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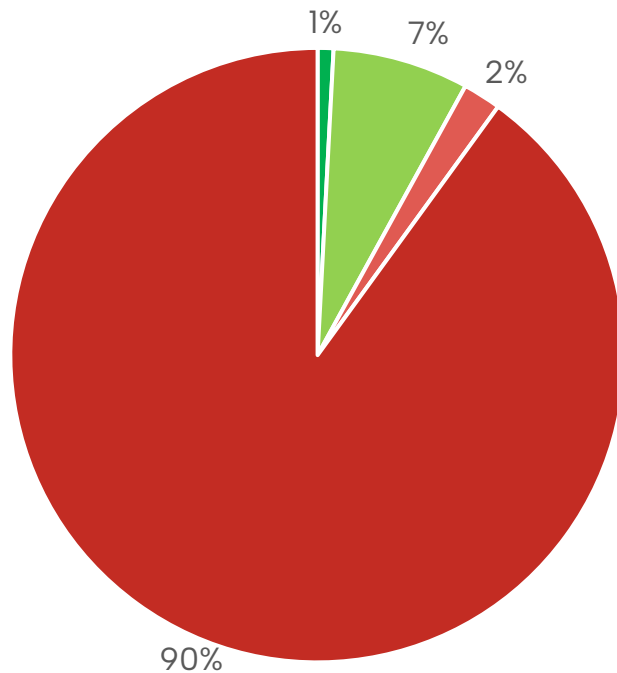
CSRD Materiality Analysis – Early Adopter Insights

Prof. Dr. Maximilian Müller

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CSRD Early Adoption in STOXX Europe 600 FY2023

Early Adopter Categories STOXX Europe 600 FY2023

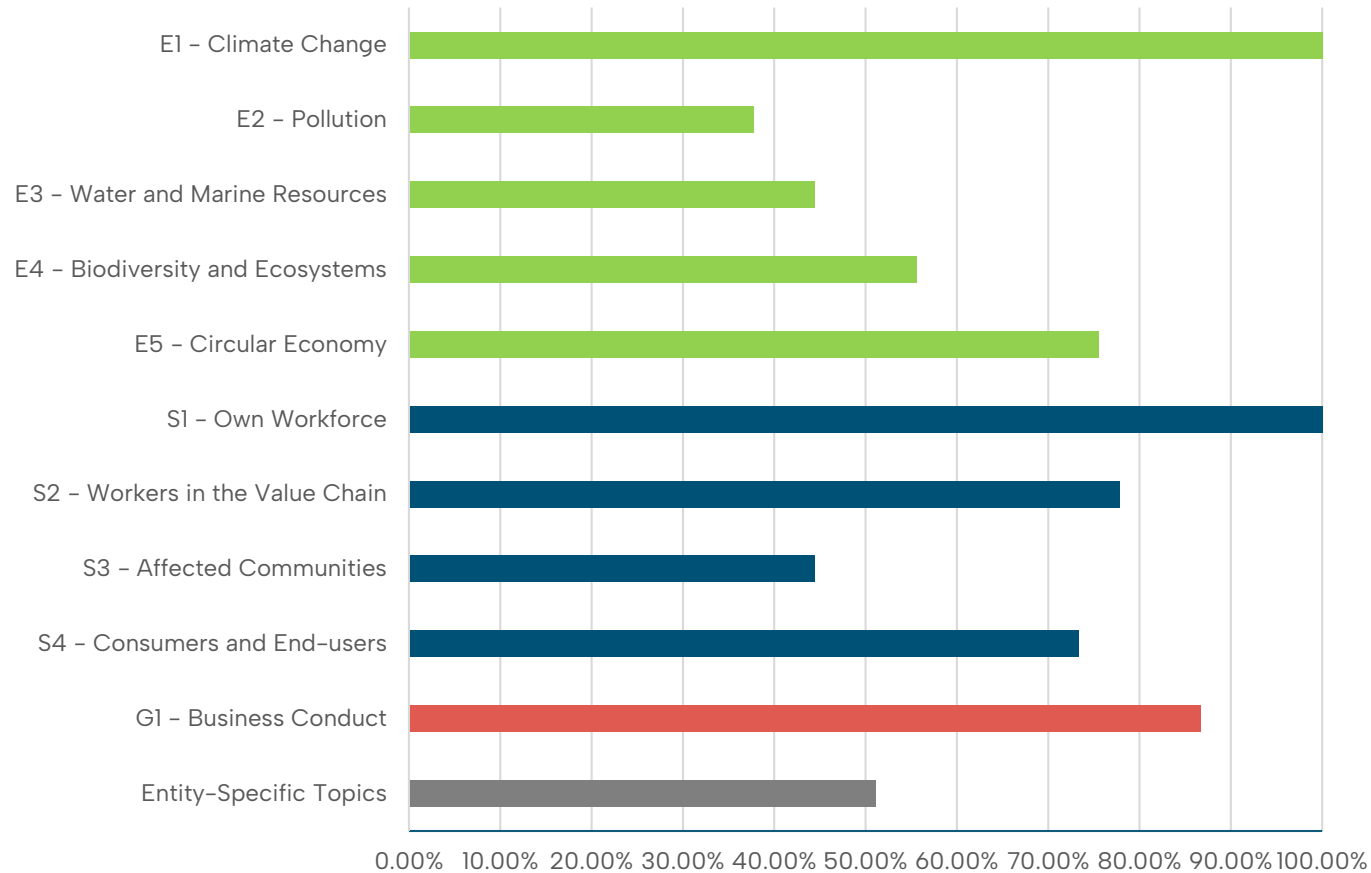


■ Early-Adopters ■ MA according to CSRD ■ Only results ■ No CSRD

- ~8% in the STOXX Europe 600 with substantial CSRD early adoption
 - **1% (5 firms) disclosed a Sustainability Statement** based on ESRS in 2023 (“Early-Adopters”).
 - **7% (43 firms) disclosed a Double Materiality Assessment (MA)** in accordance with ESRS (“MA according to CSRD”).
 - We analyze these 8% – while they are **similar** to the STOXX Europe 600 in terms of **sectors**, they tend to be **smaller** and more from **Scandinavia**
 - **We provide two main results for the early adopter firms**
 - **Topics:** Topical standards identified as material
 - **Benchmarking:** best vs. common practice of materiality assessments
- Disclaimer:** Often the early adoption represents a firm’s **“best effort”**, but **not a reporting in full compliance with ESRS**

Topics: Materiality of topical standards

Materiality of topical ESRS, n = 45*



- A **standard** is classified as **material** if **at least one sub- or sub-sub topic is identified as material**.
- **7 topical standards are material (in part), on average**
- **E1 Climate Change** and **S1 Own Workforce** are material for all firms, **G1 Business Conduct** for most of the firms
- Some of the **other E** (e.g., Pollution, Water) and **S** standards (e.g., Affected Communities) are of **more limited relevance**
- **More than half of the firms identify entity-specific topics – Cybersecurity** is the most frequent entity-specific topic
- Some **firms struggle converting their legacy topics to ESRS topics** – challenging comparability over time and across firms

Benchmarking: Materiality Assessment Best vs. Common Practice

Dimension	Best Practice	% of Firms
General		
Type of Report	Annual Report	88%
Use of a step-by-step Approach	Yes	65%
Number of Steps	4	50%
Step 1: Understanding the context		
Type of Stakeholders	Internal and External Stakeholder	83%
Data Type	Primary, Secondary, and Internal Data	19%
Step 2: Identification of the actual and potential IROs related to sustainability matters		
Use of AR 16 for Long List	Yes	69%
Classification along the Value Chain	Yes	25%
Step 3: Assessment and determination of material IROs related to sustainability matters		
Quantitative Approach on Impact Perspective	Yes, if feasible	4%
Quantitative Approach on Financial Perspective	Yes	8%
Sources for Thresholds	Due Dilligence or Risk Management Assessment	21%
Step 4: Reporting		
Form of Presentation	Matrix & Table	8%
Use of AR16 List in Results	Yes	44%
Level of Topics in Presentation	Sub-Topic	13%

- Our **best practice recommendations** base on ESRS, EFRAG's Implementation Guidance & FAQs and a user perspective. *Some of these were not available to firms in 2023!*
- We use **13 dimensions** in 5 areas of the materiality assessment to **benchmark firms' common practice vs. best practice**
- There are **no early adopter firms with a materiality assessment that is close to best practice**, but many firms are on their way
- The identification of IROs could benefit from a **clearer classification along the value chain, if data is available**
- Assessing & determining material IROs would **ideally use quantitative data**, but currently this **does not appear feasible**
- There is room for improvement in the reporting of outcomes – **convergence to using the AR16 list and sub-topics needed**

Further Details

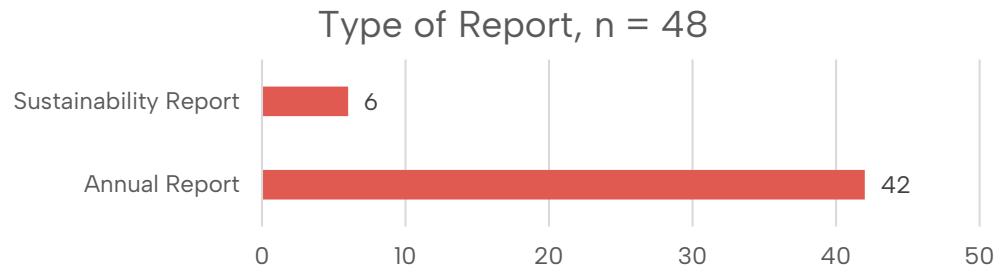
1. [Deep Dive: Materiality Assessment Common vs. Best Practice](#)
2. [Deep Dive: Material Topic Distribution](#)
3. [Deep Dive: Sample Characteristics](#)

01

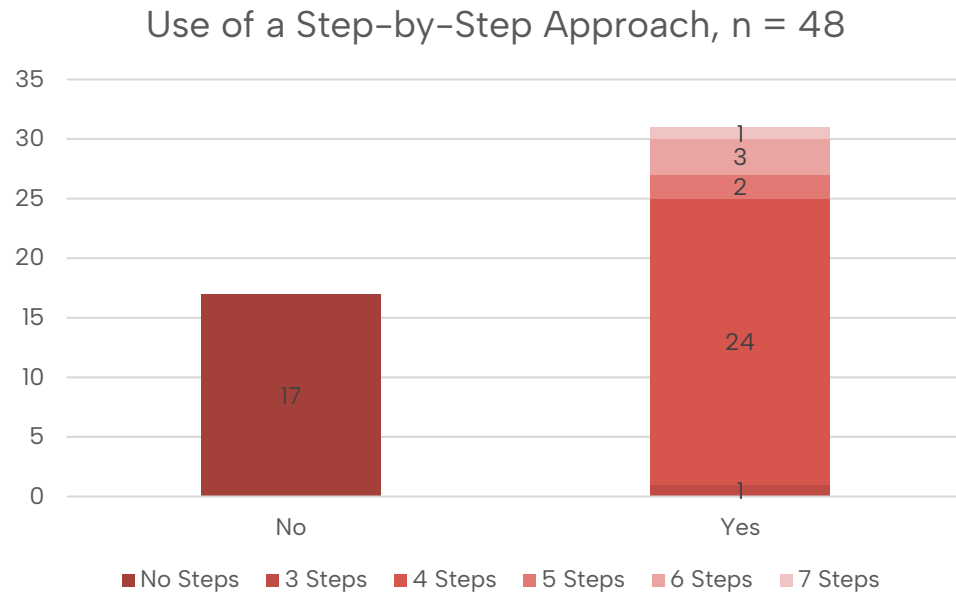
DEEP DIVE: MATERIALITY ASSESSMENT COMMON VS. BEST PRACTICE

General

Type of Report, Use of a Step-by-Step Approach & Number of Steps



According to ESRS, the Sustainability Statement must be part of the Management Report and therefore the **Annual Report**. Of the 48 firms analyzed, 42 firms have already embedded their Sustainability Statement in the Annual Report, while 6 firms have published it separately for 2023.



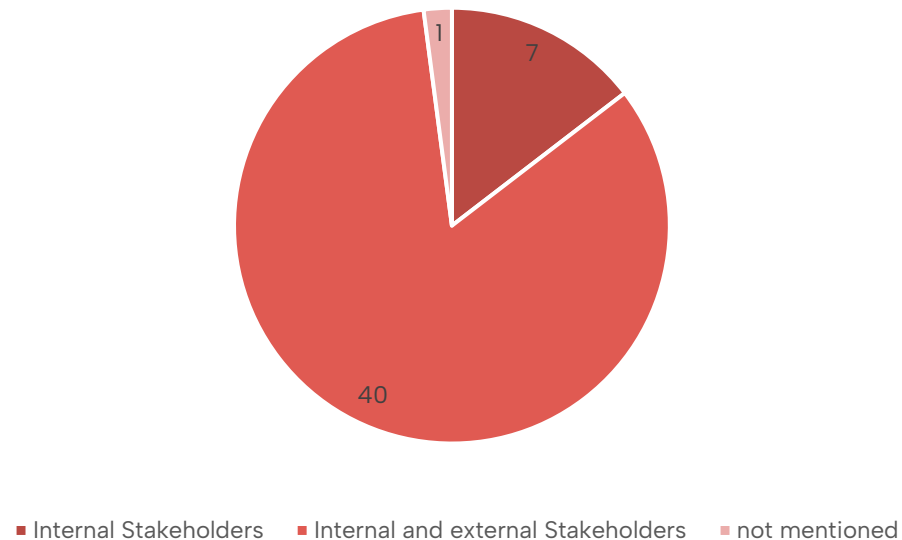
The EFRAG Implementation Guidance on Materiality Assessment (EFRAG IG1) recommends to apply a **step-by-step approach** based on **four steps** to carry out the materiality assessment. In 2023, 31 firms already apply a step-by-step approach and 50% of these firms already use four steps.

Even though the EFRAG IG is not binding, we expect that most firms will apply them. As the final EFRAG IG1 was not published until after the publication of most of the 2023 Reports, most firms have not yet taken it into account in their reporting for 2023. It is therefore to be expected that significantly **more firms will apply a step-by-step approach in 2024** based on the four steps proposed by EFRAG.

Step 1: Understanding the Context

Type of Stakeholders

Type of Stakeholders, n = 48



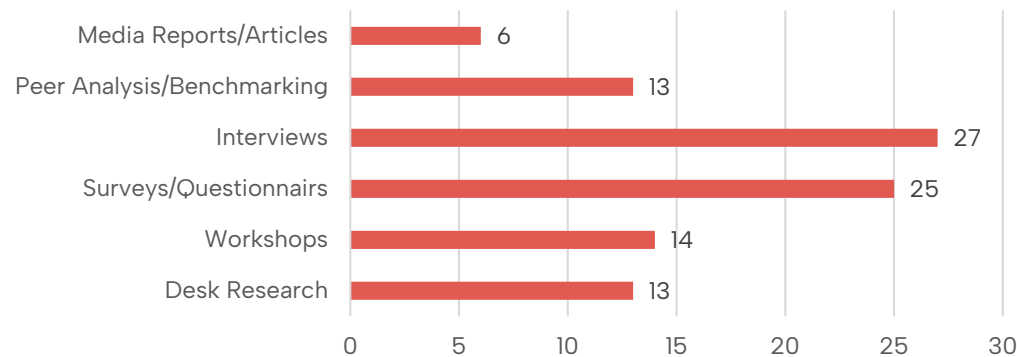
ESRS 2 asks to include and engage with "affected stakeholders" in the materiality assessment. ESRS 1 defines these to be "individuals or groups that have interests that are [...] or could be affected [...] by the undertaking's activities and through its value chain". This group of stakeholders therefore includes both **internal and external stakeholders**.

According to our analysis, >80% of the firms already include both internal and external stakeholders in their materiality analysis. Here, the **common practice already converged to "best practice"** with a few exceptions.

Step 1: Understanding the context

Data Sources and Types

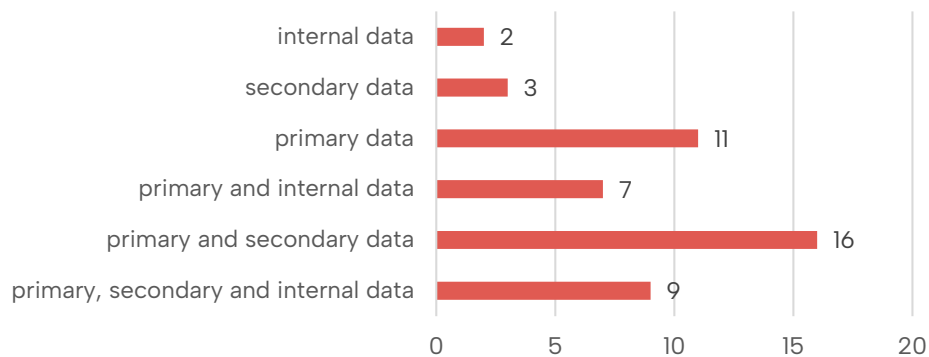
Data Sources, n = 48



The ESRS do not specify which **data sources** firms should use to collect data for their materiality assessment or how they should engage with their stakeholders.

Most firms conduct **interviews** (27 out of 48 firms), **surveys** (25 firms) and/or **workshops** (14 firms) to interact with internal and external stakeholders. In addition, many firms collect data from **desk research** (13 firms) and **competitor analyses** (13 firms)

Data Type, n = 48

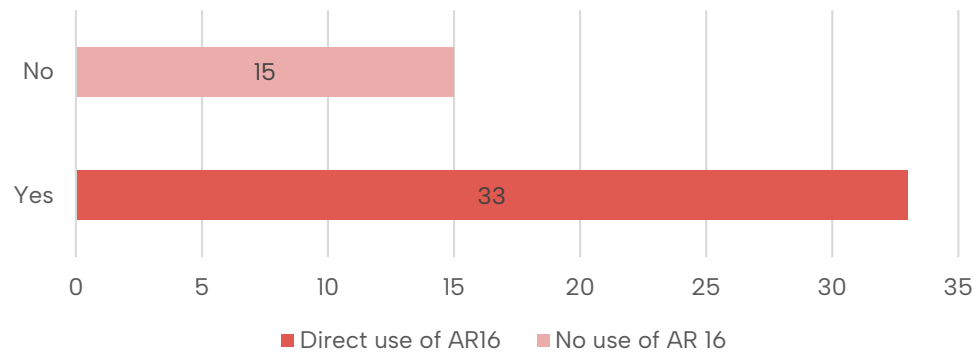


Regarding **data types**, firms should ideally use both primary and secondary as well as internal data for their materiality assessment to include as much information as possible from as many different stakeholders as possible. **Primary data** is particularly important, as it includes direct dialogue with the affected stakeholders and their opinions/assessments. According to EFRAG IG1, **secondary data** can also provide important information for the materiality analysis, as it represents the silent stakeholders with whom no direct dialogue can take place. **Internal data** is used to complete the information for the materiality assessment and determine materiality thresholds (ideally from due diligence and risk management).

Step 2: Identification of the actual and potential IROs related to sustainability matters

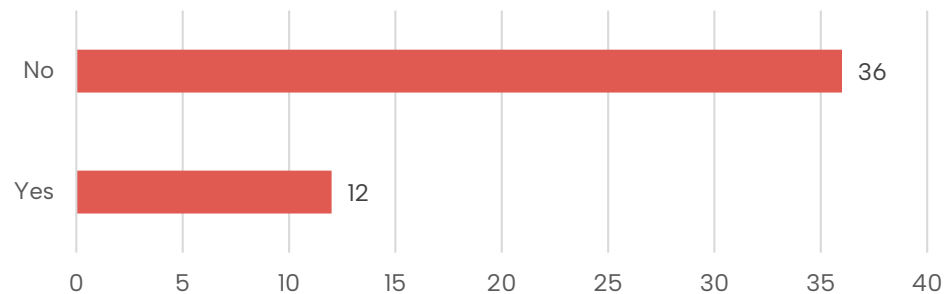
Use of ESRS 1 AR 16 for Long List & Classification along the Value Chain

Use of AR 16 for long list, n = 48



According to the ESRS and EFRAG IG, firms should use the list of topics from the **ESRS1 AR16 for their long list** of sustainability topics, from which the material topics are later determined. In our sample, 33 out of 48 firms (~70%) already follow this approach. This figure is likely to increase in the future.

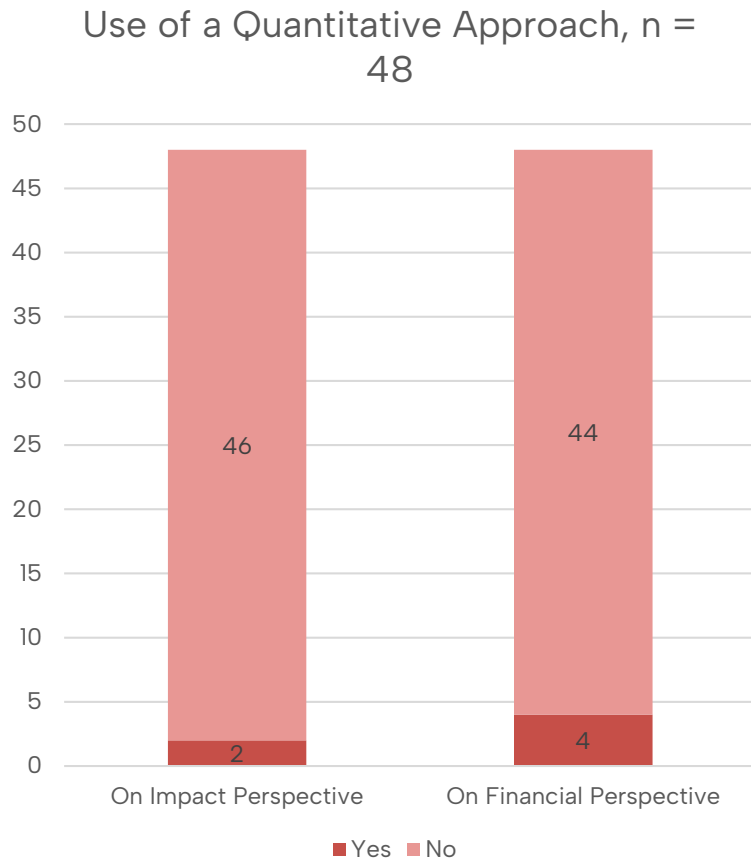
Classification along the value chain, n = 48



According to ESRS, a firm must classify and publish the material topics **along the value chain** in its materiality assessment. In 2023, 12 out of 48 firms (25%) have carried out such a classification. This figure will likely increase substantially by 2024, unless firms make use of transitional provisions.

Step 3: Assessment and determination of material IROs related to sustainability matters

Quantitative Approaches



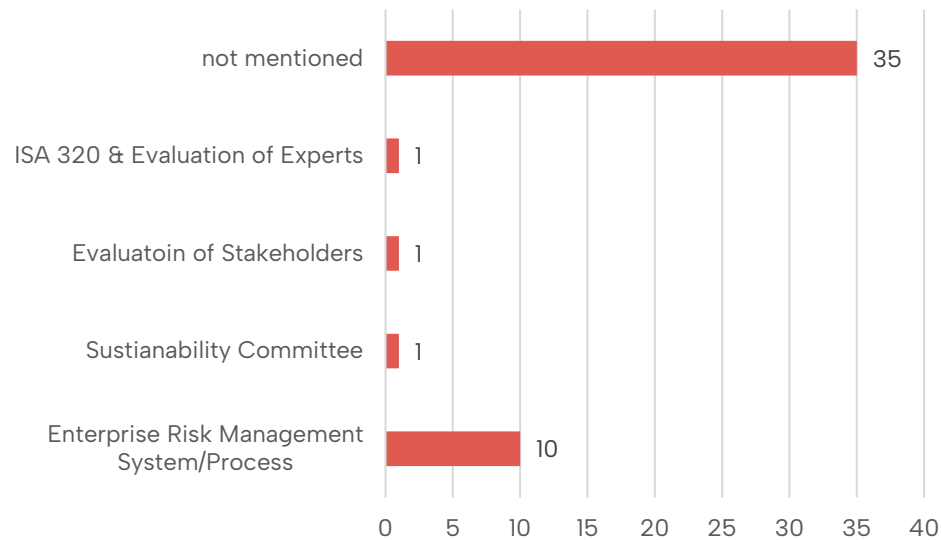
According to EFRAG IG1, firms should also use **quantitative approaches as far as possible** to determine the materiality of topics from an impact and a financial perspective. In the case of the financial perspective, this should, in principle, be possible. From the impact perspective, this is more difficult, as it is not always feasible to quantify impacts. However, in cases where this is feasible (e.g., in the form of measurable CO2 emissions), a quantitative approach should be taken.

There are only **few firms using a quantitative approach** (2 out of 48 for the impact and 4 for the financial perspective). **Many firms create a scale**, for example with numbers from 1 (= very low materiality/very low probability) to 5 (= very high materiality/very high probability) and **have a selected group of stakeholders rate** the various materiality topics on the long list using this scale. Even though this procedure involves a form of quantification, it is closer to a qualitative approach, as the topics are not assessed on the basis of clearly measurable figures, but on the basis of stakeholder opinions and assessments.

Step 3: Assessment and determination of material IROs related to sustainability matters

Sources for Thresholds

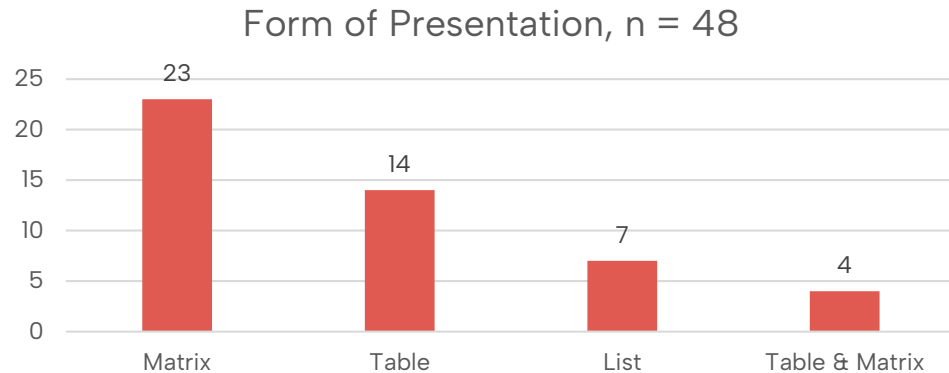
Sources for Thresholds, n = 48



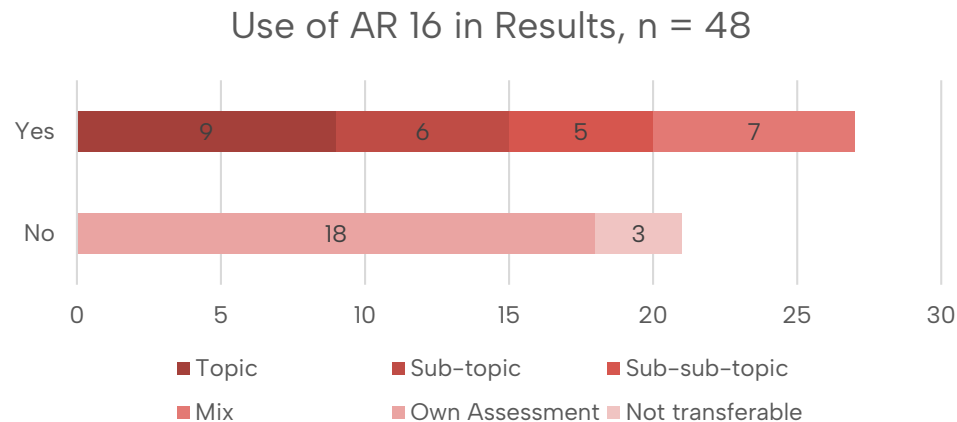
ESRS do not specify how firms should determine their materiality thresholds, just that they must disclose **how they derive thresholds**. In 2023, >70% do not yet disclose how they derive thresholds. As best practice, EFRAG IGI suggests that firms can use their **due diligence or the firm's risk management assessment** to determine the thresholds. Only 10 out of 48 firms do this in the 2023 reports. Although three firms state how they determine the thresholds, they do not refer to the due diligence or the risk management assessment, but essentially to the assessment of experts, stakeholders or a sustainability committee that has been established.

Step 4: Reporting

Form of Presentation, Use of AR 16 in Results & Level of Topics in Presentation



The ESRS does not specify the **presentation of results**. This is often done in the form of a **Matrix** with the two dimensions "Impact Perspective" and "Financial Perspective". The Matrix gives the user a quick overview of where a topic can be categorized. However, a **Matrix cannot easily depict sub-sub-topics and does not provide enough information on the underlying drivers** (severity, likelihood, etc.). Therefore, a **combination of a Matrix and Table** has proven to be best practice. The diagram above shows that only 4 firms have followed this best practice to date. The **majority of the firms (23 firms) (only) use a matrix**.



The EFRAG Guidance also recommends firms to use the **topics from ESRS 1 AR16 when presenting the results** of their materiality analysis, which 27 of the 48 firms analyzed have done so far.

In addition, ESRS leave open the **topical level** at which the firms disclose their results, leading to **substantial differences across firms**. From a user perspective, we favor a **presentation at the sub-topic level**, since this would provide insightful information and not be too granular, which would risk overloading users.

02

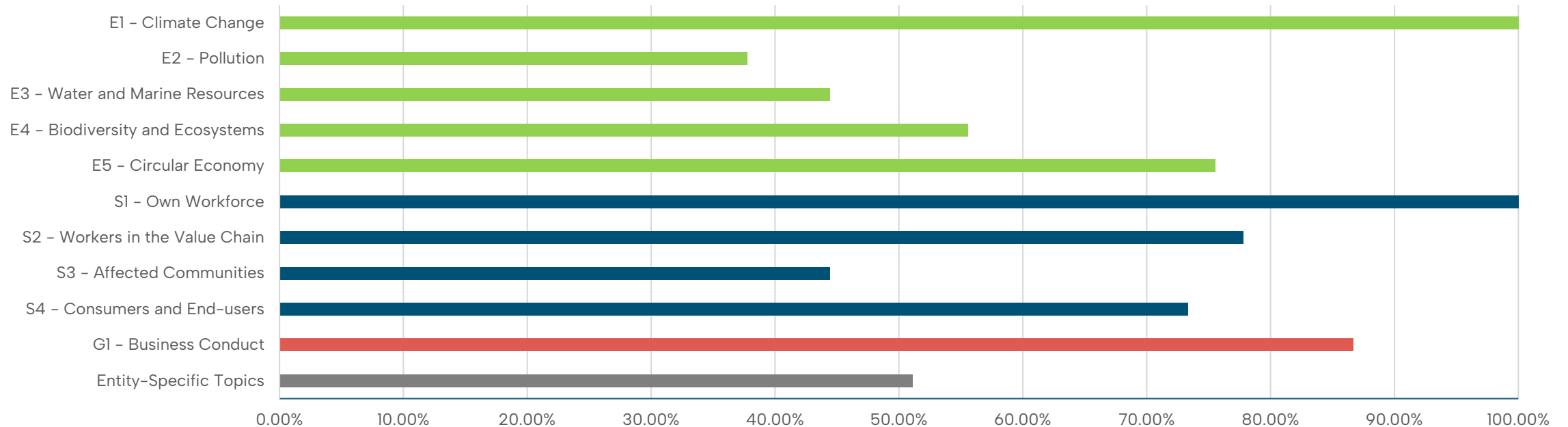
DEEP DIVE: MATERIAL TOPIC DISTRIBUTION

Information on Procedure, Methodology and Sample

- For this chapter, the lists of material topics of the 48 firms from the categories "Early Adopters" and "MA according to CSRD" that have already been examined in more detail were analyzed.
- For the firms that did not use the list of topics specified in ESRS 1 AR16, an own assessment was carried out as far as possible to transfer the naming of the firms to that of ESRS 1 AR16 (identified via "own assessment" in some of the following results). This was not possible for 3 firms, meaning that these had to be disregarded in the following analysis.
- In total, the lists of material topics of 45 firms were therefore examined.

Distribution of ESRS

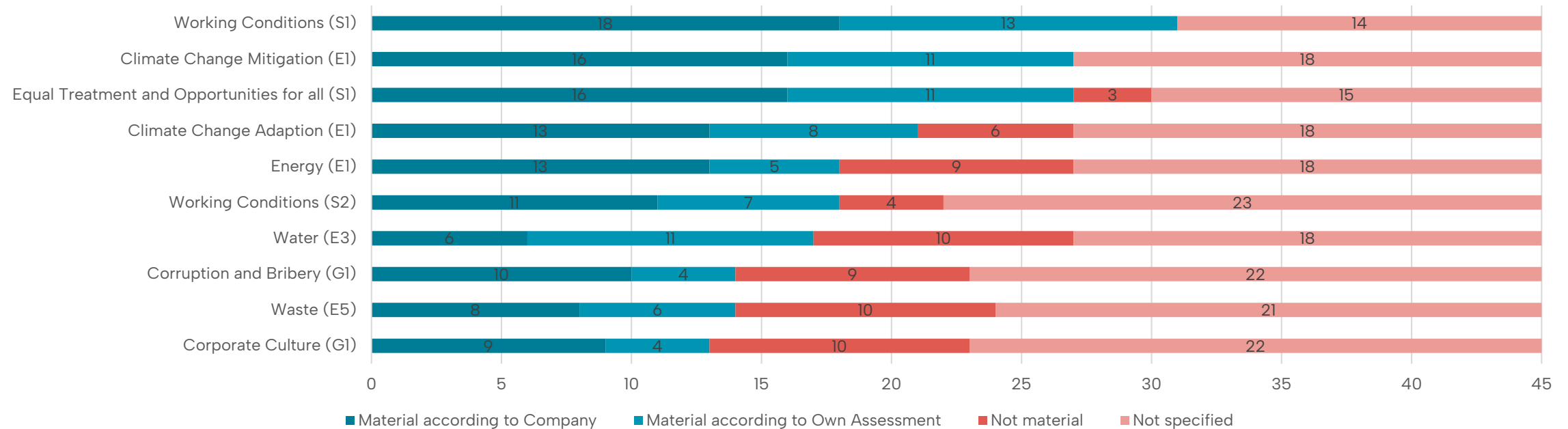
Distribution of ESRS, n = 45



A standard is flagged as material for a firm, if the firm indicates the standard or a sub- or sub-sub-topic of the standard to be material. **Two standards E1 and S1**, for which the firms would have to write a detailed explanation according to ESRS if they were to consider them immaterial, **are considered material for all 45 firms**. In addition to these two standards, the most frequently material standard is ESRS G1, with 39 out of 45 firms. The Standards S3, E3 and E2 proved to be the least material. This might reflect that these three standards deal with topics that are not equally important for every business model (e.g., involving production). **23 out of 45 firms have already specified entity-specific topics as material.**

Top 10 Most frequent Sub-Topics

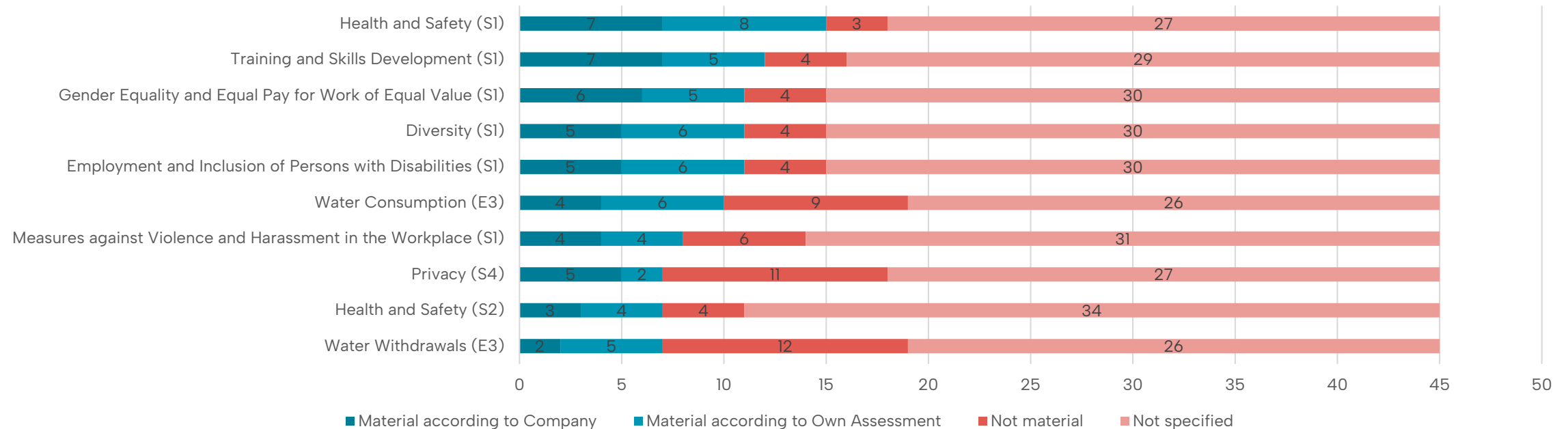
Top 10 Most frequent Sub-Topics, n = 45



The **sub-topic most frequently identified as material** is **"Working Conditions" from S1**, with a total of 31 (18 + 13) firms identifying this topic as material. This sub-topic is followed by **"Climate Change Mitigation" from E1** and **"Equal Treatment and Opportunities for all" from S1** with 27 firms each (16 + 11).

Top 10 Most frequent Sub-Sub-Topics

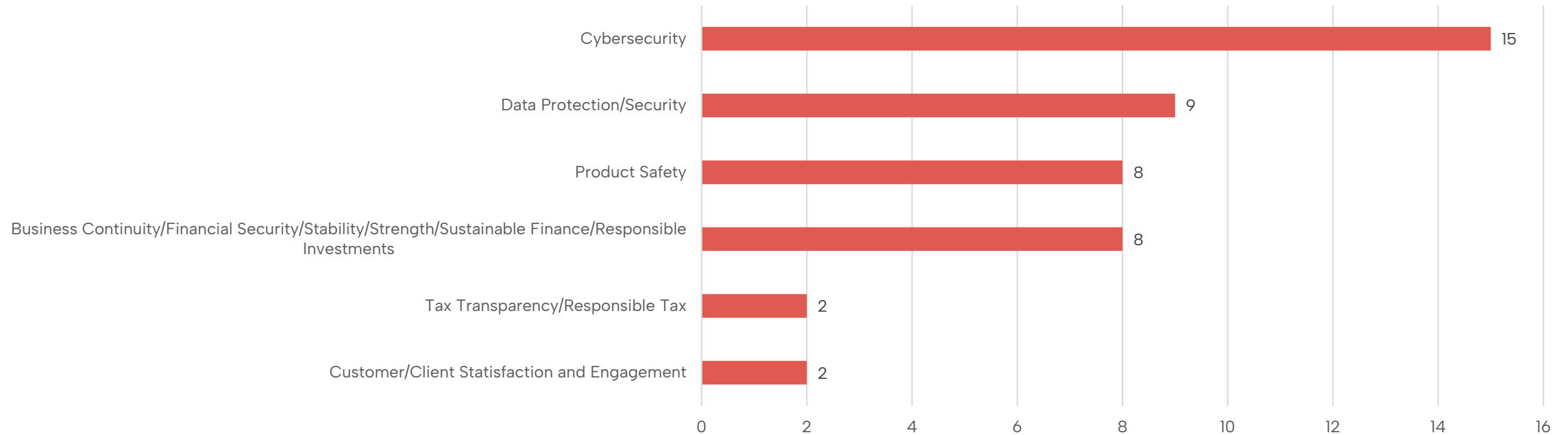
Top 10 Most frequent Sub-Sub-Topics, n = 45



At a sub-sub-topic level, the topic **"Health and safety" from S1** was named as material by 15 out of the 45 firms and is therefore the sub-sub-topic most frequently named as material. This topic is followed by the other sub-sub-topics from S1. In general, however, it should be noted that **at least half of the firms, and often up to two thirds of the firms, do not specify the sub-sub-topics.**

Most frequent Entity-specific Topics

Most frequent entity-specific topics, n = 23



Entity-specific topics are identified by more than 50% of the firms (23 out of 45). Of these firms, 15 name "cybersecurity" as one of the key topics as well as related topics such as "data protection/security" (named by 9 firms). In addition to cybersecurity, the topics of "product safety" (by 8 firms) and "financial security" (by 8 firms) and are also mentioned relatively frequently. It remains to be seen whether we will see further sector-agnostic or sector-specific standards for some of these.

03

DEEP DIVE: SAMPLE CHARACTERISTICS

How representative are Early Adopters vs. Euro Stoxx 600?

- **Countries:** Early adopters **more likely to be from Scandinavian countries** than Euro Stoxx 600 firms
 - Euro Stoxx 600: United Kingdom (22,50%), France (12,33%), Germany (11,50%)
 - Sample: Netherlands (18,75%), Norway (12,50%), Sweden (10,42%)
- **Sectors:** Early adopters have **similar sector profiles** as the Euro Stoxx 600 firms
 - Euro Stoxx 600: Industrials (17,67%), Financials (17,50%), Consumer Cyclicals (13,67%)
 - Sample: Industrials (20,83%), Financials (16,67%), Consumer Non-Cyclical (14,58%)
- **Size :** Early adopters tend to be **smaller than the average** Euro Stoxx 600 firm
 - Euro Stoxx 600: 40,783 (average #employees)
 - Sample: 33,250 (average #employees)

List of firms covered

Company	Category	Company	Category
ABN Amro Bank	MA according to CSRD	NN Group	MA according to CSRD
Aegon	MA according to CSRD	Nordic	Early-Adopters
Aena	MA according to CSRD	OCI	MA according to CSRD
Aker BP	MA according to CSRD	Orion	MA according to CSRD
AkzoNobel	MA according to CSRD	Orsted	Early-Adopters
Bakkaforst	Early-Adopters	Prysmian	MA according to CSRD
Balder	MA according to CSRD	Santander Bank Polska	MA according to CSRD
Bunzl	MA according to CSRD	Scout24	MA according to CSRD
CaixaBank	MA according to CSRD	Signify	MA according to CSRD
Endesa	MA according to CSRD	Smiths	MA according to CSRD
Enel	MA according to CSRD	Snam	MA according to CSRD
Essity	MA according to CSRD	Storebrand	MA according to CSRD
Givaudan	MA according to CSRD	Technip Energies	MA according to CSRD
Gjensidige	MA according to CSRD	Tele2	MA according to CSRD
Grafton Group	MA according to CSRD	Teleperformance	MA according to CSRD
Heineken	MA according to CSRD	Telia	MA according to CSRD
InPost Group	MA according to CSRD	Temenos	MA according to CSRD
ISS	MA according to CSRD	Thule Group	MA according to CSRD
JDE Peet's	MA according to CSRD	Topdanmark	MA according to CSRD
Jerónimo Martins	MA according to CSRD	UCB	MA according to CSRD
Kongsberg	MA according to CSRD	Uniball-Rodamco-Westfield	Early-Adopters
Lotus Bakeries	MA according to CSRD	Weir	MA according to CSRD
Mondi Group	MA according to CSRD	Wolters Kluwer	Early-Adopters
Nexans	MA according to CSRD	Yara	MA according to CSRD