

Navigating Double Materiality Assessments: A Practical Guide for CSRD Compliance and Strategic Impact

What Is Double Materiality?

Double materiality is a sustainability concept that considers both:

1. Impact Materiality: How the company's activities affect the environment, society, and broader stakeholders.

2. Financial Materiality: How environmental, social, and governance (ESG) issues affect the company's financial performance and position.

Introduced by the EU's **Corporate Sustainability Reporting Directive (CSRD)**, it ensures companies report on both perspectives to provide a holistic view of sustainability risks and impacts.

What Is Required?

Under the CSRD and supporting frameworks (e.g., **European Sustainability Reporting Standards - ESRS**), companies must:

- Identify and assess material sustainability topics from financial and impact perspectives.
- Engage with stakeholders to determine significant impacts and risks.
- Provide transparent, balanced, and evidence-based disclosures in their sustainability reports.

Specific steps include:

Screening Topics:

Cover environmental (e.g., climate, biodiversity), social (e.g., labour, communities), and governance (e.g., ethics, anti-corruption) issues.

1

Stakeholder Engagement:

Incorporate views from investors, employees, regulators, and communities.

2

Integration:

Align findings with the company's strategy, risk management, and financial planning.

3

How to Conduct a Double Materiality Assessment

1. Preparation & Scoping

- **Set objectives:** Define what the assessment aims to achieve (e.g., compliance, strategy alignment).
- **Map relevant frameworks:** Align with ESRS, GRI, and sector-specific standards.
- **Form a team:** Include sustainability, finance, legal, and external expertise.
- **Mapping key stakeholders,** including internal teams (sustainability, finance, legal, HR) and external partners (consultants, sector experts, investors, customers).

3. Double Materiality Matrix

- **Plot the Topics:** Based on findings from the impact assessment, map the identified topics on a matrix with two axes:

-Y-axis (Financial Materiality): The impact of each issue on the financial performance and business strategy.

-X-axis (Impact Materiality): The impact of each issue on the environment, society, and stakeholders.

- **Highlight topics** with high relevance in either or both dimensions, ensuring alignment with the company's strategy and regulatory requirements.

2. Data Collection & Analysis

- **Identify topics:** Use ESG frameworks, benchmarks, and peer analysis to list potential issues.
- **Assess impact:** Evaluate the significance from both financial (risk and opportunities) and impact perspective (positive or negative).
- **Gather input:** Engage stakeholders (surveys, interviews, workshops) to prioritise key topics.

4. Validation

- **Review findings** with senior management, key stakeholders, investors and shareholders.
- **Align results** with organisational strategy and regulatory requirements.

5. Reporting & Disclosure

- Present the materiality assessment in the annual sustainability or integrated report.
- Include methodology, stakeholder involvement, and prioritisation rationale.

How Prewave Can Help

Prewave's AI-driven tools simplify double materiality assessments through:

Abstract Risk Analysis:

Utilise over 60 internationally-recognised indices on Country & Industry Risk to benchmark your own operations and value chain against global thresholds



Supply Chain Monitoring:

Real-time analysis of ESG impacts across the value chain.



Advanced Insights:

Identify risks and opportunities with predictive technology.



Maximised Efficiency:

Benefit from the implementation of other due diligence systems by optimising cross-legislative gathering and processing of risk information.



Streamlined Compliance:

Ensure alignment with CSRD and ESRS standards.



For companies aiming to enhance their sustainability reporting and business strategies, now is the time to begin conducting double materiality assessments. Tools like Prewave's AI-driven solution can simplify this process, offering advanced supply chain monitoring and real-time insights that optimise materiality assessments. With these insights, companies can enhance their strategic decision-making, ensuring they not only meet regulatory standards but also strengthen their resilience and competitive edge in a changing world.