

SUSTAINABILITY REPORTING REQUIREMENTS – MODULE 2

ESRS in detail: Double materiality assessment

Regulations: Information on antitrust law

Kartellrecht

Wichtig für Ihre Sitzung

✓ Dies müssen Sie sicherstellen!

Sorgen Sie gemeinsam mit dem Sitzungsleiter dafür, dass im Zusammenhang mit einer Verbandssitzung kein Kartellrechtsverstoß auftritt. Folgende Punkte müssen Sie beachten:

VORBEREITUNG DER SITZUNG

✓ Tagesordnungspunkte und Sitzungsunterlagen dürfen keine kartellrechtlich relevanten Themen enthalten.

WÄHREND DER SITZUNG

- ✓ Beschränken Sie die Diskussion grundsätzlich auf die vorab versandten Tagesordnungspunkte
- ✓ Lassen Sie die Sitzung vollständig protokollieren
- ✓ Bei Spontanäußerungen mit kartellrechtlich relevantem Inhalt müssen Sie unverzüglich reagieren und sich aktiv von dem kartellrechtswidrigen Verhalten distanzieren:
 - Weisen Sie die Teilnehmer darauf hin, dass dieser Punkt nicht besprochen werden darf.
 - Vertagen Sie zur Not die Diskussion, bis die kartellrechtliche Unbedenklichkeit geklärt ist.
 - Wird die Diskussion trotzdem fortgesetzt, geben Sie Ihren Widerspruch zu Protokoll, unterbrechen Sie die Sitzung oder verlassen Sie den Sitzungsraum; auch dies ist zu protokollieren.
 - Melden Sie den Vorgang der Rechtsabteilung des VCI beziehungsweise Ihres Unternehmens.

NACH DER SITZUNG

✓ Sitzungsprotokolle sollen kurz und unmissverständlich abgefasst werden.

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✗ Dies müssen Sie vermeiden!

Mitarbeitern von im Wettbewerb stehenden Unternehmen ist es untersagt, formell oder informell Diskussionen zu führen, Informationen auszutauschen oder Vereinbarungen zu treffen, wenn es um folgende Punkte geht:

PREISE, insbesondere

- ✗ Preisgestaltungen, Preisunterschiede, Preisstrategien
- ✗ individuelle Verkaufs und Zahlungsbedingungen; individuelle Rabatte, Gutschriften und Kreditbedingungen

PRODUKTION, insbesondere

- ✗ individuelle Herstellungs- oder Absatzkosten, Kostenrechnungsformeln, Methoden der Kostenberechnung, auf Produkte oder Produktgruppen bezogene Zahlen zu Bezugskosten, Produktion, Lagerbeständen, Verkäufen etc.
- ✗ Produktionsveränderungen, zum Beispiel wegen Wartungsarbeiten, oder die Begrenzung der Marktversorgung mit einem Produkt

ZUKÜNFTIGES MARKTVERHALTEN, insbesondere

- ✗ Aufteilung von Märkten oder Bezugsquellen, gleichgültig ob räumlich oder nach Kunden
- ✗ Beziehungen zu einzelnen Lieferanten oder Abnehmern, insbesondere dann, wenn dies dazu führen könnte, dass diese vom Markt verdrängt würden
- ✗ „schwarze Listen“ oder Boykotte von Kunden, Wettbewerbern oder Zulieferern
- ✗ geplante Vorhaben einzelner Unternehmen in Bezug auf Technologie, Investitionen, Design, Produktion sowie Vertrieb oder Marketing für bestimmte Produkte.

Discussions concerning prices, production and future market behaviour are prohibited.

Notes on the webinar procedure

Please mute your microphone at the start of the session

- ◆ Unmute your microphone if you would like to speak
- ◆ Please mute yourself once you have finished your contribution
- ◆ If your microphone is accidentally not muted, it may be muted and must be reactivated should you want to contribute



Announcing contributions and asking questions



- ◆ Please announce your contribution in the chat or raise your hand. Thereafter, you will be called upon.
- ◆ If you have questions or comments during the presentation, then you are welcome to type them in the

Avoiding background noises



- ◆ Please avoid sounds that interrupt the webinar. For instance, please turn off your mobile or set it to silent mode to prevent distractions during your contribution or comments.

Module 2: ESRS in detail: Double materiality assessment

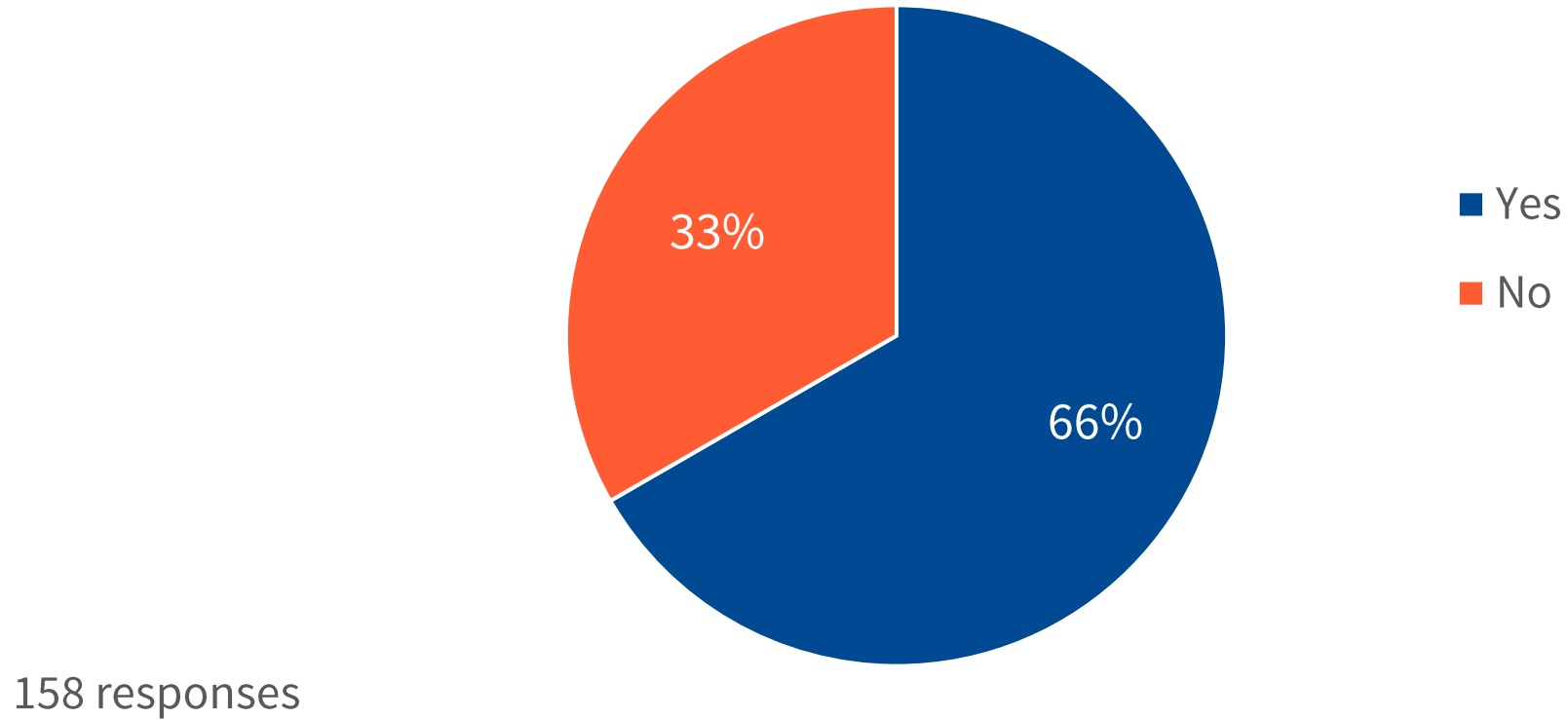
Agenda

Time frame	Content	Speaker
10:00 – 10:10	Welcome & procedural matters	Matthias Belitz (VCI)
10:10 – 10:30	Theoretical introduction into double materiality assessment	Kathrine Link (VCI)
10:30 – 11:00	Double materiality from the perspective of auditors	Hans-Georg Welz (EY)
11:00 – 11:30	Practical experience in the implementation of the double materiality assessment	Jens Reissmann (Bayer)
11:30 – 12:00	Outlook & dialogue	All

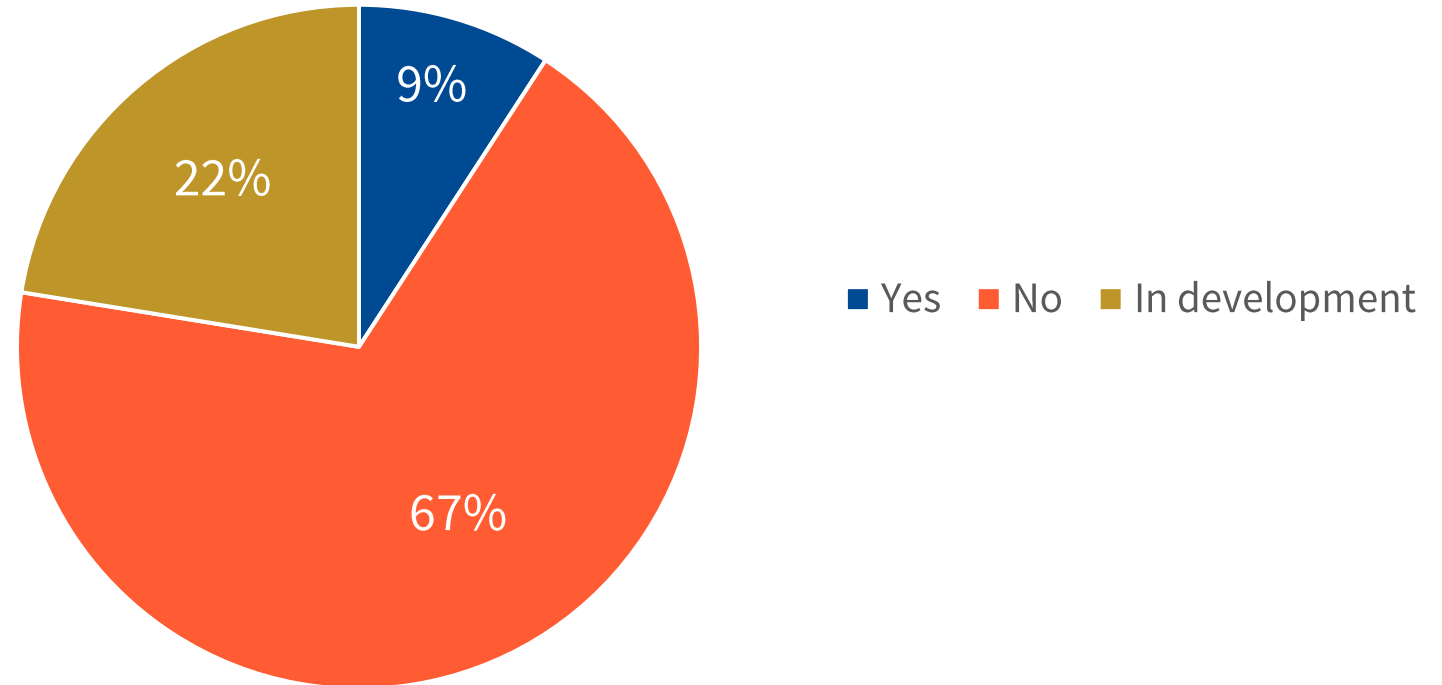
SUSTAINABILITY REPORTING REQUIREMENTS
MODULE 2

Theoretical introduction

Live Poll: Did you attend the first webinar on the „Awareness and the basics of sustainability reporting“?



Live Poll: Has your company prepared a double materiality assessment?



153 responses

The materiality assessment offers opportunities



Strategic alignment: Companies can identify strategic and relevant sustainability topics, enabling them to utilise their resources more effectively and highlight for areas for improvements.



Fulfilment of stakeholder expectations: The assessment takes into account the needs and expectations of stakeholders and thus promotes loyalty and trust.

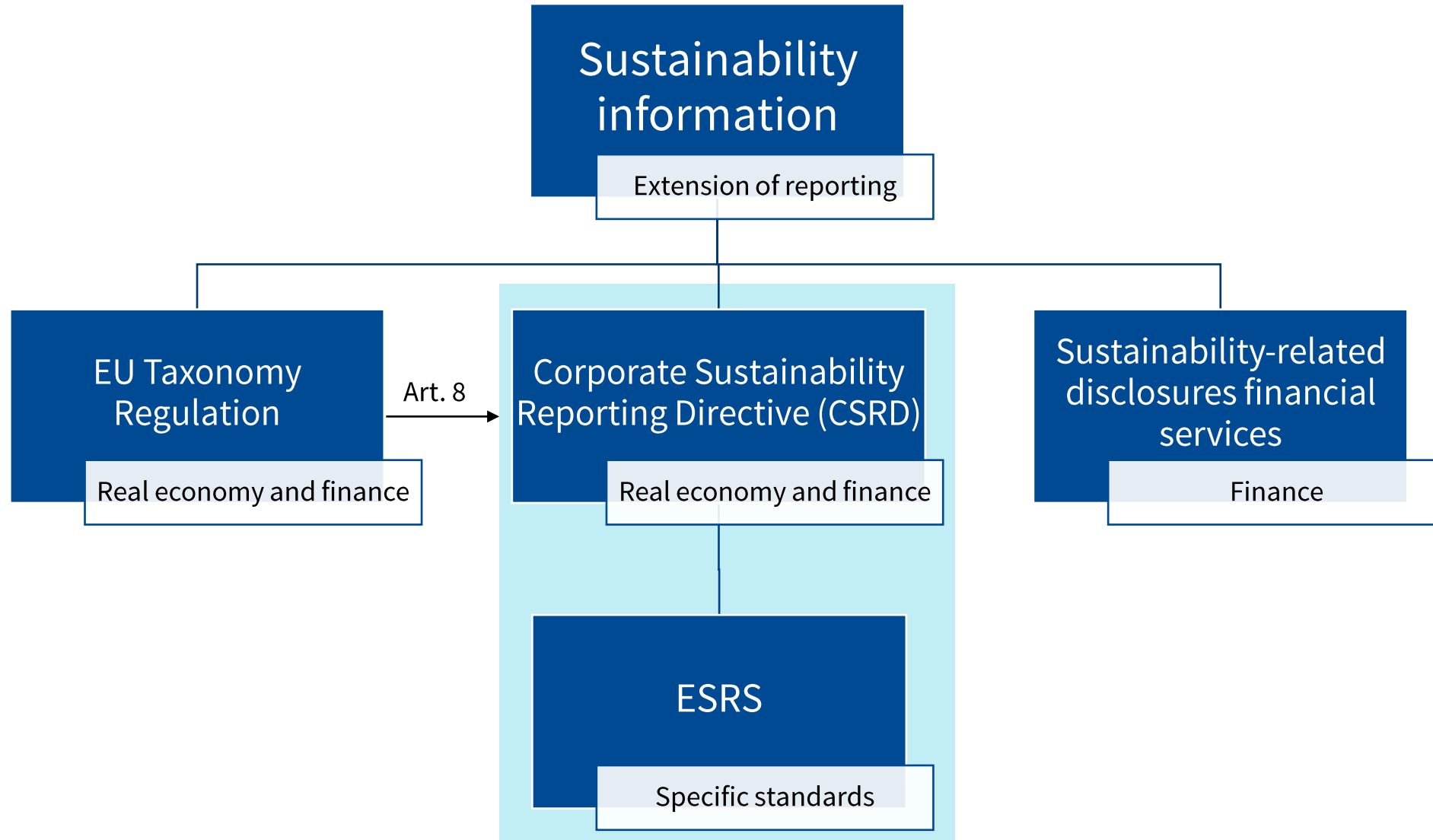


Risk avoidance: The assessment ensures that risks associated with sustainability topics can be identified and allows companies to avoid potential damages and costs to the firm, society and the environment.

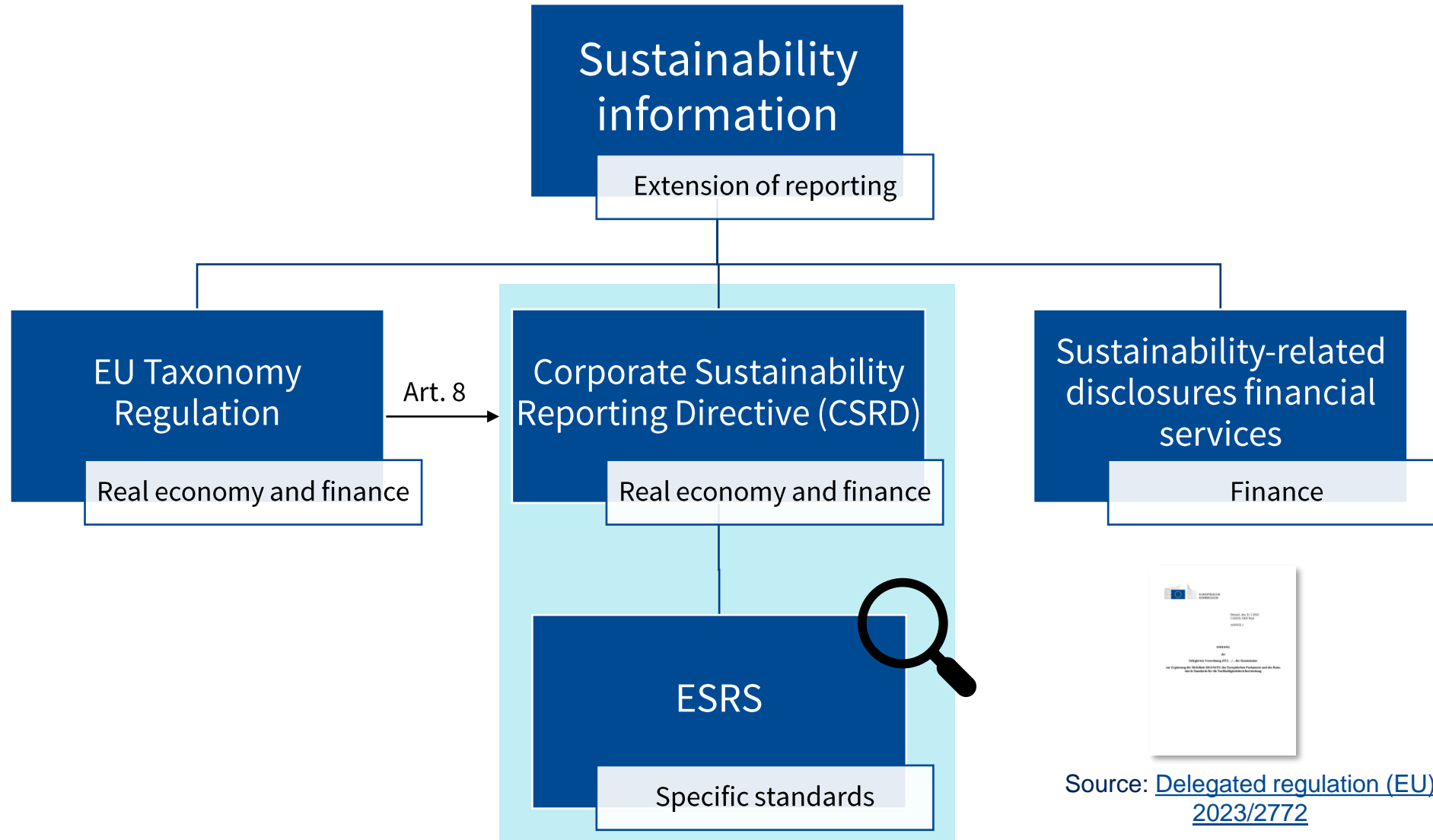


Transparency for stakeholders and investors: The materiality assessment provides the basis for sustainability reporting by identifying all of the materials topics that must be reported.

Double materiality analysis is anchored in the CSRD and the ESRS



Double materiality analysis is anchored in the CSRD and the ESRS



Implementation guideline on materiality assessment from EFRAG

Annex to the delegated regulation (EU) 2023/2772 ESRS 1 describes the requirements for the materiality assessment

ESRS 1
GENERAL REQUIREMENTS

TABLE OF CONTENTS

Objective	
1.	Categories of ESRS Standards, reporting areas and drafting conventions
1.1	Categories of ESRS Standards
1.2	Reporting areas and minimum content disclosure requirements on policies, actions, targets and metrics
1.3	Drafting conventions
2.	Qualitative characteristics of information
3.	Double materiality as the basis for sustainability disclosures
3.1	Stakeholders and their relevance to the materiality assessment process
3.2	Material matters and materiality of information
3.3	Double materiality
3.4	Impact materiality
3.5	Financial materiality
3.6	Material impacts or risks arising from actions to address sustainability matters
3.7	Level of disaggregation
4.	Due diligence
5.	Value chain
5.1	Reporting undertaking and value chain
5.2	Estimation using sector averages and proxies
6.	Time horizons
6.1	Reporting period
6.2	Linking past, present and future

Source: [Delegated regulation \(EU\) 2023/2772](#)

Draft of the implementation guideline for materiality assessments by EFRAG



Source: [Download \(efrag.org\)](#)

- The draft was submitted to the EU Commission on the 06.11.23 by EFRAG
- Public consultation will last for 4 weeks
- Document is not legally binding
 - The document cannot extend beyond the ESRS standards
 - The guideline illustrates or describes the ESRS standards with examples

A topic is material if...

Outside-in perspective

Financial materiality

- The information is material for primary users of financial reports for general purposes in determining the **decision-making over the provision of resources in the firm**
- **Risks or opportunities**, are expected to have a **material impact on the financial position, performance or cashflow, access to finance or the cost of capital** in the short, medium or long term

(ESRS 1, Chapter 3)

Inside-out perspective

Materiality of impacts

- Primary stakeholders: Consumers, society and employees,...
- There are **actual material or potential positive or negative impacts on society or the environment** in the short, medium or long term
- This includes activities **downstream and upstream the value chain** such as the impacts of **products, services and business relations**

(ESRS 1, Chapter 3)

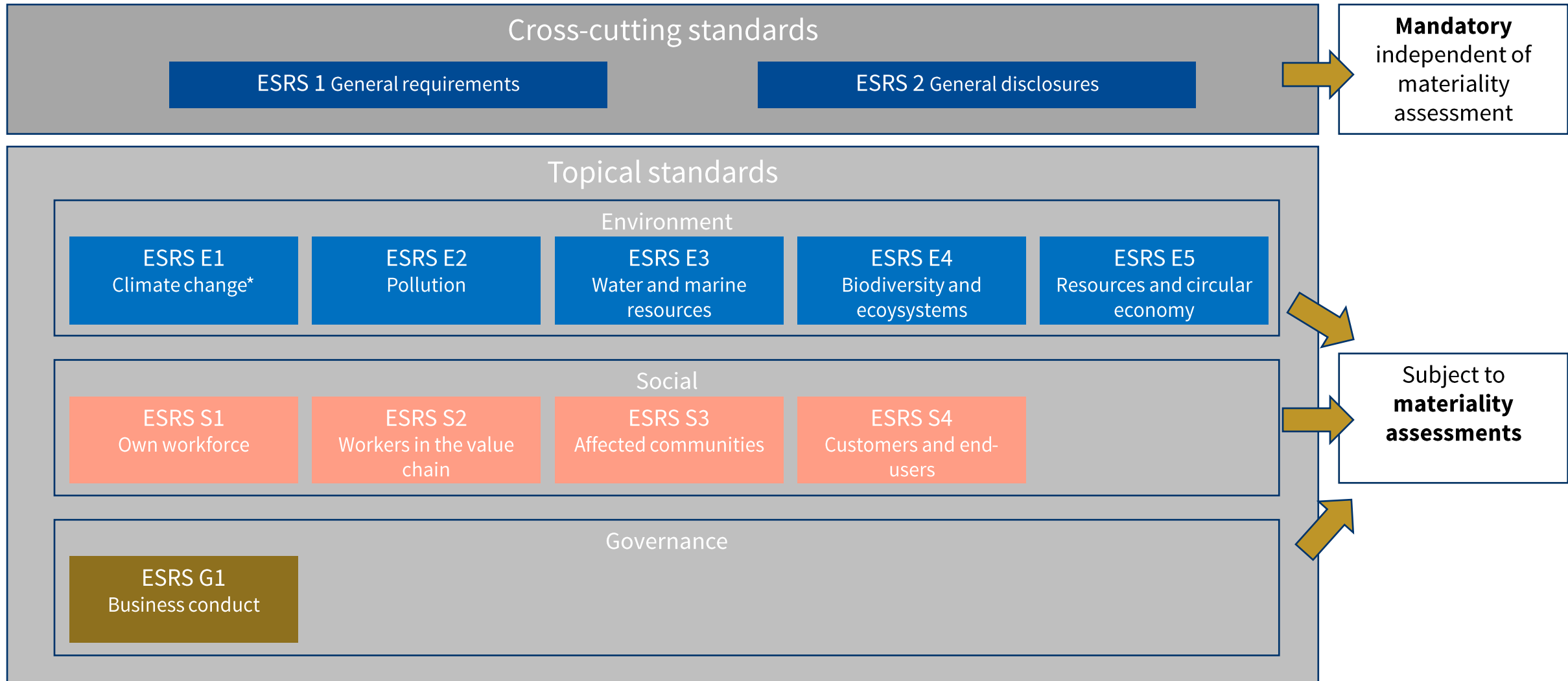
If either of the conditions for financial or ecological and social materiality are met!

What must be reported on material topics?



- Strategies, measures and objectives
- Metrics

Not all ESRS topics are subject to materiality assessments



- Option to provide reasons if topic-specific ESRS are identified as immaterial. Exception for ESRS E1 (Climate change): detailed explanation of the materiality assessment is required if it is identified as immaterial
- Note: Other topics that are not listed in the ESRS can be included in the materiality assessment and the sustainability report

Criteria to determine impacts, risks and opportunities for the assessment of materiality

How are impacts, risks and opportunities identified in AR 16 ESRS 1?

How do you determine which topics are material?

Financial materiality Opportunities and risks

Outside-in perspective

- Impact of
- Society and environment on the company
- Dependence on
- Human, natural and social capital
 - Availability/prices/quality
- Others
- E.g. Changes in legislation

→ Substantial evidence, as far as possible and objective information

- Probability and extent
- Impact on company performance, financial position, cash flow, access to capital and investors

→ Appropriate thresholds for the determination of materiality are required

Materiality of the impact Impact

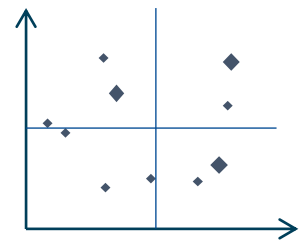
Inside-out perspective

- Own activities (connection with the corresponding sector)
- Business relations
- Regulatory landscape
- Other sources (scientific analyses, benchmarks)
- Understanding of the views and interests of impacted stakeholders
- Basis through sustainability due diligence

- Severity: scope, extent, irreversibility
- Probability: only for potential impacts
- Negative effects on human rights: severity takes precedence over probability

Possible steps in the materiality assessment

1. Defining relevant actors to carry out the materiality assessment
2. Creation of stakeholder analyses
3. Collection of sustainability topics that occur internally and externally
4. Selection of relevant sustainability topics that should be analysed and evaluated in greater depth through the materiality assessment; we recommend beginning with 10 - 15 topics
5. Determining the relevant stakeholders that should be included within the materiality assessment
6. Creation of a benchmark for evaluation (e.g. scores 1-5) and analysis of each of the topics
 - Determining impacts, risks and opportunities
7. Presentation of key sustainability topics (e.g. through a materiality matrix)



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Double materiality assessment from the perspective of auditors

Hans-Georg Welz, EY

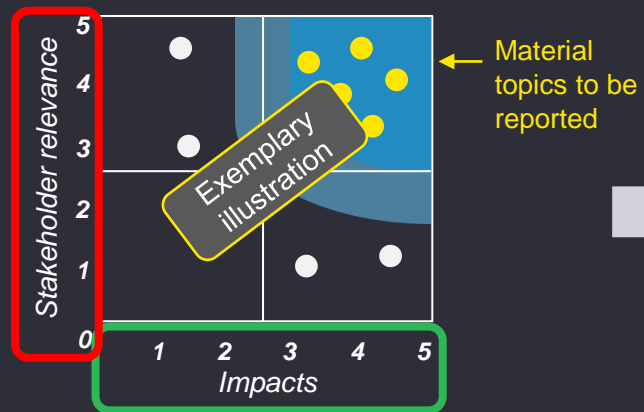
Basic principles and the development of the materiality assessment



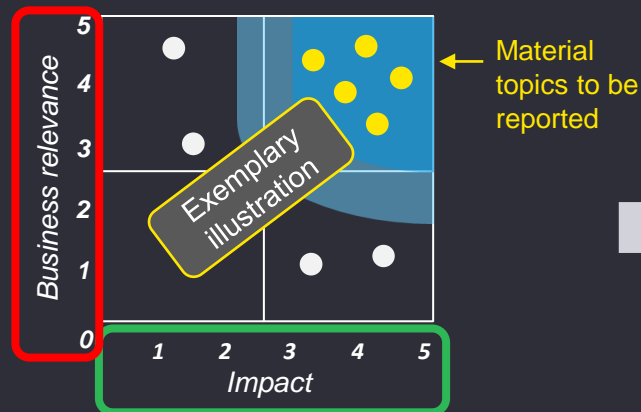
Features of a materiality assessment

- ▶ Standardised process for identifying key topics to be reported in the sustainability statement
- ▶ Understanding the connection between your company and sustainability topics
- ▶ Concentration on the scope to be reported – focus is on the essentials

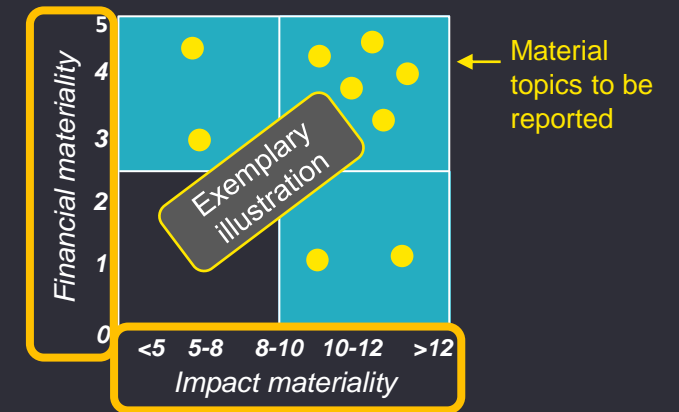
Materiality formula according to GRI Standards 2018 (single materiality)



Materiality formula according to CSR-RUG (single materiality)



Double materiality formula according to CSRD*



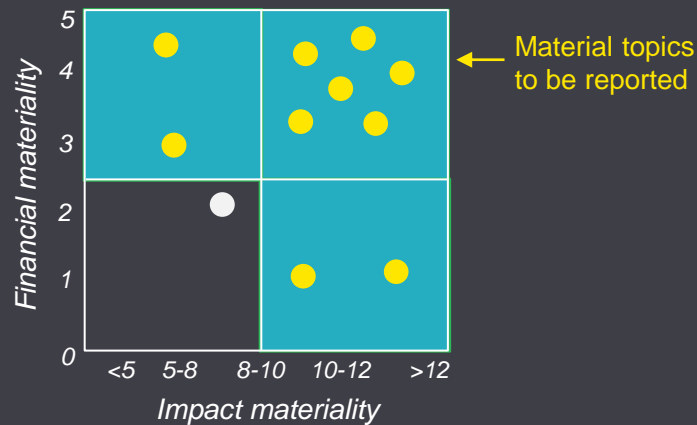
* Results do not have to be displayed as a matrix

Relevance of the materiality assessment for reporting and sustainability management



Double materiality assessment

Double materiality formula according to CSRD



Identification of material and key reporting content (impacts, opportunities, risks / disclosure requirements, data points)

Transparency regarding impacts, risks, opportunities of your own business activities in connection with people and the environment

Transparency regarding expectations and interests of key stakeholder for firms

The results of the materiality assessment will be used to align and adjust sustainability management across the entire firm

Challenges of conducting the materiality assessment

Process planning



- ▶ How do you approach a materiality assessment in a structured manner?
- ▶ What key steps must be taken into account?

Responsibility



- ▶ Who is responsible for the implementation of the individual steps?
- ▶ How are tasks distributed in the company?

Data management



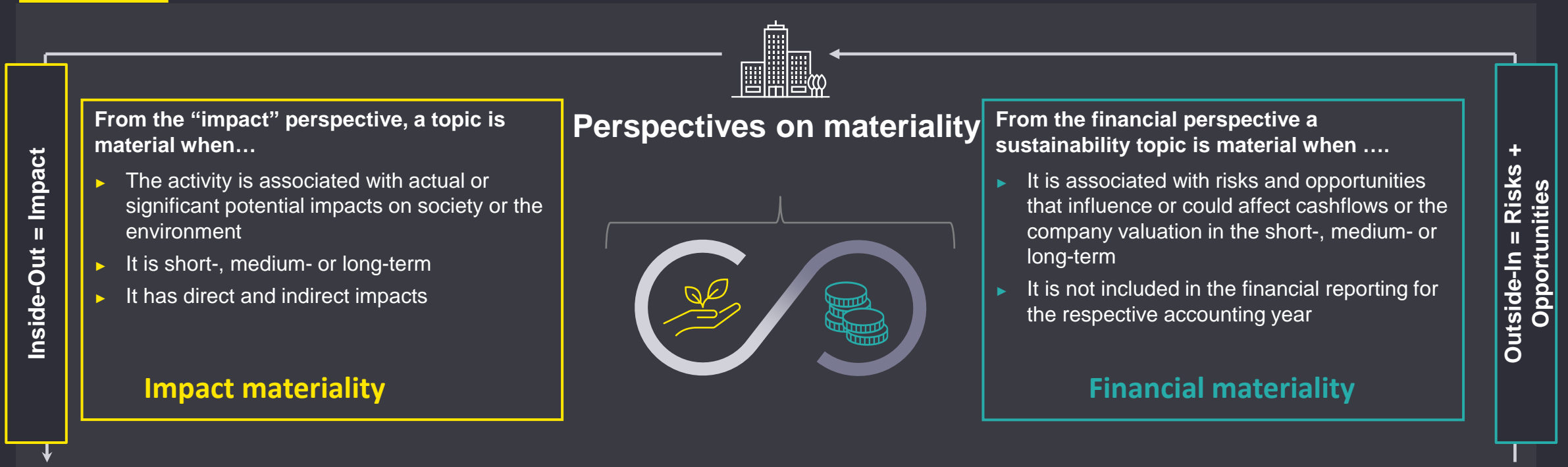
- ▶ How and where is data / information collected and analysed?
- ▶ How do you meet the documentation requirements?

Governance



- ▶ Are all key decision-makers included within the process?
- ▶ What significance does the materiality assessment have for the ESG strategy?

Double materiality assessments consist of two perspectives - impact and financial



- ▶ For the materiality assessment, impacts, risks and opportunities (IRO) need to be linked with the sustainability topics business activities in a clear manner and be described as precisely as possible
- ▶ More precise definitions of impacts, risks and opportunities ensure that tailored responses and strategic measures can be adopted
- ▶ A sustainability topic is considered material under the CSRD (ESRS1) if it is identified as material from the impact or financial perspective - **OR** if both dimensions apply simultaneously = **Double materiality**

Performance of the materiality assessment to identify the reporting topics – The application of the scales



Conducting a materiality assessment is a complex process that offers firms a lot of room for action and interpretation and contributes to sustainability as well as risk management and corporate strategy more generally



Impacts

1. Qualitative assessment

Positive

Negative

Actual

Potential

Actual

Potential

Extent and scope

Severity of the impact

2. Quantitative assessments

$(\text{Scope} + \text{Extent}) \times \text{Probability of potential impact}$

Scope, Extent, Recoverability, Severity + Probability of potential impacts



Risks and opportunities

1. Qualitative assessment

Reliance on natural and social resources impacting cash flow and business development

The ability to continue using or obtain resources and the ability to rely on relationships with acceptable terms required in the business process

2. Quantitative assessment

Assessment is based on the probability of occurrence and extent of the potential financial impacts

Examples of impacts, risks and opportunities



Impacts

Guiding questions

Do you have influence over the compliance with labour rights in your company and along your value chains?

Do business activities along your value chain directly contribute to a loss of diversity?

Examples

Negative Impact:

Child labour, that is directly associated with products that the company manufactures.

Positive Impact:

Conservation of biodiversity: Protecting and restoring biodiversity can improve the resilience of ecosystems and environment more generally.



Financial risks and opportunities

Guiding questions

Does the firm contribute towards air pollution along its value chain?

Are appropriate wages paid to the employees of your firm?

Examples

Risks:

Transition risks, directives and regulation: Exposures to sanctions and legal disputes.

Opportunities:

Market differentiation and greater customer appeal by ensuring that employees earn appropriate wages and work in good conditions.

The materiality assessment must be verifiable external auditors

Legal compliance

Relevance

Completeness

Robustness

Transparency

Documentation of the analysis process



Process documentation of the assessment



Longlist & mapping of potentially relevant topics



Documentation on the integration of the stakeholder perspective

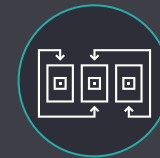


Explanation of the methodology and thresholds used in the assessment

Document requirements should...



... be considered and incorporated from the start.



Identification & classification of material dependencies



Clustering of risks & opportunities as well as the materiality assessment

Documentation of results



Consolidated report of the materiality assessment

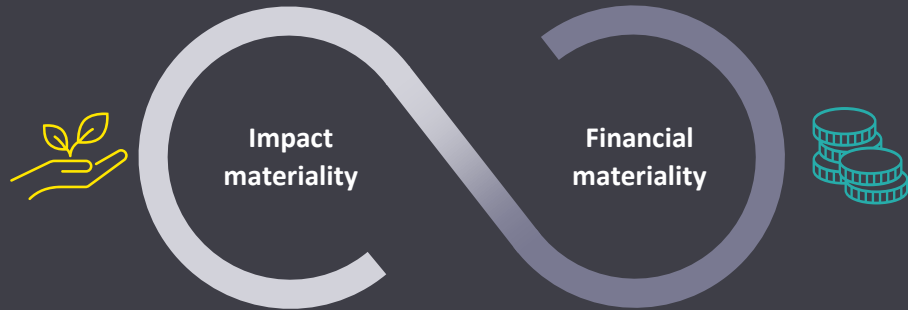
The first steps of a structured materiality assessment

Starting the implementation: Analysis

Step 1a: Breakdown of the value chain

Step 1b: Analysis of the company context & stakeholders

Step 2: Identification of the topic owners and actual as well as potential impacts, risks and opportunities



Breakdown of the value chain



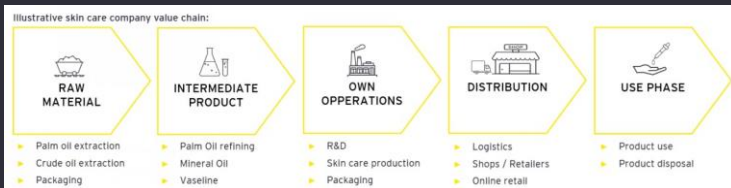
Analysis of the corporate context & stakeholders



Topic ownership & IRO identification



IRO rating



Impact materiality	
Negative impact (actual and potential)	Positive impact (actual)
Severity of impact (Severity + scale + irreversibility)	Scale: How beneficial the impact is
Scope: How grave the impact is	Scope: How widespread the impact is
How & when it occurs	How & when it occurs
Irreversibility	Financial materiality
Dependencies from natural and social resources	Ability to continue to use or obtain the resources
Severity +	Ability to rely on relationships needed in business process on acceptable terms
Effects of sustainability matters are: <ul style="list-style-type: none"> cash flows, development, performance, position, cost of capital, access to finance, in the short-, medium- and long-term time horizons 	Information is considered material for primary users of general purpose financial reporting if emitting, omitting or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statements (useful to, e.g., investors, lenders and other creditors)
Likelihood of occurrence + Size of the potential financial effects	

Key factors for a successful implementation of the materiality assessment



Process development

Develop a holistic process for conducting the materiality assessment. Define the time frame as well as individual steps for the process and milestones to be achieved.



Competencies

Define key roles (topic owners) and responsibilities in the company and communicate these at an early stage. In some cases, multiple people can be responsible for the same topic.



Tools and templates

Use a tool or template for the entire analysis, evaluation and consolidation process which also serves as evidence for the auditor.



Board buy-in

Involve your management board (top-management-commitment) in the process at an early stage to ensure strategically sound decision-making.

SUSTAINABILITY REPORTING REQUIREMENTS
MODULE 2

Practical experience with double materiality assessments

Jens Reissmann, Bayer AG



Double materiality @Bayer

Double materiality concept

Based on the ESG standards and guidelines available, and the ERM methodology used by the company, BIG4 customized an integrated approach for double materiality @Bayer.

X

BIG4 integrated approach

— Different ESG frameworks and standards are considered for obtaining a comprehensive materiality methodology

	Impact materiality	Financial materiality
HGB	✓	✓
EFRAG	✓	✓
GRI	✓	n.a
SASB	n.a	✓

Double materiality Disclosures must be made if a topic has an impact on people & the environment (impact materiality) **OR** on the company (financial materiality)

Financial effect of a sustainability topic on the company's undertaking

Outside-in (financial materiality)



How does Bayer contribute through its business activities to an ESG topics, e.g. decarbonization?



How are Bayer's business activities affected by an ESG topic, e.g. extreme weather conditions?

Inside-out (impact materiality)

Company's impact on people or the environment

Financial materiality	Impact materiality
– Identify ESG topics that are financially material to the reporting entity in terms of business performance, results of operations and position.	– Identification of ESG topics in relation to the impact of the company's own business activities and its own value chain. – Assessment of sustainability criteria in terms of scope, scale, and remediability.

Details on similarities and differences between EFRAG, GRI, HGB and SASB in appendix I.

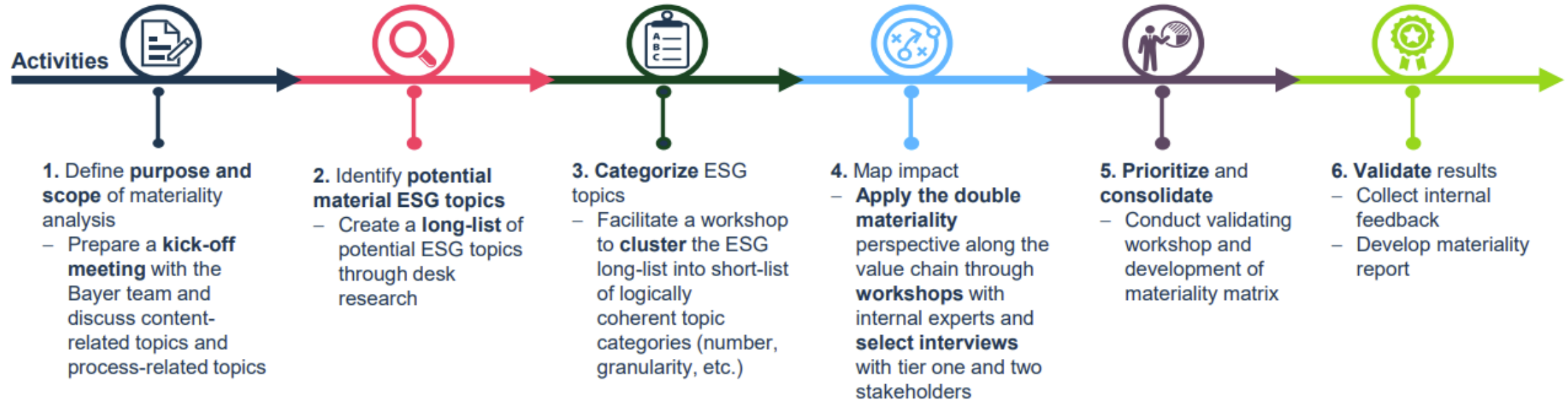


We followed a 6-phased approach to assess materiality

2022 DMA Process

Methodology

Phase 1: Structured Materiality Analysis (SMA)



Outcome:



Key findings

Results



Climate change mitigation and energy

To meet global temperature standards set by the Paris Agreement, less carbon-intense energy sources, processes and products are used to reduce emissions of greenhouse gases into the atmosphere. This includes:

- Scope 1, 2 and 3 emissions CO2eq reduction / climate mitigation
- GHG emissions of main crops
- Energy use and efficiency
- Energy transition

Take-aways

Positive impact:

Next to its own ambitious carbon-reduction work, Bayer's products can contribute positively to decarbonization, especially in agriculture. This poses a financial opportunity, as well.

Negative impact:

Being part of the agricultural value chain, Bayer is indirectly involved in carbon-intensive production processes.



Water

Water includes wastewater management and the efficient use of (fresh) water resources along Bayer's entire value chain from production and operation processes to suppliers and customers. This includes:

- Water scarcity / water stress
- Water use efficiency
- Water quality/pollution / wastewater management

Take-aways

Positive impact:

Bayer has a water management footprint in own operations that is being reduced and has the potential to develop climate-resistance crops and seeds in places with water scarcity.

Negative impact:

Impact on water use and quality/pollution. Special consideration in water pollution during production, use and after use of Bayer's products for all three divisions.



Biodiversity

Biodiversity is the variability among living organisms, which includes the diversity at the ecosystem, species and genetic levels. This includes:

- Land degradation and forest
- Environmental impact reduction of plant protection
- Species loss
- Natural ingredients in nutrition and digestives
- Genetic diversity and GMOs
- Soil health / depletion

Take-aways

Negative impact:

The product portfolio of Bayer has repercussions in soil health and the loss of species. Genetic diversity was also categorized as a source of negative impact in relation to GMOs by key external stakeholders.

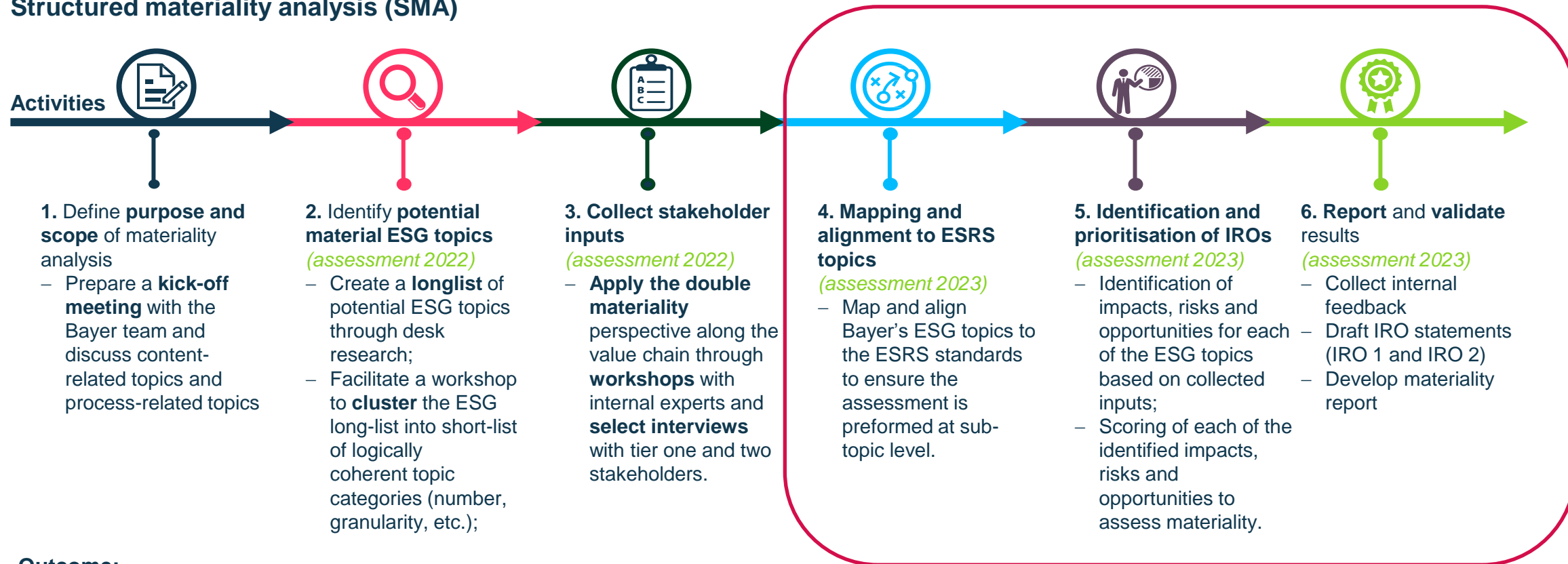
The outcome reflects the impact of the Crop Science division mostly.



We followed a 6-phased approach to assess materiality

Methodology

Structured materiality analysis (SMA)



Outcome:





Detailing phase: from generic assessment on topic level to detailed impact derivation linked to business activity and value chain

Pollution example (non-exhaustive)

What we have

Pollution

Environmental pollution is caused by releasing harmful substances (gas, solid or liquid) or any form of energy, like heat, sound, or radioactivity, and thus impacting local communities and the surrounding ecosystems. For Bayer, pollution is mainly caused by APIs in the Pharmaceutical and Consumer Health division and AI in the Crop Science division.

Material IROs

Positive impact:	Negative impact:
<i>No material positive impact</i>	Bayer has a negative impact due to residues of API's entering nature, due to the usage of hazardous substances in products and the production of fertilizers.

What we need

- Description of **where in its business model**, its own operations and its upstream and downstream **value chain** these material impacts are concentrated
- How the undertaking's **material negative and positive impacts affect people or the environment**
- Whether and **how the impacts originate from or are connected to the strategy and business model**
- Whether undertaking is involved with material impacts through **activities or due to business relationships**
- ...

Topic	Sub-topic	Impact type	Impact form	Impact description	Activity description
Pollution	Pollution of air	Negative impact	Potential	Reduction of air quality for living or	Emission of pollutants due to unforeseen incidents during production and
Pollution	Pollution of water	Negative impact	Actual	Reduction of water quality for living	Emission of pollutants via medical residues (after consumer use)
Pollution	Pollution of water	Negative impact	Potential	Reduction of water quality for living	Emission of pollutants due to wash-outs on fields
Pollution	Pollution of soil	Negative impact	Actual	Reduction of soil health for living o	Emission of pollutants due to regular product usage at farmers (down-s
Pollution	Pollution of soil	Negative impact	Actual	Reduction of soil health for living o	Emission of pollutants in own breeding stations and during seed growing
Pollution	Pollution of living o	Negative impact	Actual	Contamination of food resources	Emission of pollutants due to application of pesticides and mining
Pollution	Pollution of living o	Negative impact	Potential	Contamination of food resources	Emission of pollutants due to possible spills (esp. pesticides)
Pollution	Substances of con	Negative impact	Actual	Bayer products contain SoC	SoC along the value chain in our products



Detailing material impacts, risks and opportunities requires a 6-step approach including dedicated expert workshops

Bayer's business models as a foundation for SBM disclosures and IRO-Identification

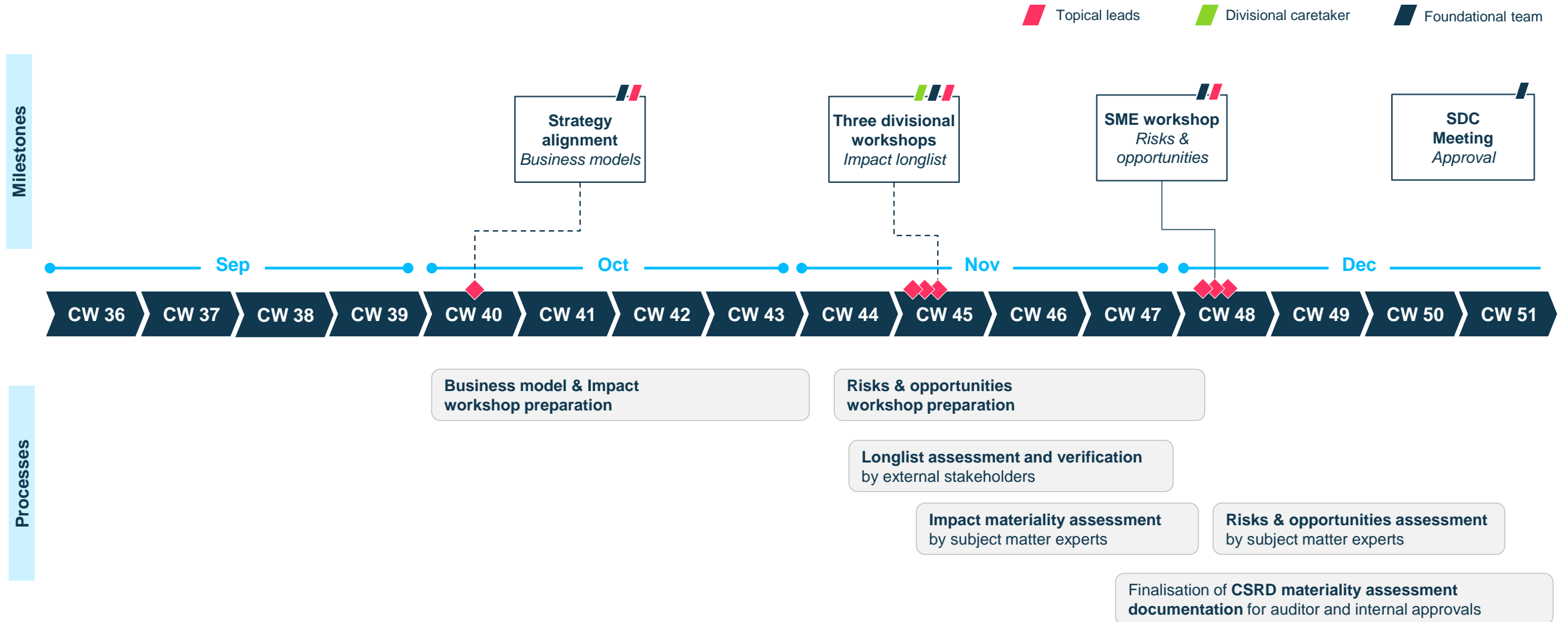
	Input	Activity	Output
1	Prepared draft business models (multiple per division, if applicable)	Document business models for SBM-DRs Workshop with strategy; covering own operations, upstream & downstream value chain, business relations	Final business models and corresponding key activities Strategy consultation required
2	Final business models, ESRS sustainability matters, key principles & questions for identifying impacts	Derive impacts from ESG topics Workshop with strategy, divisional & topical leads; covering own operations, upstream & downstream value chain, business relations, products & services	Draft longlist of potential and actual group-wide impacts Overlap with TNFD Assessment
3	Draft longlist of potential and actual group-wide impacts	Complete impacts longlist Approach external stakeholders to identify and add further impacts (if applicable) via questionnaire	Longlist of potential and actual impacts
4	Impacts longlist	Assess impact materiality Approach internal subject matter experts to assess materiality of impacts via questionnaire	List of final material impacts
5	List of final material impacts, existing ESG strategies	Identify risks & opportunities Workshop with divisional and topical leads to derive risks & opportunities from material impacts and ESG topics	List of actual and potential risks & opportunities Alignment with ERM
6	List of actual and potential risks & opportunities	Assess financial materiality Approach internal subject matter experts to assess financial materiality of risks & opportunities via questionnaire	List of final material risks & opportunities

VCI Webinar Series: How can firms master sustainability reporting requirements?



Materiality assessment scheduled to be finalised by end of year with approval in Sustainability Decision Council

Timeline



SUSTAINABILITY REPORTING REQUIREMENTS –
MODULE 2

Overview & dialogue

VCI guide for sustainability reporting requirements



- ◆ Recordings and documents from webinars
 - ◆ Overviews and links to legislative texts (CSRD, ESRS, EU Taxonomy Regulation)
 - ◆ Responses to specific implementation questions (currently only for the EU Taxonomy Regulation)
 - ◆ Minutes and slides from sustainable finance working groups meetings
- **Questions can be submitted to** nh-berichtspflichten@vci.de

ESRS in detail: Double materiality assessment



Overview of the webinar series

