Operationalising materiality

Applied guidelines on how to identify and monitor the evolution of sustainability-related material issues

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Presentation

The concept of "materiality" has gained *momentum* in the arena of sustainability reporting and has become the subject of important academic discussions, leading to the need for a better understanding. At the same time, organisations involved in the preparation of sustainability reports also feel the need for a deeper knowledge of the concept, and its application in operational contexts. The latter is characterised by complexity due to multiple reasons.

Firstly, alternative materiality perspectives have spread over time and have important implications when preparing the reports. These perspectives are:

a) *financial materiality*, which focuses on the risks and opportunities that environmental, social and governance issues can have on the organisations' financial performance – in the past appraised "only" through financial statements – in order to assess how these issues affect the enterprise value;

b) *impact materiality* or *environmental and social materiality*, which is primarily interested in the impacts that organisations have on people and the environment; this perspective aims to meet the information needs of numerous stakeholders;

c) *double materiality*, which encloses the two perspectives previously addressed;

d) *dynamic materiality*, which underlines how, for a certain organisation, the boundaries of materiality evolve over time and are influenced by triggers that can determine future changes.

Secondly, the materiality perspectives – in particular the financial, the impact, and the double ones – are not "neutral" but are linked to precise "political choices" made by the standard setters, with a direct impact on the organisations that prepare the reports. In fact, the different standard setters precisely orient the standards in terms of materiality: the "group" that embraces financial materiality (for example the Value Reporting Foundation, as well as the IFRS Foundation), adopted by the SASB Standards and the new IFRS S1 and S2, is opposed to the "group" which instead adopts double materiality, such as EFRAG, which has issued in draft the important set of ESRSs to support the application of the new Corporate sustainability reporting Directive. Moreover, the GRI, whose standards are currently the most adopted for sustainability reports in Europe, has identified impact materiality as its reference.

Finally, when preparing sustainability reports, companies encounter countless challenges in the concrete application of the concept of materiality. In particular, organisations find it difficult to identify issues "really" material, as well as to have the certainty that the implemented process will lead to a satisfactory result.

These guidelines aim to give a direct answer to the aforementioned need felt by all the organisations, offering a tool that can be used to deepen the assessment of what is "really" material for an organisation, both for the preparation of the sustainability report, and other purposes (for example, setting the remuneration policy). For this reason, the first part of the work offers a presentation of the concept of materiality, as a "malleable" and "evolving" concept, while the second part of the work takes the reader by the hand and, step by step, offers a useful operational guide to put in place a credible materiality assessment and to express a judgment of its quality.

The document was produced thanks to the collaboration of a working group made up of both academics and professionals of important Italian organisations, punctually mentioned on the back of the cover. All of them interacted fruitfully in the different phases of the work, under the coordination of Dr. Donato Calace and Prof. Riccardo Stacchezzini. Thanks to a first consultation of the organisations involved held by the coordinators, organisations have released valuable supporting documentation, telling their experience in terms of materiality. This documentation was useful not only for the drafting of the second part of the guidelines, but also to prepare an anonymous questionnaire, open to public consultation, which had numerous answers. All the material acquired has fuelled the drafting of the guidelines here proposed.

The O.I.B.R. Foundation (Organismo Italiano di Business Reporting – the Italian Foundation for Business Reporting) is grateful to Dr. Donato Calace and Prof. Riccardo Stacchezzini, who coordinated the project and completed the publication, as well as to the academics and professionals who worked on the project, confirming that interaction between researchers, professionals, and business operators not only is possible, but that – when it is well coordinated – it gives useful and significant benefits for organisations, business managers and the community as a whole.

The O.I.B.R. Foundation, in releasing this document to its members and all its stakeholders, reaffirms its "supporting" role for all kinds of organisations and for their members, offering tools for a better understanding of reality, useful for deciding and acting. This is the spirit with which the O.I.B.R. Foundation operates and this is the spirit with which it will continue to operate with strong determination.

Prof. Alessandro Lai
President of O.I.B.R. Foundation ETS

A Presentation of the O.I.B.R. Foundation

The "Italian Foundation for Business Reporting – Sustainability, Non-Financial and Integrated Reporting" (O.I.B.R.) was established on 11 June 2019 and was legally recognized on 27 November 2019 in the National Register of Legal Entities. To date, about ninety Italian stakeholders of different nature and backgrounds (large companies, SMEs, universities, professional and trade associations, non-profit entities), have come together to create this body that continues the aims of the NIBR - Italian Business Reporting Network, whose activities took place from 2012 to 2018. From Summer 2022, the Foundation is registered in the Single National Third Sector Register (RUNTS), thus having acquired the name of Entity of the Third Sector (ETS).

The O.I.B.R. deals with elaborating, issuing and disseminating guidelines, studies, researches, principles, technical-practical standards in the field of business reporting, non-financial statements, sustainability and integrated reporting, TCFD recommendations , aimed at Italian companies and non-profit entities, by organizing working groups and operational roundtables dedicated to the issues identified as being of interest by the stakeholders, and at the same time representing a meeting place for all Italian actors and an authoritative voice of our country in the international debate.

The O.I.B.R. is a market-led organisation open to all stakeholders interested in joining, inspired by an inclusive spirit, and with an articulated governance to guarantee all the interests at stake. It is a non-profit organisation, without commercial involvement, and which operates exclusively in the public interest.

The O.I.B.R. collaborates systematically with key international organisations, such as the European Financial Reporting Advisory Group (EFRAG), the Global Reporting Initiative (GRI), the Value Reporting Foundation (VRF - which incorporated the International Integrated Reporting Council-IIRC and Sustainability Accounting Standards Board-SASB), the IFRS Foundation, and the World Business Council for Sustainable Development (WBCSD). Furthermore, it represents the official Italian jurisdiction of the WICI Global Network in and is part of WICI Europe. In particular, in 2021-22, the O.I.B.R. has participated with several members on different roles in the elaboration of the draft mandatory European Sustainability Reporting Standards (ESRS) by the EFRAG special Project Task Force.

The President of the Foundation is Prof. Alessandro Lai, Full Professor of Business Administration at the University of Verona, who states: "O.I.B.R intends to combine specializations and interests in the field of sustainability and integrated reporting and sustainable development with a broad and comprehensive vision of companies and non-profit organisations, capable of fully grasping the significant aspects of their growth, as well as of the economic systems and the territories in which they operate, pursuing national and international projects in the perspective of public interest and economic and social entities".

The President of the Supervisory Board is Dr. Maria Luisa Parmigiani, Head of Sustainability at Unipol Group, and President of the Italian Sustainability Makers Association, while the President of the Scientific Committee is Prof. Lino Cinquini, Full Professor of Management Control at the Advanced School Sant'Anna of Pisa. Secretary General is Prof. Stefano Zambon, Full Professor of Business Economics at the University of Ferrara.

The O.I.B.R. he is part of the ASviS (Italian Alliance for Sustainable Development), on behalf of which he coordinates the sub-group on "Reporting and impact finance" within the Working Group on "Finance for Sustainable Development". The O.I.B.R. is also a partner organisation in the Italian Annual Report Oscar with particular regard to the Special Awards for the Integrated Report and for the Non-Financial Statement.
The Foundation has organized numerous seminars and conferences of a national and international nature, the complete recordings of which are all freely available on the website, as are the studies and in-depth notebooks published (*www.fondazioneoibr.it*).
In particular, on 9 October 2019, the O.I.B.R held its Inaugural Conference with a reflection day on non-financial information at the Catholic University of Milan, while between May and June 2022 it organized three webinars respectively with the ISSB (International Sustainability Standards Board), the GRI, and EFRAG and the OIC (Italian Accounting Standards Setter), on the new European and international landscape of the sustainability reporting standards.

Prof. Stefano Zambon, facilitator of the initiative and Secretary General of the O.I.B.R., comments that this body "completes the picture of the Foundations that deal with corporate reporting and information in Italy, covering an area in strong expansion such as that of non-financial information, integrated reporting, measures relating to intangibles, continuing but also significantly innovating the work undertaken by the NIBR since 2012, and expanding it to many new stakeholders from a market-led, inclusive and harmonious collaboration perspective for the common good."

For entities and individuals interested in joining and contributing to the work of the O.I.B.R., Please send an email to *info@fondazioneoibr.it* or use the application form on the website *www.fondazioneoibr.it*.

Introduction
Aim and structure of the guidelines

These guidelines aim to unveil how to identify and monitor the evolution of sustainability-related material issues. The materiality principle is acquiring increasing importance especially in the context of sustainability reporting. Great attention has been paid to this principle by the main standard setters and regulators, who in recent months are publishing important documents aimed at regulating future sustainability reporting. However, this evolution is only partially associated with an adequate guidance on the "operationalisation" of this principle in the context of (sustainability) reporting as well as in other business areas in which the identification of material issues appears to be of fundamental importance for developing a sustainable corporate strategy. These guidelines aim to fill this gap by providing practical recommendations on the evidence needed to make sound materiality judgements, and on the best practices in terms of the related governance processes.

These guidelines arise from the fruitful collaboration between academics and practitioners. Established within the OIBR Foundation, the Working Group is composed of academics, who are developing research on the principle of materiality, and practitioners, who possess a significant expertise in conducting materiality assessments. In particular, the practitioners offered their contribution by answering an open questionnaire and providing comments and suggestions to the preliminary version of these guidelines. Further insights were collected through a public consultation, which was answered by numerous companies and consultants, as well as some academics.

The guidelines are composed by two main parts and are preceded by the presentation of the key takeaways. Starting from the original meaning of materiality, the *first part* aims at highlighting and commenting on the latest developments of this principle. It also provides a short recap on the latest trends of the definition of materiality (double, dynamic), including references to the latest documents published by the main standard setters.
The *second part* reflects the implications of the conceptual developments addressed in the previous section on the operationalisation of materiality. Through real examples, this section provides a set of recommendations that companies, auditors, standard setters, and investors can apply to conduct robust and credible materiality assessments. Key issues and ideas include:

- Governance practices around materiality: who should "own" the materiality assessment process? How to substantiate the board involvement? Who should coordinate the materiality assessment? How often should it be conducted?
- The practical steps to inform the materiality assessment: Set up adequate governance structure and process; Define a universe of topics to assess; Gather evidence supporting the materiality of the topics; Engage with stakeholders, Act on the materiality results; Monitor the dynamic unfolding of materiality;
- The relationship between materiality assessments and stakeholder engagement: materiality assessment is not (only) about stakeholder engagement;
- Nature and typology of data to inform a materiality assessment: a practical framework.

The guidelines conclude with a list of readings that may be helpful to familiarize with the concept(s) of materiality; benefit from examples of practitioners that have already engaged with the materiality principle, and; understand how standard setters are regulating this principle in the context of sustainability reporting.

The present guidelines are intended to satisfy a broad range of users:

- *Report preparers*, who need to have a clear overview of how the new perspectives on materiality have practical implications for the application of the principle in their reporting, decision making, and risk management practices;
- *Standard setters*. We expect that the recommendations of the working group may provide a useful reference for setting operational standards on materiality;
- *Investors and other financial stakeholders*, who need to understand the implications of double and dynamic materiality for asset management and investment decisions;
- *Non-financial stakeholders*, who are increasingly more interested in taking informed decisions on the basis of the attention paid by companies to the issues that they consider more material.

We do hope all these actors may use and benefit from these guidelines, while we look forward to receiving comments and feedbacks.

To conclude, we are very grateful to both the academics and professionals of the working group for the invaluable support and availability shown right from the beginning of the work. We are also grateful to the professionals and academics that have participated in the Public Consultation launched by OIBR Foundation in autumn 2021. We also wish to thank the Steering Committee and the Scientific Committee of the OIBR Foundation for the trust placed in our project and for the support provided during the development of these guidelines.

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Executive Summary

- While addressed by an increasing number of standards, frameworks, guidelines, and other policy guidance, a gap persists in how materiality in the sustainability field can be operationalised. This leaves practitioners in the dark when it comes to actually making materiality judgements on sustainability matters and disclosing the rationale behind these judgements in a transparent and credible way.
- Despite the lack of standardization in operationalising the materiality principle, certain patterns are now consolidated in practice, allowing to define the steps that characterize the materiality assessments of sustainability matters:
  - **Set up of an adequate governance structure and process**
  - **Define a universe of topics to assess**
  - **Gather evidence supporting the materiality of the topics in your universe**
  - **Engage with the stakeholders**
  - **Act on your materiality results**
  - **Monitor the dynamic unfolding of materiality**
- Materiality assessments are evidence gathering exercises. The necessary evidence demonstrating financial and impact materiality can have a different nature, i.e., quantitative monetary data, quantitative non-monetary data, qualitative data.
- Stakeholder engagement allows the validation and socialization of the findings collected during the evidence gathering step. It should not be used as the only source of information to demonstrate materiality to ensure a comprehensive, credible, and objective assessment.
- In addition to the use for external corporate reporting, the materiality assessment is a process that should also be taken into consideration internally for the identification of relevant risks and opportunities. The assessment results can be used to make strategic decisions, forecasting, planning, or defining the remuneration policy. In particular, the materiality assessment could influence the Board of Directors when deciding how to allocate the budget and plan activities (e.g., invest on a certain project, product, or business area). Indeed, new goals or actions could be set, or some topics could turn out to be more relevant and resources more worthwhile than initially recognised.
- Material topics evolve over time as the internal and external needs and expectations change. In the same way, the impact that a topic has on the organisation, the environment, or the people may change, both positively and negatively, as well as how the organisation is addressing or will address the topic. For this reason, the materiality assessment process should be updated regularly at least before each reporting period, and does not consist of a one-off process.
- To assess the quality of a materiality assessment, a practical framework can be based on 7 key components: data & evidence, analytical processes, internal governance, stakeholder engagement, board oversight, process disclosure, outcome disclosure.

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Part I

Materiality: a malleable and evolving concept

1. The evolution of the materiality concept

Materiality is a very broad and pervasive concept with a malleable nature, modified and realigned over time to respond to emerging challenges and needs (Edgley, 2014). The concept of materiality has a key role in the corporate reporting context because it allows the management to filter and sift the issues to disclose within the report. Moreover, as determining material issues is essential even internally, organisations can use material issues also for different purposes: from the decision-making process to forecasting and planning, from budget allocation to the remuneration policy of top management.

Although the exact origins of the concept are obscure (Hicks, 1964), the first appearance of the term "material" dates back to the end of the 19th century when the English Court used it in the sense of "relevant, not negligible fact" in a false accounting case. Only later, did the concept of materiality spread to accounting professionals, and after World War II, it finally found its first institutional "translation" in the financial reporting context. In the following years, a great number of different definitions emerged in standards, guidelines, and other accounting and auditing documents, leading to a lack of a specific definition. Nowadays, the definitions provided by financial accounting standard setters seem to converge, and it can be said that an issue is material if omitting it or misstating it could influence the decision-making process of (reasonable) users. In this context, materiality is strictly related to the true and fair representation of the financial statements, essential to support the investors, as primer users of the financial statements, as well as other stakeholders, in their decision-making process. Despite the general consensus around the definition of the concept, its implementation process, which allows identifying material and non-material issues, remains quite complex. In fact, the relevance of information is determined using relevance thresholds and also considering the nature of the issues. Moreover, the implementation of the materiality process is entity-specific, cannot be defined *ex-ante*, and requires the exercise of preparers and auditors' professional judgment.

Especially since the 1990s, organisations began to feel the need to account not only for their economic and financial performance, but also for their ethical, social and environmental commitments and results. To this end, a series of "sustainability" documents began to spread, making it necessary to introduce a concept that could guide organisations in determining which of the numerous sustainability issues to include and disclose in these documents.

Therefore, the concept of materiality started to be applied also in the sustainability context. In this context, the materiality concept is aimed at identifying the most relevant issues to be communicated within the reports. Materiality has a fundamental role in sustainability reporting as it allows to avoid disclosure overload, which often makes those reports ineffective, and guides the preparers to properly identify which issues to disclose as relevant, ensuring the completeness and transparency of the reports.

Nevertheless, the application of the concept of materiality appears much more complex and subject to discretion than in the financial context. For instance, a greater degree of complexity is to be found when jointly considering quantitative and qualitative issues and considering the specific context in which the organisation operates. Moreover, sustainability reporting addresses a broader array of stakeholders. These aspects make the use of relevance threshold complex, if not meaningless, and involve a high level of subjectivity.

Furthermore, different perspectives and approaches to materiality have emerged on which various standard setters still do not seem to converge, contributing to the confusion that has arisen around this concept (GRI, 2022).

The next paragraph tries to shed light on the main concepts and approaches related to the materiality concept in the context of sustainability reporting, while the third paragraph deepens its regulation.

2. Materiality perspectives and approaches in sustainability reporting

In the sustainability reporting context, the latest developments define the concept of materiality according to two different perspectives: the **financial materiality perspective**, and the **impact materiality perspective**.

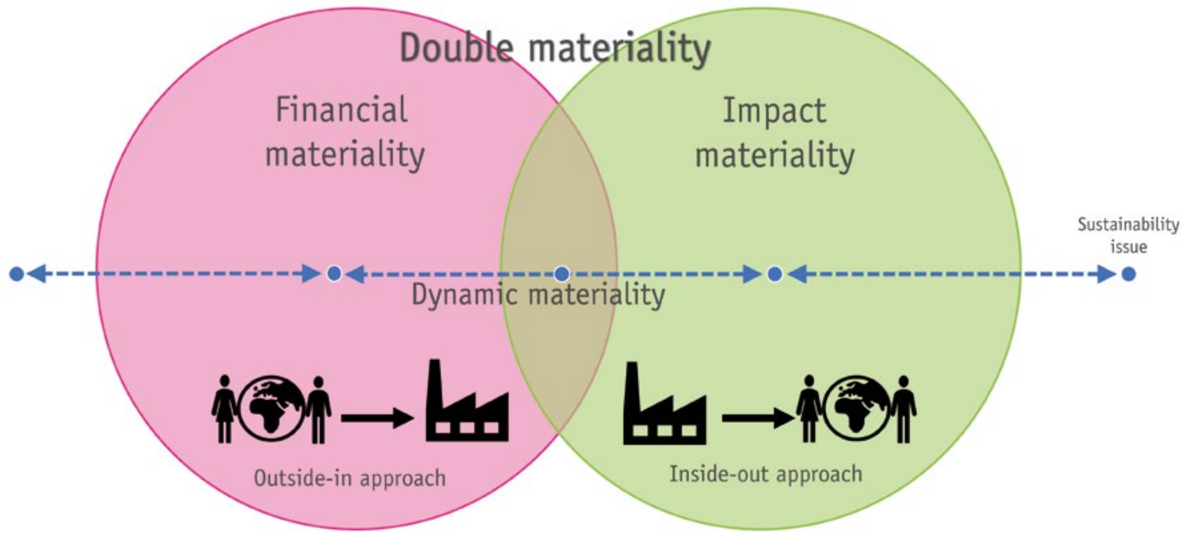
According to the **financial materiality perspective**, a sustainability issue is material if it triggers or may trigger **relevant financial effects** on the organisation. Indeed, when determining financial materiality an organisation should consider all the sustainability risks and opportunities that can positively or negatively affect the reporting entity's financial performance in the short, medium, or long term and, therefore, create or destroy corporate value.

For instance, due to the transition to a low-carbon economy, an organisation could face policy risks related to carbon-price mechanisms which increase the price of fossil fuels, and therefore, a possible increase in its expenses. The relevance of a sustainability risk or opportunity is measured considering the probability of occurrence and the magnitude of the financial effects. As shown by the above example, financial materiality adopts an **outside-in approach**, which considers the outside-in direction of impacts: it concerns the financial impacts that environmental and social matters have on the organisation. This perspective is particularly interesting for **investors**, which are attentive to the effects of sustainability issues on the organisation's financial performance and corporate value.

According to the **impact materiality** (also referred to as **environmental and social materiality**) **perspective**, a sustainability issue is material if it originates actual or potential negative or positive significant **impacts on people and the environment** caused by the reporting entity's own operations, investments, products, services or by its upstream and downstream value chain in the short, medium, or long term. Since impact materiality considers the impacts on people and the environment, it interests a **broader array of stakeholders**, including consumers, employees, citizens, business partners, communities, and civil society. For example, the use of chemicals by an organisation could have a significant negative impact on the environment (e.g., pollution of groundwater) and people (e.g., clean water availability for the local community), or else, the social initiatives of an organisation (e.g., promotion of local initiatives, support to disadvantaged people, attention to young generations) could have a positive impact on the community. The focus is on the impacts that the organisation provokes or contributes to provoke on people and the environment. Indeed, impact materiality adopts an **inside-out approach**, looking at the inside-out direction of impacts. To measure the relevance of a sustainability issue an organisation should distinguish between actual positive or negative impacts and potential negative impacts. The relevance of an actual impact is measured considering its severity, while the relevance of a potential negative impact is measured considering the severity and likelihood of the impact. The severity takes into account the scale (how serious/bad the impact is or would be), the *scope* (how widespread the impact is or would be), and the *irremediability* (how difficult it is or would be to remedy the impact).

Financial materiality and impact materiality combine under the umbrella of **double materiality**, which includes those sustainability issues that are material from a financial and/or impact materiality perspective (Figure I.1).

Figure I.1 - Materiality perspectives and approaches.



As displayed in Figure I.1, the two perspectives are not necessarily alternative: a sustainability issue may be material from both the financial and impact perspective. For example, the level of CO_2 emissions of an organisation has an impact on people and the environment, but it can also have a monetary effect on the organisation's cash flows in terms of excess emission premium if certain financial impact triggers exist (such as a carbon tax, for example).

Moreover, the two directions of impacts (outside-in and inside-out) are interrelated dynamically. An issue that is initially material only from an impact materiality (financial materiality) perspective could become material also from a financial materiality (impact materiality) perspective. For instance, an organisation that collaborates with a supplier who does not respect working regulations could initially only provoke an impact on people (e.g., citizens, civil society, communities, NGOs), but later it could suffer reputation damage and face legal liabilities, therefore, face an erosion of its corporate value. Similarly, some sustainability issues that are not material from both perspectives may become material from one or both perspectives over time. This kind of situation clearly emerged with the Covid-19 pandemic and the Russia-Ukraine conflict, which have highlighted how rapidly material matters evolve over time, and how a sustainability matter that does not affect the organisation at a particular moment could suddenly become highly material. Indeed, materiality must be considered in a dynamic way (**dynamic materiality**).

3. The regulation of materiality in the sustainability reporting context

Once the perspectives and concepts of materiality have been framed, it is worthwhile to compare the approaches to the materiality principle introduced in standards, frameworks, and regulations.

The bodies providing guidance on the materiality concept in the sustainability accounting context that will be analysed in these guidelines are the European Financial Reporting Advisory Group (EFRAG), the Global Reporting Initiative (GRI), the International Sustainability Standard Board (ISSB), the International Integrated Reporting Framework (IIRC), and the Sustainability Accounting Standards Board (SASB)[1].

EFRAG is a private European association recently commissioned by the European Commission to draft the European Sustainability Reporting Standards (ESRSs). ESRSs, to date in the draft version, will be compulsorily adopted by European organisations that meet certain requirements (see the Proposal for a Corporate Sustainability Reporting Directive of the European Commission[2]). They adopt a double materiality perspective and address a broad array of stakeholders. The standards provide guidance on the disclosure of the materiality assessment of sustainability impacts, risks, and opportunities.

GRI is an independent international organisation, based in Amsterdam, which for more than 20 years has been guiding organisations in reporting their economic, social, and environmental impacts. The GRI reporting standards, called GRI standards, are provided by the Global Sustainability Standards Board (GSSB)[3], and, to date, are the most widely used in the world for the preparation the sustainability reports. The GRI standards focus on the sustainability impacts caused by the organisation or its value chain and, thus, adopt an impact materiality perspective, and, as the EFRAG, address a broad array of stakeholders. Moreover, GRI standards present a 4 steps guidance to determine sustainability material issues and requirements on the disclosure of the material issues.

The ISSB is a standard-setting board recently created by the IFRS Foundation to deliver comprehensive sustainability disclosure standards, capable of supporting the decision-making process of investors and other capital market participants, who are increasingly attentive to the organisations' sustainability-related risks and opportunities. Differently from EFRAG and GRI, the ISSB adopts a financial perspective in order to meet the interests of the financial capital providers. The two ISSB standards (IFRS S1 and IFRS S2), currently available in the draft version, provide information based on a financial materiality approach.

The IIRC is a global body that introduced the use of the so-called Integrated Report (IR), a concise reporting framework that aims to communicate to its primary users (i.e., providers of financial capital) how an organisation's strategy, governance, performance, and perspectives, in the context of its external environment, lead to the creation (erosion) of value in the short, medium and long term. In fact, the materiality principle is strictly related to the organisation's ability to create value over time and is addressed to the providers of financial capital. The International <IR> Framework provides indications on how to implement the materiality process, identifying 4 phases.

SASB is a non-profit organisation founded in 2011 with the aim of creating a common language to communicate the financial impacts of sustainability issues. To this end, it has issued the SASB Standards: sector-specific standards which guide organisations in the

1. In 2021, IIRC and SASB merged into the Value Reporting Foundation (VRF). In turn, the IFRS Foundation will incorporate the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB).

2. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189

3. GSSB is an independent operating entity promoted by GRI responsible for the setting of the GRI Standards.

disclosure of financially relevant information on sustainability, in order to meet the investors' information needs. Unlike the other standards and frameworks aforementioned, the material topics are not to be identified by the organisation but are provided by the SASB itself. In fact, these standards identify, for each sector, the most relevant subset of environmental, social, and governance issues, thanks to the "Materiality map" available on the website.

It is evident that in the panorama of sustainability reporting, the actors involved in the definition of standards, frameworks, and regulations use different approaches to materiality. In fact, although the final objective of the principle of materiality remains the same (i.e., identifying the material issue to disclose in the sustainability report), standards, frameworks, and regulations provide different definitions, which refer to different materiality perspectives, address different report users, and propose different processes and tools for identifying material issues.

Table I.1 summarizes the definitions of materiality provided by the main standard setters aforementioned, the materiality perspective (i.e., financial materiality, impact materiality, double materiality), the report users, that are the main audience of the sustainability report, and the procedures and tools proposed for implementing the materiality assessment.

Table I.1 – Standard setters' conceptualization of materiality.

Standard setters	Materiality definition	Materiality perspective	Report users	Procedures and tools for the materiality assessment
EFRAG	"Materiality is to be understood as the criterion for the inclusion of specific information in sustainability reports" "Double materiality is a concept which provides criteria for the determination of whether a sustainability matter has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e., union of two sets, not intersection) of impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives." *EFRAG (2022), p. 12.*	Double Materiality	All stakeholders	Procedures focused on the disclosure of the materiality assessment of sustainability impacts, risks and opportunities
GSSB (GRI)	"Material topics are topics that represent the organisation's most significant impacts on the economy, environment, and people, including impacts on their human rights" *GSSB (2021), p. 26.*	Impact materiality	All stakeholders	4 steps guidance to determine material topics and requirements on the disclosure of the material topics

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Standard setters	Materiality definition	Materiality perspective	Report users	Procedures and tools for the materiality assessment
IIRC (VRF)	"A matter is material if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organisation's ability to create value over the short, medium and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether the matter substantively affects, or has the potential to substantively affect, the organisation's strategy, its business model, or one or more of the capitals it uses or affects." *IIRC (2013), p. 2.*	Financial materiality	Providers of financial capital	4 phases guidance to determine material topics
ISSB	"Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that the primary users of general purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity." *ISSB (2022), p. 33.*	Financial materiality	Investors, lenders and other creditors	Definition of the financial materiality approach
SASB (VRF)	"The first objective of the SASB Standards is to identify sustainability disclosure topics that are reasonably likely to be financially material for the typical company in an industry." "For the purpose of SASB's standard-setting process, information is financially material if omitting, misstating, or obscuring it could reasonably be expected to influence investment or lending decisions that users make on the basis of their assessments of short-, medium-, and long-term financial performance and enterprise value." *SASB (2020), p. 30.*	Financial materiality	Investors or lenders	Materiality map

The variety of definitions, perspectives, addressed stakeholders, and procedures about materiality makes it very difficult for practitioners to implement credible and robust materiality assessments. Starting from these premises, which reflect a lack of standardization, *Part II*, provides a step-by-step guide to implement materiality assessments and a practical framework to assess the quality of such assessments.

Part II

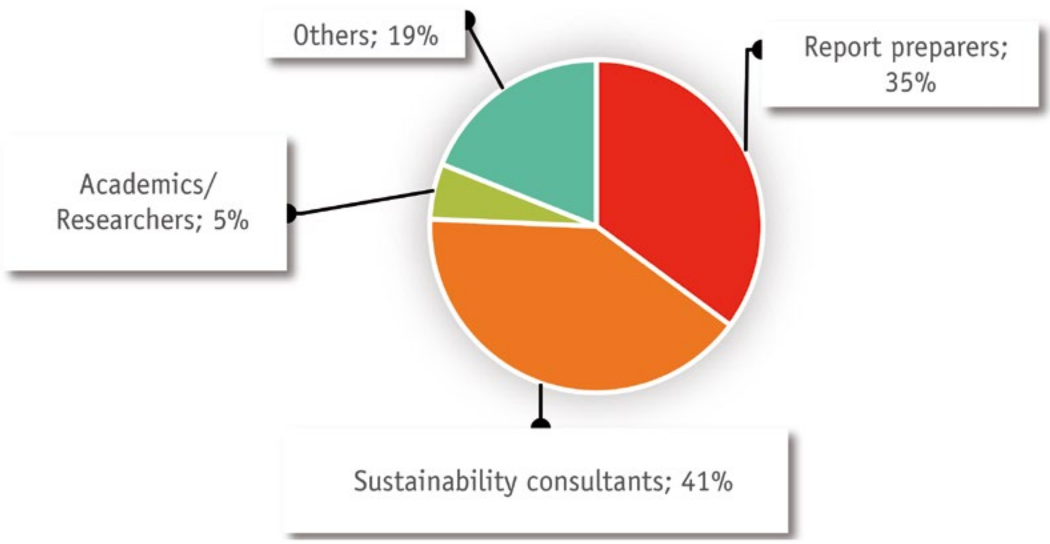
Operationalising materiality: A step-by-step guide to conduct robust and credible materiality assessments

1. Introduction

This part of the Guidelines provides a set of recommendations that companies, auditors, standard setters, and investors can apply to conduct robust and credible materiality assessments. It draws on empirical evidence collected not only through in-depth questionnaires to organisations involved in the project but also through a public consultation launched in November 2021 to all Fondazione OIBR members and stakeholders.

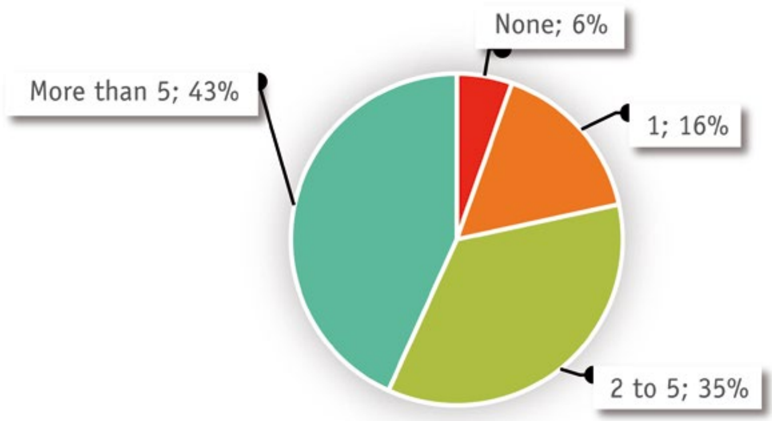
In particular, the public consultation saw the participation of sustainability consultants (41%) and report preparers (35%), for the most part, as well as academics and researchers (5%) (Figure II.1). These subjects stated that they have worked or collaborated with organisations belonging to various industries from food to manufacturing, from tourism to insurance. Most of the participants have a high level of experience with regard to materiality assessment. 78% of participants declared they have personally worked on more than 2 (35%) or 5 (43%) materiality assessments (Figure II.2). Moreover, most of the respondents stated that their organisation has been performing a materiality assessment for more than three years.

Figure II.1 - Respondents to the OIBR Foundation's public consultation on "Operationalising materiality".



Source: OIBR Foundation's public consultation (November 2021).

Figure II.2 - Number of materiality assessments conducted by each respondent to the OIBR Foundation's public consultation.



Source: OIBR Foundation's public consultation (November 2021).

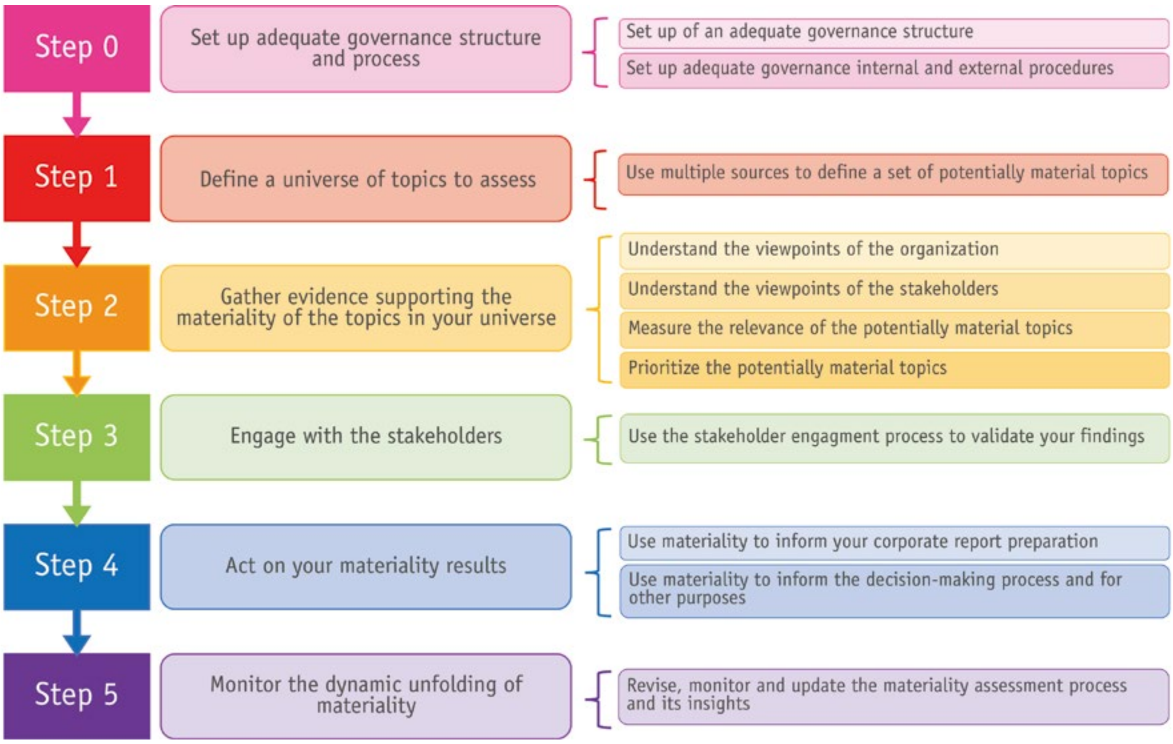
The participants in the public consultation argue that the materiality process is quite challenging for various reasons. The main challenges relate to:

- The lack of policies, guidelines, or resources to help practitioners implement the materiality process as well as the lack of standardization among the multiple existing policies, guidelines, and resources. In this sense, the work that EFRAG is conducting now on defining a structured standardized procedure to develop a materiality assessment is expected to be vastly beneficial;
- The difficulty of setting up an adequate internal organisation and procedures, such as the involvement of the Board of Directors and/or top management, the collaboration within the functions and with colleagues, and the lack of an adequate budget;
- The complexity in the implementation of the process, such as the collection of robust sources and data to support the process, the involvement of stakeholders, the determination of the relevance of the topics, and the prioritization process;
- The ability to effectively use the results of the materiality process, such as linking material issues with the budget and the impact on the organisation's strategy.

2. A step-by-step procedure for conducting the materiality assessment

In order to provide guidance to these challenges a **recommended procedure structured in five steps to conduct a robust and credible materiality assessment** is presented. These steps are preceded by a preliminary step (hereafter "Step 0"), which concerns the activation of pertinent adequate governance structure and processes (Figure II.3).

Figure II.3 - A step-by-step procedure to conduct a materiality assessment.



Step 0: Set up of an adequate governance structure and process

(Set up the adequate governance structure and processes to build, validate, sign off, and use the insights from your materiality assessment)

The materiality process is an articulated and complex process meant to allow organisations to determine which information is material (i.e., relevant) to themselves and their stakeholders. Such information is intended to be disclosed into corporate reports and to support corporate decision-making. For instance, such information may be used for budget allocation, planning of initiatives and actions, goal setting, and risk management.

As the process requires engaging the entire organisation and its stakeholders, before getting started, it is necessary to arrange an appropriate collaboration and dialogue between all the organisation's departments. It is fundamental to engage not only the managers and employees usually involved in the (external) reporting process, but also people not directly concerned with this process, in an attempt to have a comprehensive and thorough understanding of the organisation's functioning and priorities. Organisations should involve:

- The accounting and finance department, which is responsible for the preparation of financial statements, forecasts, profitability, business analysis, and any other financial tool designed to support the management decisions;
- The sustainability department, whose staff develops, enacts, and monitors the transition towards a more sustainable production and consumption;
- The investor relator, who manages relations with investors (e.g., debtholders and equity investors) and intermediaries (e.g., analysts, rating agencies);
- The risk management department, which identifies the risks and the related mitigation strategies;
- The Board of Directors (BoD), which defines the organisation's strategy and priorities and has oversight on management's performance, and pertinent Board committees (e.g., the sustainability committee);
- The Chief Executive Officer (CEO) and the team involved in the definition and implementation of the strategic plan;
- The Chief Financial Officer (CFO), in charge of cash flow and financial planning;
- Other departments (e.g., legal affairs, human resources, marketing, and sales department) which may help identify the organisation's key topics and priorities and are in a position to take action upon the insights resulting from the materiality assessment.

Moreover, the materiality process requires setting up an appropriate collaboration and dialogue with stakeholders, in order to assess what information is relevant to these actors.

As a result, given the complexity of the materiality assessment, it is essential to set up adequate **governance structure and procedures**.

Step 0.1 *Set up of an adequate governance structure*

With reference to the **governance structure**, organisations should designate a **process owner**. While traditionally the process ownership fell under the remit of the sustainability team, more recently an increasing number of organisations is putting the C-suite (CFO, Chief Risk Officer, or Legal Counsel) in charge of the process.

Further, the process owner should **name a dedicated inter-departmental governance body**, which would take charge of the coordination and implementation of the whole process. As a matter of fact, this body should adopt different structures and names depending on each specific organisation. For example, the companies which participated in the public consultation have chosen to assign this role to the "Corporate social responsibility function or unit", the "Risk and sustainability committee", the "Internal committee", the "ESG integration team", the "Sustainability operative committee". It should be noted that, as the EU Sustainable Governance proposal will enter into force, the appointment of an *ad hoc* body will become compulsory.

This body will have to involve the different internal departments mentioned above, as well as the stakeholders. This involvement may be facilitated by the creation of different teams across the organisation. Most of the respondents to OIBR public consultation make use of multiple teams, coordinated by their inter-departmental governance body.

Step 0.2 Set up adequate governance procedures

The process owner should set up adequate governance procedures both with the BoD/top management and the stakeholders, defining roles, responsibilities, and activities of each member of the body; supervise and coordinate the whole process. The governance procedures can be distinguished into "internal" and "external" ones.

Step 0.2.1 Internal procedures

The process owner, as leader of the interdepartmental team, should define internal procedures that ensure an appropriate flow of information to the board and top management, to guarantee their oversight and participation. Indeed, the process owner should report periodically to the board and top management on the activities carried out by the interdepartmental body. Actually, to ensure an effective implementation of the process, the importance of the materiality process must be widespread and shared within the organisation and especially within the BoD and top management. For this purpose, the process owner could provide specific procedures to raise awareness of the importance of the materiality process within the organisation and its BoD and top management. For example, the process owner could organize and moderate recurring forums, or draw up a specific internal document. Indeed, a prerequisite for carrying out the materiality process adequately is that the BoD and the managers share with the team its strategic view and priorities, and do not consider the materiality assessment as a mere fulfilment for external reporting. This prerequisite is a key factor in determining the success of the process. As a matter of fact, some organisations which participated in the OIBR's Foundation working group noticed that the active participation of the board committee has led to a significant improvement of the materiality process, while other organisations complained that the board's lack of interest may be one of the most critical aspects of the process. Moreover, the interest of top management favours the allocation of appropriate resources for the process development, guaranteeing that the interdepartmental governance body receives adequate monetary and time resources.

Despite having prior importance, just half of the respondents to the public consultation stated that the BoD is moderately (24%) or strongly (27%) involved in their materiality assessment. 49% of the respondents stated that the Board is slightly (22%), poorly (16%) or in no way (11%) involved in the materiality assessment (Table II.1). However, 49% of the respondents declared that there has been an increase in the importance the BoD/top management attributes to the materiality assessment process over the past years (Table II.2).

Table II.1 - Board's involvement in the materiality assessment process.

No involvement	11%
Poor involvement	16%
Slight involvement	22%
Moderate involvement	24%
Strong involvement	27%

Source: OIBR Foundation's public consultation (November 2021).

Table II.2 - Increase over the past years in the importance the BoD/top management attributes to the materiality assessment process.

Disagree	21%
Neutral	30%
Agree	49%

Source: OIBR Foundation's public consultation (November 2021).

Additionally, a mapping exercise of the current and expected interactions (both high level and more granular) connecting the materiality assessment process and overall sustainability processes as well as other key business processes (budgeting, capital allocation, risk management, and others) can facilitate an integrated approach and define improvement steps in terms of governance.

Step 0.2.2 External procedures

The process owner should define external procedures to engage and discuss with the stakeholders. For the purpose, it is first necessary to identify the organisation's key stakeholders.

According to GRI 1: Foundation 2021, stakeholders are individuals or groups that have interests that are affected or could be affected by an organisation's activities. Stakeholders can be internal (e.g., employees, managers) or external (e.g., suppliers, creditors, customers, local community, society, government, press and media, partners, peers, regulators, rating agencies). Similar stakeholders can also be grouped together into key groups. Once the key stakeholders/groups have been identified, the process owner, with the support of the interdepartmental body, should then define a process of stakeholder engagement. This process – which will be described hereafter in "Step 3" – is meant to foster a dialogue with the stakeholders in order to gather their views, interests and expectations. The most common engagement tools are day-by-day engagement, online surveys, interviews, focus groups, workshops, in person meetings, etc.. An organisation should identify the most appropriate tools for each group of stakeholders. More than one means of involvement may be used for the same group, depending on the topic addressed or the opportunities for interaction. 16% of the respondents to the public consultation firmly believe to have adequate formal procedures, protocols, and rules governing how the materiality assessment is conducted, while 19% of the respondents have an opposite view (Table II.3).

Table II.3 - Presence of formal procedures, protocols, and rules governing how the materiality assessment is conducted.

Strongly Disagree	19%
Moderately Disagree	19%
Neutral	19%
Moderately Agree	27%
Strongly Agree	16%

Source: OIBR Foundation's public consultation (November 2021).

Step 1: Define a universe of topics to assess

(Use a multi-source approach to identify the broadest universe of topics that can apply to your organisation. Make sure the universe contains topics that are comparable and with limited overlapping. Your universe should be dynamic).

The first step is to **define a universe of topics** that can be material to the organisation and its stakeholders. At this stage, it is important to cast the largest possible net, in order to avoid *a priori* exclusion or potential bias in the analysis (e.g., arbitrary exclusion of certain sustainability matters). For this reason, the recommendation is to adopt a **multi-source approach**. For example, some sources that could be helpful for an organisation are:

- Legislation, as it provides for mandatory requirements. At present, the Directive 2014/95/EU of the European Parliament requires listed European companies that meet certain requirements to publish a non-financial statement. The directive will be overcome by a new directive, the proposal of which is currently available (Proposal for a Corporate Sustainability Reporting Directive (CSRD)). The CSRD, among the new requirements, provide the use of specific reporting standards issued by EFRAG, which are currently available in the draft version. The European sustainability reporting standards (ESRSs) contain a list of material topics and guidance on how to determine and disclose the material topics;
- Frameworks and Standards, as they contain a series of principles, rules, and recommendations that could be helpful when identifying the potentially material topics. For example, GRI standards contain a list of economic, environmental, and social macro-topics, broadly designed so they can apply to all organisations, and guidelines on how to disclose each topic; the International <IR> Framework aims at enhancing accountability and management of financial, manufactured, intellectual, human, social and relationship, and natural capitals, and their interdependencies and at supporting value creation over the short, medium and long term; ISO standards provide a series of rules to ensure the quality of the organisation's processes; SASB Standards illustrate the most relevant ESG topics for each industry through a "Materiality finder" which is available on its website;
- Recommendations, as the Task Force on Climate-Related Financial Disclosures which deals with climate-related financial information;
- Peers' and industry corporate reports and annual filings, as they represent an example of the topics addressed by competitors, business partners, or comparable companies.
- Experts' reports, white papers, and other research documents. Think tanks, industry associations, and other organisations often publish documents where key industry trends and topics are analysed in details;
- News articles, representing the matters affecting public opinion;
- Other relevant sources, such as ESG ratings or questionnaires.

Standard setters, experts and other actors involved in providing guidance on materiality suggest potentially material topics by using different categorizations (e.g., by sector, by ESG dimensions or pillars). Table II.4 presents some pertinent examples.

Table II.4 - Examples of potentially material topics, as suggested by standards, experts' reports, and white papers.

Examples of EFRAG's material topics (per dimension)[4].

Dimension	Topics
Environmental	Climate change; Pollution; Water and marine sources; Biodiversity and ecosystems; Resource and circular economy
Social	Own workforce; Workers in the value chain; Affected communities; Consumers and end users
Governance	Governance, risk management and internal control; Business conduct

Examples of SASB's potentially material topics (per sector).

Sector	Main topics
Apparel, accessories & footwear	Product Quality & Safety; Supply Chain Management; Materials Sourcing & Efficiency
Agriculture products	GHG Emissions; Energy Management; Water & Wastewater Management; Product Quality & Safety; Employee Health & Safety; Supply Chain Management; Materials Sourcing & Efficiency
Chemicals	GHG Emissions; Air Quality; Energy Management; Water & Wastewater Management; Waste & Hazardous Materials Management; Human Rights & Community Relations; Employee Health & Safety; Product Design & Lifecycle Management; Management of the Legal & Regulatory Environment; Critical Incident Risk Management
Electric utilities & power generators	GHG Emissions; Air Quality; Water & Wastewater Management; Access & Affordability; Employee Health & Safety; Business Model Resilience; Critical Incident Risk Management; Systemic Risk Management
Hotels & lodging	Energy Management; Water & Wastewater Management; Ecological Impacts; Labour Practices; Physical Impacts of Climate Change
Road transportation	GHG Emissions; Air Quality; Employee Health & Safety; Critical Incident Risk Management
Waste management	GHG Emissions; Air Quality; Waste & Hazardous Materials Management; Labour Practices; Employee Health & Safety; Business Model Resilience

Examples of GRI's potentially material topics (per dimension).

Dimension	Topics
Economic	Economic Performance; Market Presence; Indirect Economic Impacts; Procurement Practices; Anti-corruption; Anti-competitive Behaviour; Tax
Environmental	Materials; Energy; Water and Effluents; Biodiversity; Emissions; Effluents and Waste; Waste; Environmental Compliance; Supplier Environmental Assessment
Social	Employment; Labour Management Relations; Occupational Health and Safety; Training and Education; Diversity and Equal Opportunity; Non Discrimination; Freedom of Association and Collective Bargaining; Child Labour; Forced or Compulsory Labour; Security Practices; Right of Indigenous Peoples; Human Right Assessment; Local Communities; Supplier Social Assessment; Public Policy; Customer Health and Safety; Marketing and Labelling

4 It should be noted that EFRAG provides for a rebuttable presumption of materiality (EFRAG (2022, [Draft] ESRS 1). The topics indicated in the table must in fact be compulsorily reported by organisations, unless an indication of the reason why a topic is not considered material is provided in the report. Other topics considered material by the organisation itself may be added to the topics indicated in the table (entity-specific material topics).

Examples of World Economic Forum's potentially material topics (per pillar).

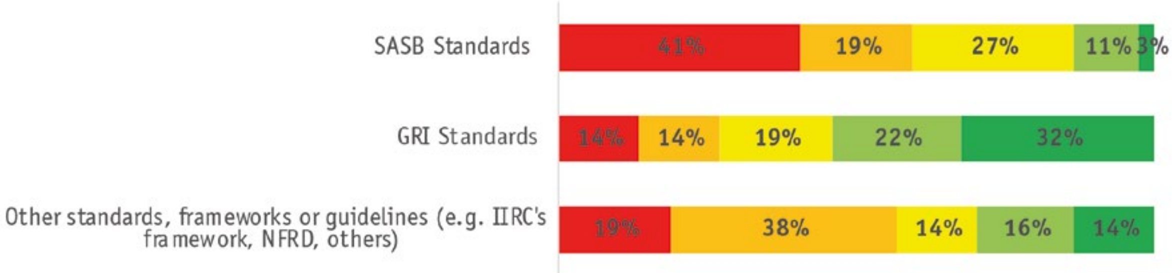
Pillar	Topics
Principles of Governance	Governing purpose; Quality of governing body; Stakeholder engagement; Ethical behaviour; Risk and opportunity oversight
Planet	Climate change; Nature loss; Freshwater availability
People	Dignity and equality; Health and well-being; Skills for the future
Prosperity	Employment and wealth generation; Innovation of better products and services; Community and social vitality

Examples of Dataraman's potentially material topics (per category).

Category	Topics
Culture & values	Corporate culture; Corporate reputation.
Economic	Fair competition; Local economy support; Long-term value creation; Market access; Responsible investing & financing; Responsible tax practices.
Employee	Employee acquisition, talent management & retention; Employee development; Employee engagement & satisfaction; Employee incentives & benefits; Employee transportation; Employee wellbeing; Fair & equitable compensation; Fair & inclusive workplace; Future of work; Labour rights; Occupational health & safety; Unionization; Workforce & organisational change management.
Environmental	Air emissions; Alternative fuels; Biodiversity; Climate change risks & management; Energy use, conservation & reductions; GHG emissions & reductions; Harmful substances management; Hazardous waste management; Managing land use & reducing deforestation; Materials management; Non-hazardous waste management; Plastics management; Project closure, decommissioning & environmental restoration; Protection of natural land cover; Recycling, waste recovery & reduction; Smarter & greener transportation; Spills; Sustainable building management; Transition to a circular economy; Transition to renewable energy; Water; Water pollution.
Governance	Board effectiveness; Business continuity; Business ethics; Compliance management; Corporate criminal liability; ESG governance structure; Ethics of clinical trials; Executive compensation; Grievance mechanisms & remediation; Intellectual property; Investor relations; Non-financial reporting; Public policy practices.
Innovation & technology	Advanced technologies & innovations; Artificial intelligence; Business model innovation; Cybersecurity & information security; Data privacy management; Digital transformation; Innovation management.
Social	Animal welfare; Certification, labelling & information transparency; Changing consumption patterns; Children's rights; Community engagement; Community support & development; Consumer nutrition & wellbeing; Consumer rights; Customer satisfaction; Drug resistance & pharmaceuticals in the environment; Financial access, education & advice; Holistic & patient-centric approach to health; Human rights; Inclusive products & services; Indigenous populations; Marketing & selling practices; Noise pollution; Philanthropy & volunteering; Physical disasters & failures; Political & societal risk; Product & service safety & quality; Project-based social & environmental impact assessment; Public health risks; Responsible pricing; Responsible procurement; Shifting demographics; Social inclusion; Stakeholder engagement; Supply chain management.

From the public consultation emerged that the respondents to support the materiality assessment favour the use of GRI Standards, and other standards, frameworks, or guidelines, while only a minor part bases its materiality assessment on SASB Standards (Figure II.4).

Figure II.4 - Standards and other sources used to develop the materiality assessment.



	Other standards, frameworks or guidelines (e.g. IIRC's framework, NFRD, others)	GRI Standards	SASB Standards
Strongly Disagree	19%	14%	41%
Moderately Disagree	38%	14%	19%
Neutral	14%	19%	27%
Moderately Agree	16%	22%	11%
Strongly Agree	14%	32%	3%

Source: OIBR Foundation's public consultation (November 2021).

Taking the various sources mentioned above as a reference, the interdepartmental body shall identify a **list of potentially material topics**, considering the organisation's specificity. This means considering, for example, the activities carried out by the organisation itself, its products and/or services, the location where it operates, and the type, nature, and location of the entities across its value chain.

Table II.5 contains a list of potentially material topics based on the corporate reports of the companies participating in the OIBR Foundation's working group. Note that the companies contributing to the working group belong to different industries, so their material issues vary greatly. The list below has no ambition of depicting a comprehensive universe of sustainability issues, rather it sheds light on how companies typically label and frame their material issues.

Table II.5 - Examples of potentially material topics.

E	Animal welfare	G	Governance, mission & engagement
G	Anti-corruption & bribery	S	Guaranteeing human rights through the supply chain
G	Anti-financial crime	S	Human rights
E	Biodiversity, deforestation prevention	S	Indirect social impacts
G	Board Governance	S	Local community support & development
F	Business continuity, resilience and crisis response	S	Management of agents and intermediaries
G	Business Ethics	G	Marketing and brand image
G	Business risk management and internal control system	G	Principles for responsible investment
S	Client experience	E	Protection of the ecosystem (water, soil, flora and fauna)
E	Climate change risks & management	S	Respecting human rights
S	Collaboration and partnerships for the goals	S	Responsible social management of the supply chain
S	Community engagement & support	G	Responsible management of the value chain
G	Compliance and risk management	G	Risk management
F	Creating economic value	S	Safety Leadership and culture
S	Diversity, Equity & Inclusion	S	Social, digital and financial inclusion
F	Economic performance and financial solidity	S	Supplier engagement and transparency
F	Economic value generated	S	Support and promotion of infrastructure projects
S	Employee development	S	Supporting local communities
S	Employee engagement and satisfaction	G	Sustainability strategy
S	Employee incentives & benefits	F	Sustainable finance and responsible investing
S	Employee's wellbeing, health & safety	F	Tax policy
E	Energy use, reductions & alternative energy sources	E	Transition to a circular economy
G	ESG Regulatory compliance	G	Transparency
G	Ethics & compliance	E	Waste management & recycling
E	GHG emissions & reductions	E	Water management

Key:

E	Environmental topics	G	Governance topics
F	Financial topics	S	Social topics

When identifying the topics to assess it is important to guarantee their completeness and their uniqueness. On the one hand, it should consider as many sources as possible, to assure to take into account all the potential dominant and emerging topics. On the other hand, it is important to avoid redundancy and overlapping as much as possible, considering that sustainability issues are often strictly interrelated. Hence, this first step assures that an organisation considers an objective universe of topics, entity specific, based on the main emerging issues and not only on stakeholders' point of view.

These topics will then be submitted for evaluation by the organisation and the stakeholders. Moreover, the evaluation of the topics must be dynamic and respond to the continuous evolution of expectations and requirements concerning economic, social, and environmental issues. Therefore, the universe of topics considered must be regularly revised and updated, at least before every reporting cycle.

Step 2: Gather evidence supporting the materiality of the topics in your universe

(Use multiple sources and triangulate the insights to achieve a more robust and objective approach. Identify the evidence that demonstrates materiality. When conducting a double materiality assessment, gather evidence demonstrating the relevance of both directions of impacts: outside-in for financial materiality, and inside-out for impact materiality.)

Materiality assessments are evidence gathering exercises. The necessary evidence demonstrating financial and/or impact materiality can have a different nature, i.e., quantitative monetary data, quantitative non-monetary data, and qualitative data. Table II.6 presents some examples of different kinds of evidence that can be used to demonstrate financial and/or impact materiality. Please note that the table has no ambition of being exhaustive in covering all possible types of evidence.

Table II.6 - Financial and impact materiality: examples of evidence.

Example of evidence	Description	How does it demonstrate financial materiality?	How does it demonstrate impact materiality?
Disclosure in annual reports of other companies	Narrative, KPIs, commitments, and other qualitative or quantitative content addressing sustainability topics in annual reports (including financial and non-financial filings).	Coverage in annual financial filings is evidence that a sustainability issue has relevance in terms of its impacts on the value of the organisation and/or its ability to create value.	Coverage in sustainability reports provides evidence that a sustainability topic is relevant in terms of the impacts it has on different stakeholder groups.
Science based thresholds	Carrying capacity thresholds of ecosystems and natural/social environments determined following a scientific approach.	Exploiting a natural or societal resource over its carrying capacity has an impact on the ability of the organisation to rely on that resource in the future.	Over exploitation of natural or natural resources triggers irreversible damage on environment and society.
Mandatory regulation and policies	Laws, regulations, and other binding policy tools that require organisations to act in a certain way.	Violation of mandatory provisions results in litigation, sanctions, fines, and other consequences that impact the value and cash flows of an organisation.	Mandatory regulation institutionalizes the interests, preferences, and orientation of regulators, institutions, and civil society more broadly.
Soft law, best practices, guidelines	Non-binding policy instruments issued by institutions, NGOs, Think Tanks, and other members of civil society.	Financial market institutions such as stock exchanges, central banks, market authorities often issue non-binding guidance and interpretation of rules that signal the financial relevance of certain topics.	Voluntary policy initiatives set out best practices aimed at measuring, managing, and reducing impacts on the environment and society.
Coverage in media	News articles addressing sustainability topics in relation to organisations.	Volume of news in from financial markets media provide evidence of the financial implications of sustainability issues.	Media attention (e.g., volume of news) more broadly represents public opinion's sensitivity on certain sustainability topics.
Academic research	Academic journal articles, scientific papers, and other kind of academic publications.	Body of research investigating the relationship between financial value and sustainability topics.	Body of research addressing the impact of organisations on the environment and society.
Investors and financial markets' interest	Analysts' opinions, investor calls' transcripts, equity research reports	Evidence of relevance representing financial markets	Certain financial consequences are triggered by environmental and social impacts
Stakeholders surveys	Surveys and questionnaires collecting internal and external stakeholders' viewpoints and opinions.	Surveys asking stakeholders to indicate to what extent a sustainability issue generates or can trigger financial impacts for the organisation.	Surveys asking stakeholders to what extent an organisation's direct and indirect activities generate or may generate impacts on environment and society.

Once the broader set of potentially material topics has been identified, the best practices indicate that the designated body conducting the assessments relies on multiple sources to triangulate the insights. This step is fundamental as it allows to achieve a more robust and objective approach. For this reason, it is essential to allocate adequate monetary and time resources.

The collected data will be used to identify the evidence that demonstrates the materiality of the potentially material topics. During this step, some of the topics that were initially included in the universe of potential material issues won't show enough evidence to be considered material, ultimately allowing the organisation to focus on the issues that really matter. The outcome of the evidence gathering process is then used to engage with the internal and external stakeholders to corroborate, integrate, and finally validate the results.

Step 2.1 *Understand the viewpoints of the organisation and its stakeholders*

Step 2.1.1 Collecting evidence from internal stakeholders

A key insight of every materiality assessment is the juxtaposition of the point of view of the organisation (i.e., what is a priority from the internal viewpoint) vis-à-vis the perspective of external stakeholders. The internal viewpoint refers to an organisation's strategic stance, outlook, and vision. In other words, it is not a mere representation of the opinions of the members of the organisation.

As to determine the organisation's viewpoint, the interdepartmental body should examine internal sources to identify those topics that are considered with greater importance to the organisation's directors and top management. The interdepartmental body could take into account the following internal documents: ethical code, corporate code of conduct, documentation relating to internal policies, risk management model, business management manual, minutes of the internal committee for environmental sustainability, minutes of the internal committee for corporate social responsibility, social and environmental goals, safety organisation chart, internal brochures, documentation prepared to obtain certifications, impact assessments, life cycle analyses, etc..

Such internal documents could be used, for example, to identify the topics that are mentioned most frequently, and which may be deemed to be among the most relevant for the organisation.

Moreover, the designated body should engage and dialogue with the internal subjects (e.g., board of directors, top management, division managers) by means of semi-structured interviews or surveys.

Although counterintuitive, the perspective of the employees is typically not used to represent the organisation's viewpoint. The main reason is that employees, despite being part of their organisation, are able to share their point of view as members of the organisation, but are not in a position to represent the strategic orientation of the organisation itself. The BoD, executive leadership (C-Suite), and senior management are the best representatives to comment and indicate the priorities of the organisation being in charge of its strategy.

Step 2.1.2 Collecting evidence from external stakeholders

To understand the external stakeholders' viewpoint, it could be useful to administer surveys or interviews. For example, through surveys or interviews, it is possible to ask to express a judgment of relevance for each topic identified in Step 1. From the public consultation emerged that most of the respondents rely on surveys to identify stakeholders' point of view, while only about a fifth of the respondents does not (Table II.7).

Table II.7 - Reliance on surveys to identify stakeholders' viewpoint.

Strongly Disagree	11%
Moderately Disagree	11%
Neutral	16%
Moderately Agree	19%
Strongly Agree	43%

Source: OIBR Foundation's public consultation (November 2021).

***Step 2.2** Measure the relevance of the potentially material topics*

Once the viewpoints have been identified, the organisation will have to determine the relevance of each of the topics identified. According to a financial materiality perspective, the relevance of a topic can be measured considering the **probability of occurrence** and the **magnitude** of the financial effects on the organisation. Conversely, according to an impact materiality perspective, the relevance of a topic can be measured considering the **severity** and **likelihood** of the impact on the environment or people. The severity takes into account the *scale* (how serious/bad the impact is or would be), the *scope* (how widespread the impact is or would be), and the *irremediability* (how difficult it is or would be to remedy the impact). It should be noted that, if an organisation adopts a double materiality approach, a topic could be material from both perspectives (financial and impact) and therefore the organisation would have to consider both the magnitude and probability of the financial effects, and the severity and likelihood of the impact on the environment and people. In any case, when measuring the relevance, the short, medium, and long term must be taken into account.

Measuring the relevance can appear extremely complex for different reasons. Some of these reasons are that not every topic can be translated into monetary terms and different measurement units are used, making comparisons difficult. Moreover, some topics cannot be measured or quantified, because it would entail high costs and times or result impossible (e.g., the calculation of the value of human life, when assessing topics related to work security). Finally, some companies find it difficult to make financial forecasts of topics that have a long-term causal effect.

Nevertheless, measuring the relevance does not necessarily imply the monetization of the impacts, since the prioritization process can be based even on qualitative judgment or non-monetary quantitative data (e.g., organisation reputation, sales opportunities, possibility to access to a skilled and devoted workforce, frequency whereby a topic is dealt with in internal and external documents, number of regulations with sanctions covering a topic).

Qualitative data assumes significant importance within the materiality assessment. As a matter of fact, the public consultation unveils that almost all the respondents use qualitative data, while some respondents stated not to use quantitative data (Figure II.5).

Figure II.5 - Use of qualitative and quantitative data.

Source: OIBR Foundation's public consultation (November 2021).

The determination of the relevance, also considering the topic's relevance for both the organisation and the stakeholders, will allow the organisation to attribute a **relevance score** to each issue identified. The relevance score could be quantitative (e.g., from 1 to 10) or qualitative (e.g., low, medium, and high).

Step 2.3 Prioritize the potentially material topics

Finally, the organisation will have to prioritize the potential material topics in order to identify the most relevant. The most used tool for the prioritization is the "materiality matrix" which is made up of two dimensions: the relevance for the organisation (e.g., from 1 to 10; low, medium, or high) typically plotted on the X-axis, and the relevance for the stakeholders (e.g., from 1 to 10; low, medium, or high) typically represented on the Y-axis. While the materiality matrix is no longer prescribed in guidelines or standards, this tool is still widely used in practice given its simplicity and its effective visual representation of the landscape of an organisation's priorities.

The interdepartmental body will have to allocate each issue into the matrix. As to identify the most relevant (material) topics, it will have to determine the threshold that distinguishes material from non-material topics (e.g., score > 7.5; score: High). The topics that exceed the relevance threshold from the organisation and/or from the stakeholders' perspective are to be considered material (e.g., relevance for the organisation > 7.5 and relevance for the stakeholders > 7.5). It is important to keep in mind that the threshold for materiality must be determined by the organisation itself as a fundamental source of accountability. For these reasons, most standards and guidelines prescribe that the determination of the threshold (i.e., the materiality judgment) is discussed and validated with the organisation's highest governance body.

At this point, the interdepartmental body will have identified the material topics that will be validated in the next step.

Step 3: Engage with the stakeholders

(Stakeholder engagement allows the validation of your findings. It should not be used as the only source of information to demonstrate materiality)

The third step requires the organisation to take into account stakeholders' interests and expectations to validate the material topics identified before. For the purpose, the organisation should implement a **stakeholder engagement process** to dialogue with the stakeholders and discuss the material topics previously identified.

A key factor in this step is to identify the best channel of involvement depending on the kind of stakeholder and the occasion of engagement. No standardization is possible: every organisation will determine its stakeholder engagement process according to its specificity (e.g., sector, dimension, nationality, etc.).

Table II.8 exemplifies some engagement channels that could be used to dialogue with each group of stakeholders. The main channels are interviews, surveys, conferences and meetings, corporate intranet, workshops, etc..

Table II.8 - Examples of engagement channels for each group of stakeholders.

Group of stakeholders	Examples of engagement channels
Customers	Corporate intranet, online surveys, customer service, social network, fairs, workshops, distribution network
Employees	Interviews, internal climate surveys, internal questionnaires, training courses, anonymous complaints
Institution and strategic partners	Institutional relations, corporate website, long-term agreements, sales meetings
Local community	Development of specific initiatives on the territory, the active participation in community events, corporate intranet
NGO	Direct contact and listening moments, events
Shareholders	Dedicated conferences and meetings, corporate intranet, financial statements
Suppliers	Dedicated meetings, online surveys

It is important not to underestimate this step and to dedicate adequate time and resources. From the public consultation emerged that some companies find it difficult to identify an appropriate sample of stakeholders and to engage the stakeholders properly.

The results of the engagement process should be discussed within the interdepartmental body, and with the BoD/top management. In this way, the materiality assessment provides useful information not only for the materiality process by itself, but also in general for the management which could orientate its actions by taking into account stakeholders' needs and expectations.

The stakeholder engagement process could lead to a substantial confirmation of what emerged in the previous step, but also to different relevance scores and even in the identification of new topics. The Board, with the support of the top management and the interdepartmental body, will decide whether to revise the material topics identified in the previous step, considering the results of the engagement process. Since the stakeholder engagement should not be used as the only source of information to demonstrate materiality, the board/top management could consider not to revise the material topics that emerged previously.

At the end of this step the organisation will have identified the material topics.

Step 4: Act on your materiality results

(Communicate your materiality results, and use materiality to inform the decision-making process, making forecasting, planning, and for other purposes)

The material topics identified in Step 3 can be used for reporting purposes but also for other reasons, such as taking strategic decisions, making forecasting, planning, or for other purposes.

***Step 4.1** Use your materiality results to inform the preparation of your corporate report*

With reference to reporting, the information relating to the material topics identified must be appropriately disclosed in the organisation's report, as to ensure that the content of the report adequately responds to internal and external information needs.

Step 4.1.1 Describe the materiality assessment process

Beyond the in-depth analysis of the material topics, the report should illustrate the process that led to their determination.

This disclosure is very important and delicate, as the explanation of the process guarantees the transparency and effectiveness of the report as well as demonstrates the soundness and credibility of the broader strategy, risk management, and planning of the organisation. Indeed, it certifies that the topics identified as priorities have not been chosen "randomly" by the organisation, but that it is the result of a formal and articulated process that considers a broad universe of topics (Step 1) and the viewpoints of the organisation and its stakeholders (Steps 2 and 3).

To this end, the organisation should not limit itself to disclosing the materiality matrix or the list of material topics, but it should dedicate a few pages to the description of the key points of the process that led to their determination. The organisation should provide a brief explanation of the meaning of the **materiality process**, and how this process is developed by the organisation. In particular, the organisation should highlight:

- The **governance structure and procedures**: the organisation should describe who is responsible for the materiality process, how the interdepartmental body is composed, how the board and top management are involved, and the resources dedicated to the process (Step 0);
- The **internal and external sources** used to identify the material topics;
- The evidence, criteria, and methodology adopted to measure topics' relevance;
- The **stakeholders addressed**, and a list of topics they consider more material;
- The **stakeholder engagement process** developed;
- The **methodology** used to **prioritize** the topics and, if used, the materiality matrix and the process used to allocate the topics into it (Step 2);
- The **material topics**: the organisation should list material topics and provide a short description of each issue;
- The date the materiality process was last reviewed, and the date when it will be reviewed again.

Most of the organisations disclose this information in a dedicated paragraph or chapter located following the introductory chapters, while others prefer to locate it in a methodological appendix.

Step 4.1.2 Describe the material topics

Moreover, the corporate report must contain the description of the material topics, which represent the foundation of the report itself. The various sections of the report must be informed with the results of the materiality assessment and provide adequate and explicit information on each of the material topics. In particular, the organisation is expected to describe:

- Why the topic is material;
- How the topic affects the organisation, the environment, or the people, also through quantitative or qualitative indicators or descriptions;
- How the organisation is addressing or will address the topic, illustrating goals, actions, policies, and plans;
- How the organisation is directly or indirectly involved in the topic.

The corporate report should properly highlight the material topics as to allow the users to easily find the information related to the material topics within the corporate report. To do so, some organisations which participated to the OIBR Foundation's questionnaire highlight the material topics in the document with a dedicated symbol, others indicate the number of the pages or the section where the related information is provided.

Step 4.1.3 Use materiality to inform the decision-making process and for other purposes

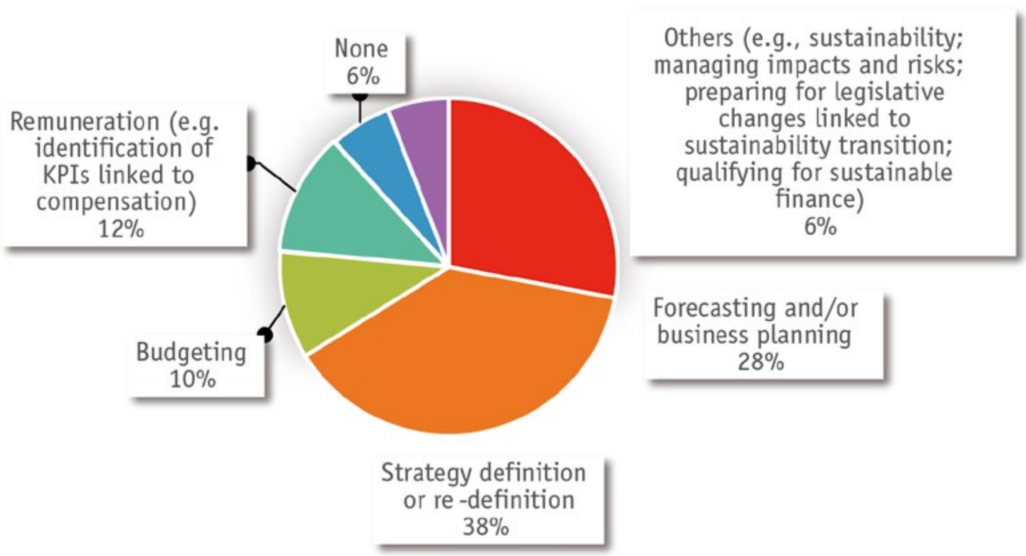
In addition to the use for external corporate reporting, the materiality assessment is a process that should also be taken into consideration internally. The assessment results could be very important internally when taking strategic decisions, making forecasting, planning, or setting the remuneration policy. In particular, the materiality assessment could influence the BoD when deciding how to allocate the budget and plan activities (e.g., invest on a certain project, product, or business area). Indeed, new goals or actions could be set, or some topics could turn out to be more relevant and resources worthier than it seemed.

The material topics could also be closely linked to business risks (e.g., think of risks linked to workplace safety, or to the quality of a product, but also to environmental risks) and therefore the materiality analysis could lead to the identification of new risks to be included in the risk inventory. Furthermore, the materiality assessment may help building a stronger sustainability-oriented internal culture, as well as significantly impact the sustainability action plan or strategy.

As suggested previously, mapping the interactions between materiality assessments and all other key business process may bring about different types of outputs arising from the materiality analysis. In particular, identifying the input-output pathways and dependencies connecting the materiality assessments to other specific business processes is the first step in this sense. For example, if the materiality analysis suggests that a topic may rise in terms of relevance in the future, but for the moment is not considered relevant enough to be added to the list of material issues, which business process should be informed of this outcome?

In the public consultation it emerged that, in addition to reporting, the major use of the materiality assessment is for strategy-related purposes, followed by forecasting and/or business planning. A minor use is reserved for remuneration and budgeting. Only 6% of the respondents use the materiality assessment exclusively for reporting purposes (Figure II.6).

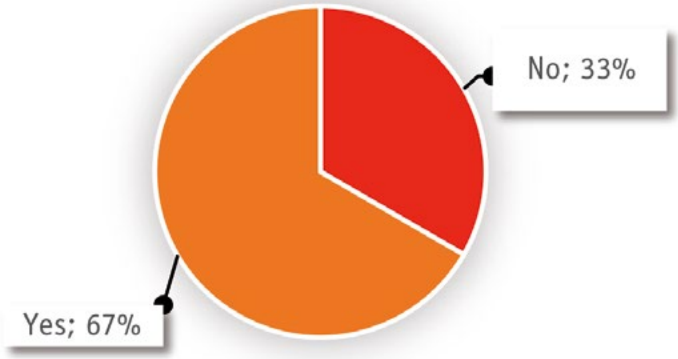
Figure II.6 - Areas of use of the materiality assessment, in addiction to corporate reporting.



Source: OIBR Foundation's public consultation (November 2021).

The materiality assessment may also lead to a better understanding and consciousness of the organisation's intangibles. Most of the respondents to the public consultation affirmed to take into account the organisation's intangibles within the materiality assessment process (Figure II.7). These intangibles are mainly related to reputation, human capital, brands, registered patents, ethics, know-how of the organisation.

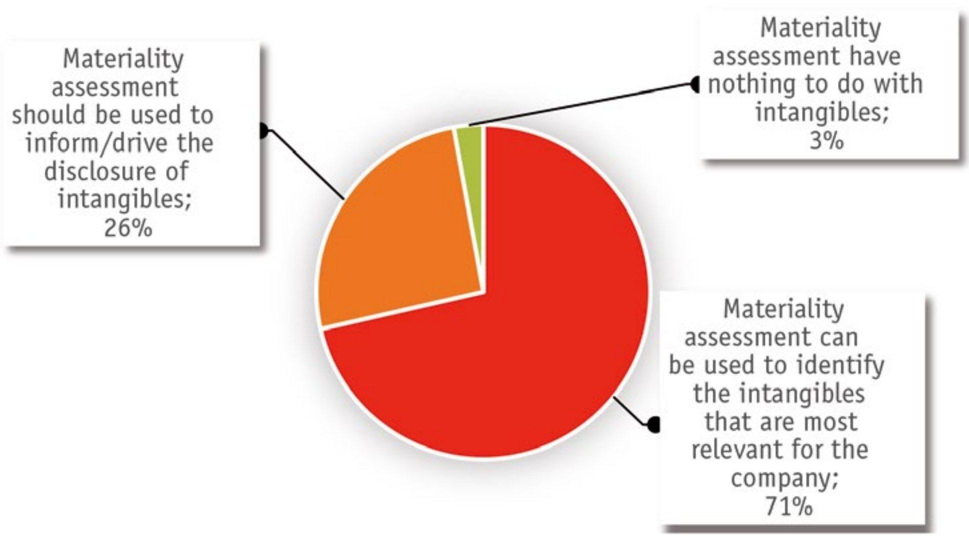
Figure II.7 - Consideration of the intangibles in the materiality assessment process.



Source: OIBR Foundation's public consultation (November 2021).

Moreover, most of the respondents stated that the materiality assessment can be used to identify the intangibles that are most relevant for the company, while 25% believes it should be used to inform/drive the disclosure of intangibles. 3% of the respondents reckons that there is no link between materiality assessment and intangibles (Figure II.8).

Figure II.8 - Relationship between materiality and intangibles.



Source: OIBR Foundation's public consultation (November 2021).

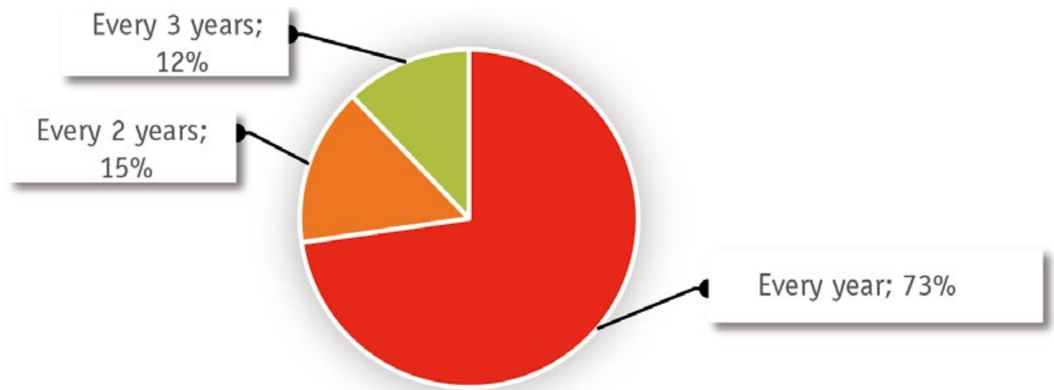
Step 5: Monitor the dynamic unfolding of materiality

(Materiality insights are useful more than once per year, in your annual report. You can present/ discuss how material topics evolve over time in your risk or ESG committees)

The material topics evolve over time as the internal and external needs and expectations change. In the same way, the impact a topic has on the organisation, the environment, or that people may change, both positively and negatively, as well as how the organisation is addressing or will address the topic. For this reason, the materiality assessment process should be updated regularly at least before each reporting period and does not consist of a one-off process. The material topics and their impacts should be monitored all year long and the materiality assessment results should be updated when necessary. This will allow not only to prepare an effective corporate report but also to better support the decision-making process of the Bod/top management.

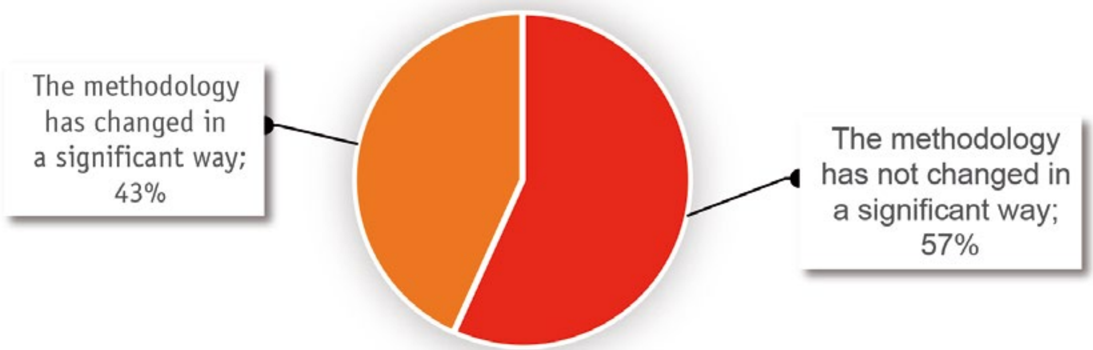
There is no standard frequency with which the process should be carried out since it depends on the organisation's specificity and on the environment where it operates. 73% of the respondents to the public consultation declared to conduct the materiality assessment every year, 15% every two years and 12% every three years (Figure II.9). When conducting a new materiality assessment 57% of the respondents stated not to introduce significant changes regarding the methodology used (Figure II.10).

Figure II.9 - Periodicity of the materiality assessment.



Source: OIBR Foundation's public consultation (November 2021).

Figure II.10 - Change into the methodology adopted over the years.



Source: OIBR Foundation's public consultation (November 2021).

3.How to assess the quality of a materiality assessment

In addition to the step-by-step recommended approach to conduct the materiality assessment, the Working Group suggests a practical framework that can be used by auditors, investors, and stakeholders more broadly to assess the quality of a materiality assessment (Table II.9).

Table II.9 - A practical framework to assess the quality of a materiality assessment.

Key components	Description	Recommendations
Data & evidence	Sources, type of data (quantitative, quantitative monetary, qualitative)	A robust materiality assessment combines multiple sources of data to ensure the evidence is free of bias and as objective as possible. The analysis of the sources is documented and systematic. Insights coming from stakeholder engagement activities are compared and triangulated with the documental analysis of policies and regulations, peer and industry disclosures, public opinion sources, financial market sources, and other relevant sources. The evidence collected in this way forms the basis to determine the materiality of inwards and outwards impacts (double materiality).
Analytical processes	Time horizons, planetary boundaries, do not significant harm (DNSH)	A robust materiality assessment identifies evidence that helps estimate the time frame of impacts (long term vs short term). Where available, planetary boundaries determined by a scientific approach (e.g. natural carrying capacity) are taken into account. Finally, interdependencies across sustainability issues are analysed to avoid causing negative impact on a dimension while taking action on another.
Internal governance	Committees and department involved in the materiality assessment process	A robust materiality assessment is the foundation for strategic and risk management processes. The relevant governance bodies are involved in the analysis of evidence collected. The governance bodies have oversight on how materiality evolves over time (dynamic materiality).
Stakeholder engagement	Socialization of the insights with the relevant stakeholder groups	A robust materiality assessment creates a dialogue with the affected internal and external stakeholder groups, with the aim of discussing and validating the evidence collected as well as socializing the determination of the materiality threshold.
Board oversight	Involvement of the highest governance body in the process	The determination of the materiality threshold is conducted by the highest governance body in the organisation. The highest governance body regularly exercises oversight on the evolution of material issues over time (dynamic materiality).
Process disclosure	Transparency, clarity, and conciseness in the explanation of the materiality process	The process to identify, assess, and monitor the material impacts of sustainability issues on the value of the organisation (financial materiality) and the material impacts of the organisation's activities, investments, and operations on environment and society (impact materiality) is systematically documented and disclosed. Details concerning the data and evidence used, analytical processes, internal governance & board oversight, and stakeholder engagement activities are provided. Any variations in the methodology are disclosed and motivated.
Outcome disclosure	Transparency, clarity, and conciseness in the explanation of the materiality process outcomes	The list of material issues is disclosed, with specification of the impacts assessed as material on the value of the organisation (financial materiality) and the impacts assessed as material on environment and society (impact materiality). A list of issues that have not surpassed the materiality threshold but are closely monitored as emerging is disclosed (dynamic materiality). Changes in the lists of material issues since the previous reporting period are disclosed and motivated.

4. Limitations and avenues for future guidance

These guidelines are published while several highly relevant public consultations on sustainability reporting standards are open and ongoing. The Working Group acknowledges that the outcome of these consultations and the resulting final standards may introduce substantial changes to materiality and materiality assessments. A future iteration of these guidelines may update the recommendations included in this first version in light of the new standards.

Another avenue for future guidance concerns the interconnectedness of materiality assessments with other key business processes, such as budgeting, capital allocation, strategic decisions, risk management. While these guidelines clarify that the purpose of a materiality assessment goes beyond the determination of the content of sustainability disclosures, further indications and recommendations could be provided to facilitate the integration of materiality assessments at the heart of other key business processes.

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