

# Sustainability DIY

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ESRS

Journey 2



The background features a dark teal gradient. At the top, there are two stylized clouds in shades of blue and teal. On the right side, there are several large, overlapping green leaves of various shapes and sizes. At the bottom, there are stylized hills or waves in shades of purple and teal, with some circular patterns and a small pink flower-like shape on the left.

# DIY your sustainability report in accordance to the European Sustainability Reporting Standards (ESRS)

## Journey 2

Setting the context for your organization's reporting boundaries, key stakeholders, and material topics

*Disclaimer: This resource has been developed by Sustain Labs Paris & Microsoft to support the use of ESRS for sustainability reporting. It is not an initiative of EFRAG or EU Commission or endorsed by these parties.*

# Understanding ESRS<sup>1</sup>

1

## ESRS 1 General requirements

Sets general principles to prepare and report sustainability information.

### [Draft] ESRS 1



General requirements

2

## ESRS 2 General disclosures

Sets essential information that needs to be disclosed regardless of the sector, and mandatory for all companies.

### [Draft] ESRS 2



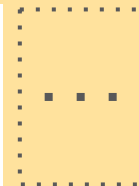
General disclosures

3

## ESRS Topical Standards

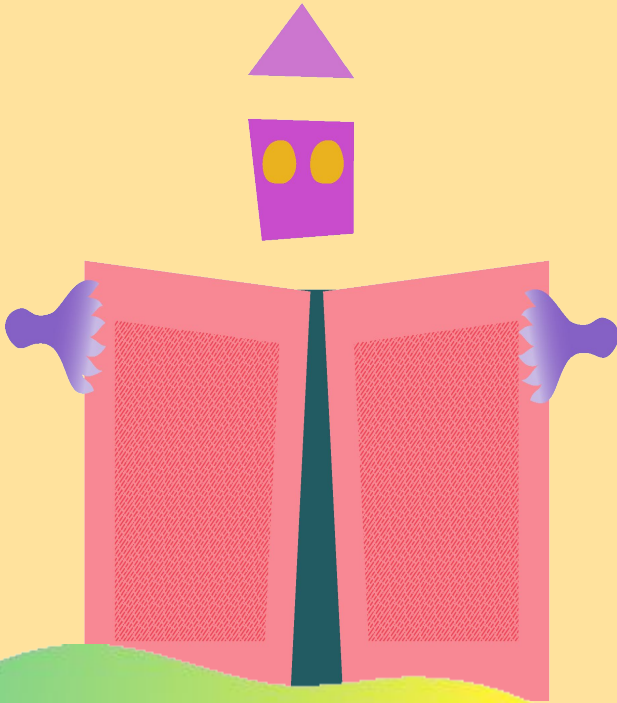
Includes 12 ESRS Topical Standards covering sustainability matters for an organization to report on. Through the ESRS “double materiality” approach, the organization needs to identify sustainability matters and report related information based on these Topical Standards.

### [Draft] ESRS E1 E2 ..



Tropical Standards

# Step 1 - Set reporting boundaries<sup>2</sup>



**Reporting boundary refers to the businesses covered for which disclosures are made in the report.**

- It is advisable to specify the reporting boundary of the report at the start of the report. The scope of business covered in the sustainability report should correspond to those included the organization's financial statements For example, if the organization's financial statements include all the organization's subsidiaries, then the organization's sustainability report must also include all subsidiaries.
- The organization needs to include sustainability issues related to its upstream and downstream value chain.

## Step 2: Identify key stakeholders<sup>3</sup>

Stakeholders are defined as those who can affect or be affected by the organization.

- a) **Affected stakeholders:** individuals or groups whose interests are affected or could be affected – positively or negatively – by the organization’s activities and its direct and indirect business relationships across its value chain. Nature may be considered as a silent stakeholder.
  
- b) **Users of sustainability statements:** primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the business partners, trade unions and social partners, civil society and non-governmental organizations, governments, analysts, and academics.



## Step 2: Identify key stakeholders (contd.)

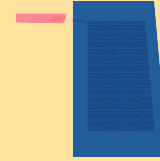
How to identify **key stakeholders**<sup>4</sup>:

1



**Group discussion:** Discuss with department heads and key business members to develop an exhaustive list of stakeholders.

2



or

**Prepare a questionnaire:** Ask the department heads to score the significance of impact that the organization has on each identified stakeholder.

3



Select stakeholders on whom/which the organization has the maximum impact on as the organization's key stakeholders.

# Step 3: Identify sustainability matters based on double materiality principle<sup>5</sup>



5 - EFRAG. (2022, November). [Draft] ESRS 1 General requirements. (pg. 9-13)

# Step 3.1 - Identify the list of potential sustainability matters and related impacts, risks, and opportunities<sup>6</sup>

There are 2 approaches:

## Approach 1 - Build on existing process

1. Map sustainability matters from ESRS to the outcome of existing materiality assessment processes based on other frameworks AND/OR
2. Include the outcome of an existing due diligence process in the organization AND/OR
3. Include inputs received from stakeholder engagement processes already in place AND/OR
4. Include benchmark analysis of material topics for peers/sector-specific matters

## Approach 2 - Identification of new potential sustainability matter

1. Enhance the list of sustainability matters in [draft] ESRS 1 through adding the information from stakeholder engagement initiatives AND/OR
2. Compare identified potential sustainability matters through internal and external processes with the list of sustainability matters in [draft] ESRS 1 for completeness.

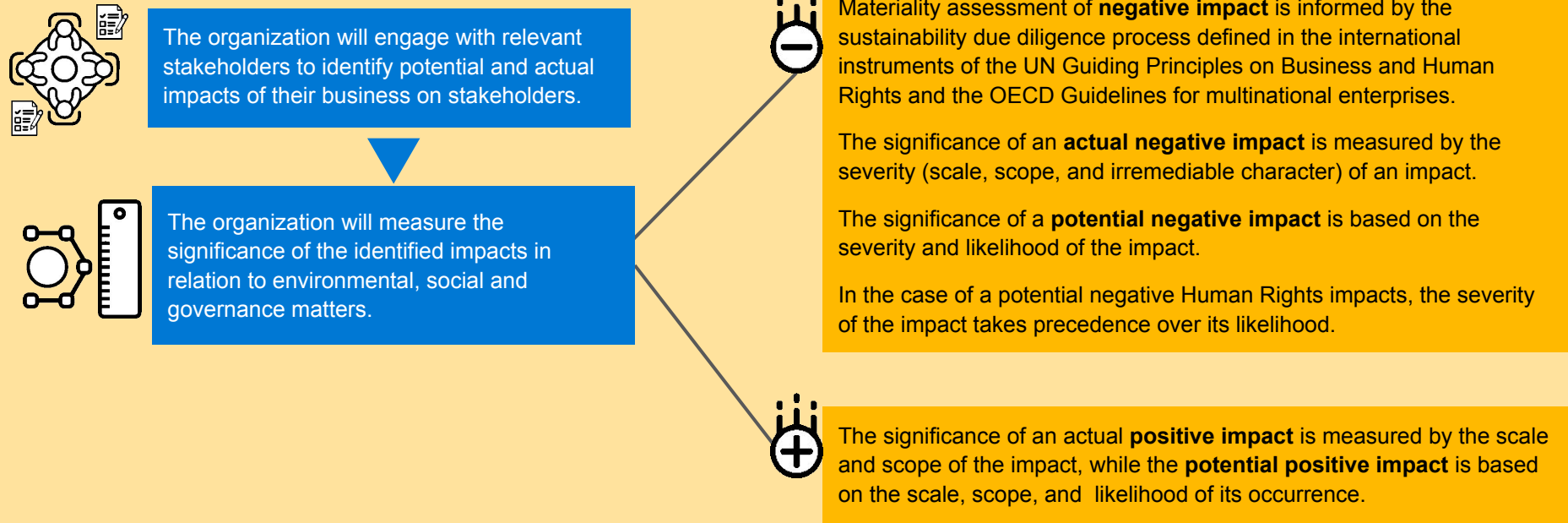




# Step 3.2: Identify sustainability matters based on the double materiality principle

## 3.2 a - Assess for the potential and actual positive impacts, and potential and actual negative impacts.<sup>7</sup>

*Remember: Impacts are directly linked to the organization's own operations, products, or services through its business relationships, including upstream and downstream value chain.*

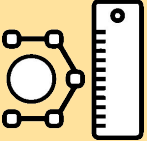


# Step 3.2: Identify sustainability matters based on the double materiality principle (contd.)


## 3.2 b - Assess for risks and opportunities of potential financial effects.<sup>8</sup>

*Remember: Financial materiality also includes information on material risks and opportunities attributable to business relationships with other stakeholders.*

The organization will classify the identified material matters as sources of risks (contributing to negative deviation in financial aspects) and opportunities (contributing to positive deviation in financial aspects). Impacts and dependencies (from natural and social resources) are both sources of risks or opportunities.



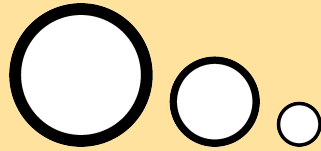
The organization will measure the significance of the identified material risks and opportunities in relation to cash flows, development, performance, position, cost of capital, or access to finance.



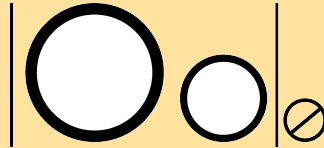
The organization will engage business unit functions to assess, validate, and ensure completeness of the list of material risk and opportunities together with financial counterparties such as banks and investors.

The significance of the financial effects based in materiality of **risks and opportunities** is then assessed based on a combination of the likelihood of occurrence and the potential size of the **financial effects** determined on the basis of a threshold. Considering financial effects in **short-, medium- and long-term time horizons** based on - scenarios deemed likely to materialize; and from situations with a below the “more likely than not” threshold or assets/liabilities not (or not yet) reflected in financial statements.

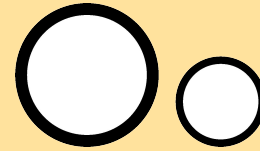
## Step 3.3: Prioritize the most significant sustainability matters for reporting<sup>9</sup>



The organization will arrange the sustainability matters from most to least significant for financial and impact materiality.



It will then define thresholds to cull out the impacts with significance that are greater than the respective threshold.



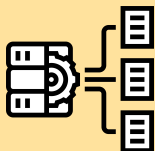
The impacts with significance greater than the threshold will be the ones that the organization will identify as sustainability matters to report on.

**Use the Microsoft Sustainability Manager to help your organization identify its impacts.** Through its deep analysis and a sustainability dashboard, stakeholders can make informed decisions based on performance tracking, data insights, and custom reporting on waste, water, and carbon. This creates an opportunity for fact-based discussions with identified stakeholders who may not be involved in the day-to-day operations of the organization. For more information on **how Microsoft Sustainability Manager converts “environmental data insights into action,”** please [click here](#).<sup>10</sup>

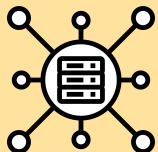
9 - EFRAG. (2022, November). *[Draft] ESRS 1 General requirements*. (pg. 11)

10 - Microsoft. (2023, September 29). *Microsoft Sustainability Manager overview*. Microsoft Cloud for Sustainability | Microsoft Learn. <https://learn.microsoft.com/en-us/industry/sustainability/sustainability-manager-overview>

# Step 3.4 - Aggregate the outcome of the impact and financial materiality assessment



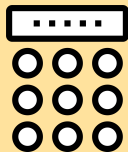
The organization needs to aggregate the result of impact and financial materiality assessment in a way where identification of a certain material impact will lead to material risks or opportunities.



They shall encompass situations where certain actions of a sustainability matter might lead to material negative impacts or material risks in relation to one or several other sustainability matters.



The organization shall ensure that the specificity and context necessary to interpret the information is not lost, when the material impacts, risks, and opportunities are aggregated for different levels, or multiple locations within a level.



The organization may group the identified material impacts, risks, and opportunities into sub-topics or topics to ensure the most appropriate level of granularity

Note: The organization shall disaggregate the reported information on material impacts, risks, and opportunities by country or by significant site/asset when: (i) there are significant variations in material impacts, risks, and opportunities across countries; (ii) the material impacts, risks and opportunities are linked to specific location or asset. Disaggregation by subsidiary may be necessary.<sup>11</sup>

11 - EFRAG. (2022, November). *[Draft] ESRS 1 General requirements*. (pg. 13)

# Step 3.5: Report the assessment process and the output of the materiality assessment

The organization will report the output of double materiality in its sustainability report through data points under the [Draft] ESRS 2 General disclosures.<sup>12</sup>

Process will be reported under the Disclosure requirement IRO-1 – *Description of the processes to identify and assess material impacts, risks, and opportunities.*

Outcome will be reported under the:

Disclosure requirement SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model;*

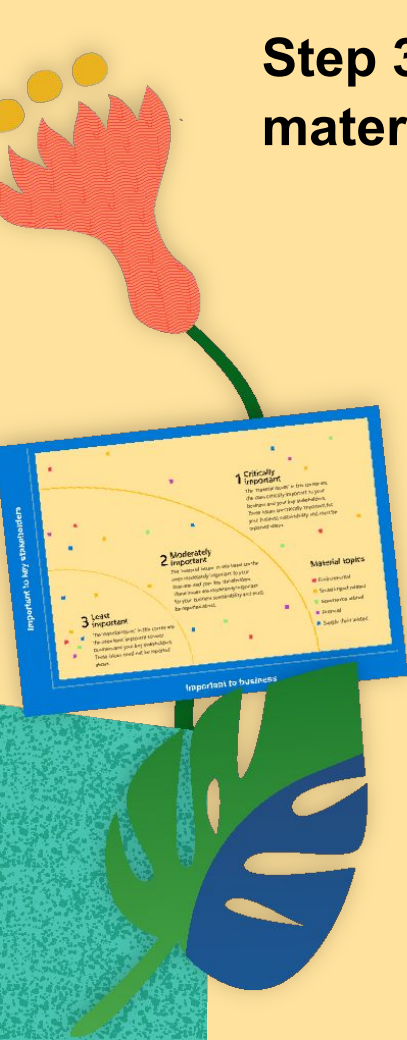
Disclosure requirement IRO-2 *Disclosure requirements in ESRS covered by the undertaking's sustainability statements.*

View the CSRD template in **Microsoft Purview Compliance Manager**, that helps organizations identify the data they need to collect for CSRD compliance. For more information, please [click here](#).<sup>13</sup>

12 - EFRAG. (2022, November). *[Draft] ESRS 1 General requirements.* (pg. 13-15)

13 - Microsoft. (2023, July 24). CSRD template (preview) in Purview Compliance Manager. Microsoft Cloud for Sustainability | Microsoft Learn.

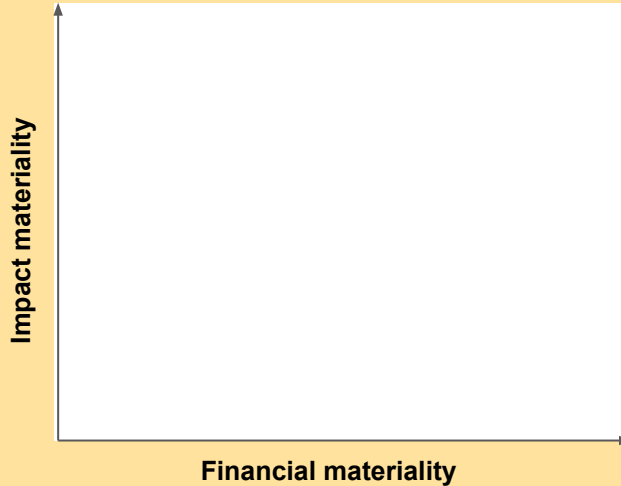
<https://learn.microsoft.com/en-us/industry/sustainability/purview-compliance-manager-report-csrd>



# Step 3.5: Report the assessment process and the output of the materiality assessment (contd.)

3.5 a - Report the assessment process and the output of the materiality assessment as a graph (option a)

## Double materiality



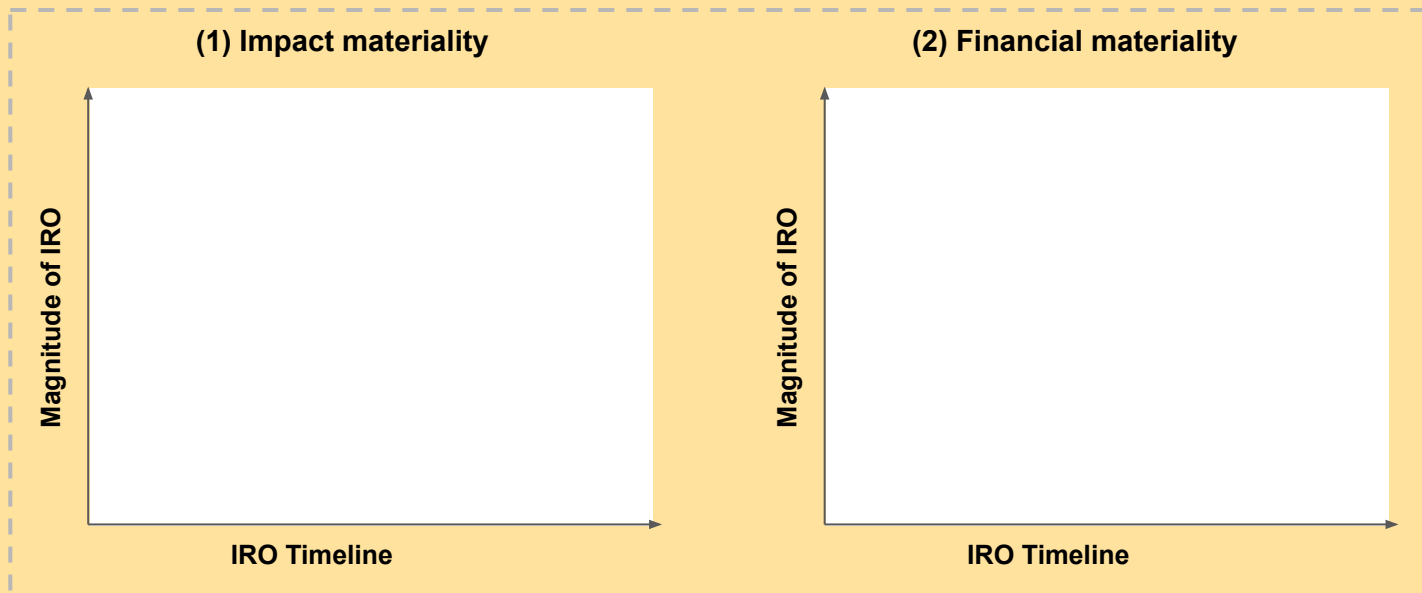
*Plot a graph that presents “impact materiality” on one axis and “financial materiality” on the other axis, thereby outlining for each material matter its weight for the two dimensions of double materiality.<sup>14</sup>*



# Step 3.5: Report the assessment process and the output of the materiality assessment (contd.)

3.5 b - Report the assessment process and the output of the materiality assessment as a graph (option b)

## Double materiality

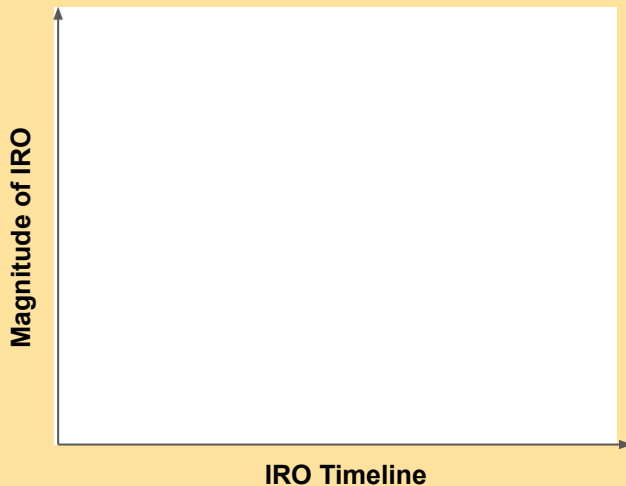


*Use two separate graphs for (1) impact materiality and (2) financial materiality and present material matters according to an “IRO timeline” (on the x-axis) and “magnitude of IRO” (y-axis), thus incorporating time horizons to the visualization.<sup>15</sup>*

# Step 3.5: Report the assessment process and the output of the materiality assessment (contd.)

3.5 c - Report the assessment process and the output of the materiality assessment as a graph (option c)

## Double materiality



Plot a single graph that combines the outcome of the two perspectives (impact and financial materiality) in a single graph, while presenting material matters according to an “IRO timeline” (x-axis) and “magnitude of IRO” (y-axis), thus incorporating time horizons to the visualization.<sup>16</sup>

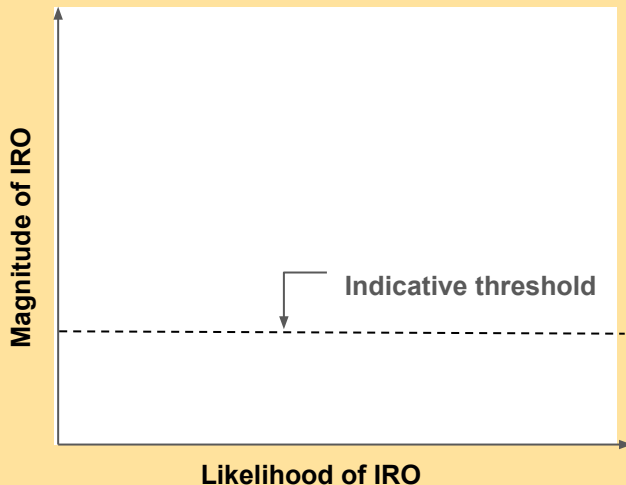




# Step 3.5: Report the assessment process and the output of the materiality assessment (contd.)

3.5 d - Report the assessment process and the output of the materiality assessment as a graph (option d)

## Double materiality



*A graph that portrays “likelihood of IRO” on the X-axis and the “magnitude of IRO” on the Y-axis. This graph may also visualize a threshold that will position material matters above a certain cut-off point (easily displayed by a line, or by the upper corner of the graph).<sup>17</sup>*



# Step 3.5: Report the assessment process and the output of the materiality assessment (contd.)

**3.5 e - Report** the assessment process and the output of the materiality assessment in a tabular form (option e)

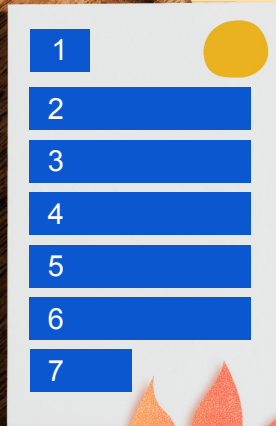
## Double materiality

	Topic	Sub-topic	Sub-sub-to pic
Material from impact			
Financially material			
Both			

Tables can present the disclosures required for each sustainability matter. Pictograms can be used in the different columns of the table to help visualize the information.<sup>18</sup>



## Step 4: Include the double materiality assessment in the report



### **Establish the Sustainability Matters list**

Include the list of material - topics, sub-topics, sub-sub-topics covered by Topical ESRS<sup>19</sup>

### **Integrate materiality assessment in the Sustainability Statement of the report<sup>20</sup>**

19 - EFRAG. (2022, November). *[Draft] ESRS 1 General requirements*. (pg. 31-33)

20 - EFRAG. (2022, November). *[Draft] ESRS 1 General requirements*. (pg. 20-21)