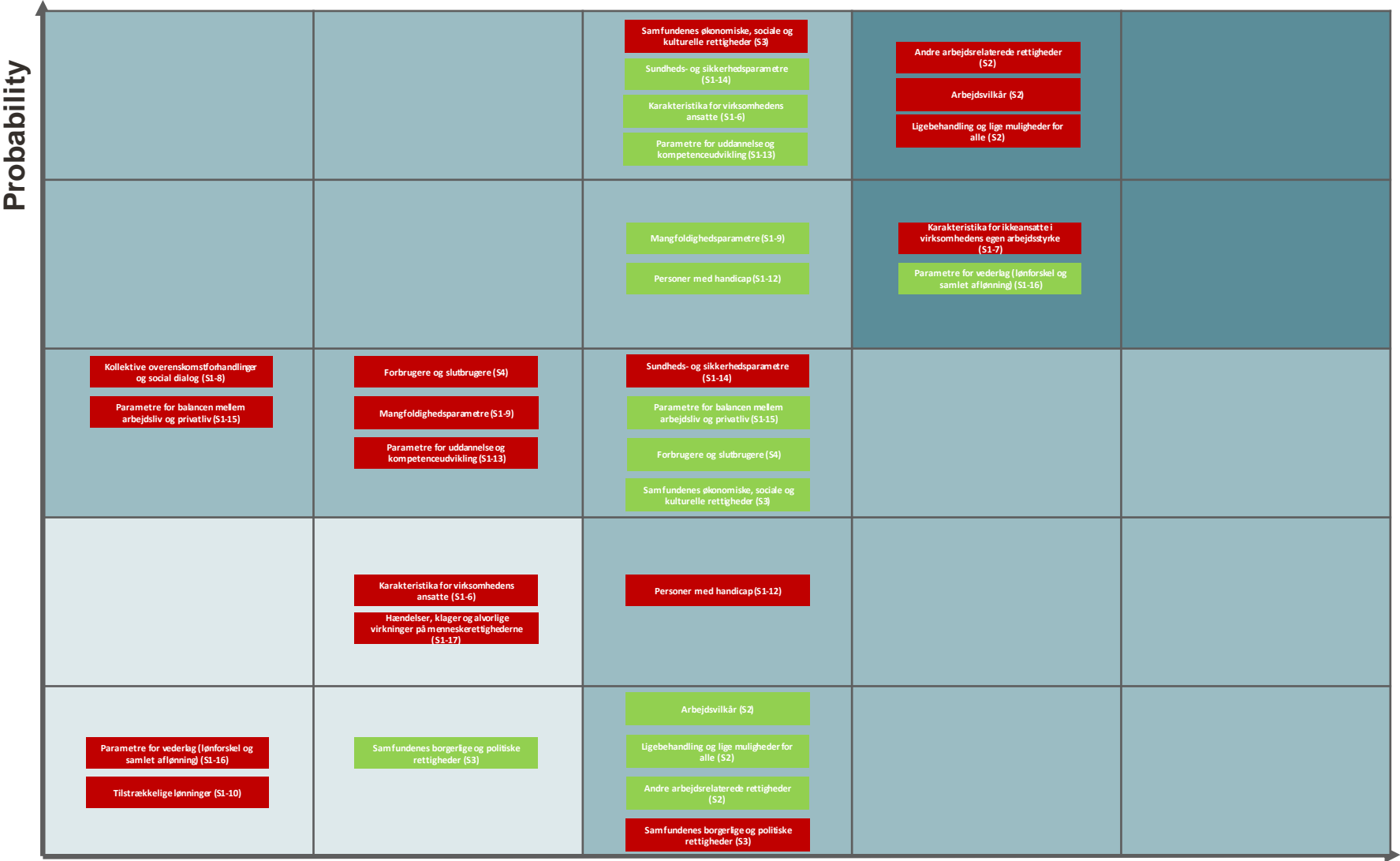
The levels of severity and probability are aligned with the company's general approach to risk assessment



Step 4: Material materiality assessment - example of **social** impact assessment

Negative impact

Positive impact



Social impacts



Step 5: Financial materiality assessment

Impact on:					
Liquidity	Development	Results	Position	Capital cost	Access to finance
Calculated in EUR.					

The financial impact of the sustainability impact shall be quantified.
Example: The assessment includes how high the costs of recruitment and employee turnover (development) are estimated to be if salaries are not sufficient (S1-10).
Example: The assessment includes the economic effect of bad media coverage (position) due to the use of child labour by a supplier (S-2)

Financial materiality		
Score	Financial significance	Probability
5	Total >100 mio.	Very likely
4	Large 50-100 mio.	Likely
3	Medium 25-50 mio.	Possible
2	Low 10-25 mio.	Low probability
1	Minimal 0-10 mio.	Minimal probability
0	None No financial significance	No probability

The levels of financial significance and probability are aligned with the company's general approach to risk assessment



Step 6: Overall assessment of double materiality

- Impact on people and the environment as well as financial impact

Impact on people and the environment					
Score	Severity and opportunity				Probability
	Scope <i>The impact on the environment and society</i>	Demarcation <i>Affected areas/humans</i>	Remedy <i>In relation to negative impact</i>	Gain achievement <i>In terms of positive impact</i>	
5	Total	Globalt	Cannot be remedied/irreversible	Easy to benefit	Very likely
4	Large	Regionalt	Very difficult to remedy or long term	Relatively easy to obtain short-term benefit	Likely
3	Medium	Nationalt	Difficult to remedy or medium term	Time and cost-heavy to obtain benefit	Possible
2	Low	Koncentreret	Time and cost to remedy	Difficult to achieve medium-term benefit	Low probability
1	Minimal	Begrænset	Relatively easy to remedy in the short term	Very difficult to obtain long-term benefit	Minimal probability
0	None	Ingen	Easy to remedy	Benefit cannot be obtained	No probability
Weight	1/3	1/3	(1/3)	(1/3)	1

Financial impact		
Score	Financial significance	Probability
5	Total > 100 mio.	Very likely
4	Large 50-100 mio.	Likely
3	Medium 25-50 mio.	Possible
2	Low 10-25 mio.	Low probability
1	Minimal 0-10 mio.	Minimal probability
0	No financial significance	No probability
Weight	1	1



Den korrekte vægtning sikrer sammenhæng med væsentlighedsmatrixen



The double materiality formula

