Double Materiality Assessment (DMA) under the European Sustainability Reporting Standards (ESRS)

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The Green Transition Office is an independent advisory body under the Ministry of Economy of Ukraine, which supports implementation of reforms in the area of green transition, energy and climate policy. The work of the Green Transition Office is supported by the UK's International Development Agency and implemented by NGO DiXi Group.

The views expressed in the study are solely those of the NGO DiXi Group (Green Transition Office).

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Introduction

Double materiality assessment (DMA) has become one of the key elements of modern sustainability reporting. It determines which ESG issues are material to a company, which impacts, risks and opportunities must be disclosed in the report, which data need to be supported by evidence, and which topics may remain outside the scope of disclosure.

For businesses, this is no longer merely a matter of compliance with European standards. DMA helps organisations understand how their activities affect people, the environment, employees, communities, consumers and the value chain, as well as how ESG factors may affect financial performance, strategy, assets, costs, revenues, access to finance and the long-term resilience of the business model.

For this reason, DMA should not be viewed as a formal exercise undertaken solely for reporting purposes, but rather as a management process that brings together reporting, risk management, financial planning, strategy and stakeholder engagement.

One of the most significant developments in corporate reporting over the past five years has been the gradual convergence of financial reporting and sustainability reporting. ESG data are no longer regarded merely as reputational or communication-related information. They are increasingly required by investors, banks, auditors, regulators, international partners, customers and companies throughout supply chains.

DMA is the tool that explains this connection.

For Ukraine, DMA is of practical importance. Ukrainian businesses are gradually entering the European corporate reporting landscape, even though the formal regulatory framework is still in the process of being aligned. Companies are already receiving ESG information requests from banks, donors, international financial institutions, major customers, supply chain partners and prospective investors.

This is particularly relevant for Ukrainian companies that work with European partners, raise finance, enter international markets or are preparing for the gradual alignment with EU requirements. For such companies, DMA can serve as a practical means of translating ESG issues into the language of business risks, financial implications and management decision-making.

This document has been prepared as a practical guide for Ukrainian businesses and other stakeholders that already face, or are likely to face in the near future, sustainability reporting requirements. Its purpose is to explain the essence of DMA, its role within the ESRS framework and its practical significance for companies.

The document consists of three sections.

The first section explains the relationship between financial reporting and ESG reporting: why materiality has become the central issue, how ESG factors are transformed into financial risks and opportunities, why the finance function should be involved in DMA, and how to align the ESRS and IFRS S1/S2 approaches.

The second section describes the stages of DMA under the ESRS: from methodology, business context and the identification of ESG topics to impact assessment, financial materiality assessment, validation, reporting and external assurance.

The third section demonstrates materiality in practice: how different methodologies change the list of material topics, what international case studies reveal, what experience Ukrainian companies have already gained, what kind of team is required for DMA, and how its results can be used to support management decision-making.

In such an environment, DMA can help companies avoid two extremes: excessive reporting on everything at once, or superficial reporting that fails to reflect actual impacts, risks and opportunities. A robust materiality assessment enables organisations to focus their resources on the issues that genuinely matter to the business, its stakeholders and its long-term resilience.

This document does not replace the ESRS, nor is it intended to serve as legal guidance. Its purpose, however, is to support high-quality, well-informed management decision-making by providing a clear rationale, explaining the key principles, and demonstrating practical approaches that can help Ukrainian companies prepare for a new standard of sustainability reporting.

The Link Between Financial and ESG Reporting

- Why Materiality Has Become a Key Reporting Issue
- Why ESG Reporting Is No Longer Separate from Financial Reporting
- How ESG Factors Become Financial Risks and Opportunities
- Examples of the Financial Impact of ESG Issues
- DMA as a Bridge Between ESG, Finance, Risk and Strategy
- The Role of the Finance Function in DMA
- ESRS and IFRS S1/S2: How to Align the Approaches
- The Future of Corporate Reporting – The EFRAG Leadership's Perspective

Why Materiality Has Become a Key Reporting Issue

Materiality has become the central issue in reporting because it determines what a company must report on, which topics may be omitted from disclosure, which data must be supported by evidence, and which issues should inform management decision-making.

- DMA determines which sustainability matters a company must include in its ESRS reporting.
- An inadequately conducted DMA results either in excessive reporting or in overlooked risks that may subsequently be identified by auditors or stakeholders.
- The choice of materiality assessment methodology determines which topics are considered material and therefore subject to disclosure and assurance.

Materiality Defines the Boundaries of Reporting

In sustainability reporting, a company is not expected to disclose every possible ESG topic at the same level of detail. A materiality assessment helps determine which issues are genuinely significant for a particular company, its operations, its value chain, its stakeholders and the users of its reporting.

In practical terms, materiality acts as a filter: it determines which topics, impacts, risks and opportunities are included in the report and which may remain outside the scope of disclosure.

Materiality Has Become a Strategic Issue Rather Than a Reporting Formality

A materiality assessment can no longer be regarded as a purely technical exercise undertaken to complete a report. The choice of assessment methodology determines which topics will be recognised as material, how the company will explain its impacts, risks and opportunities, and which of these issues will require management attention.

Choosing a materiality assessment methodology is a strategic decision that affects access to capital, stakeholder relationships and regulatory compliance. This means that materiality influences not only the report itself but also the company's business priorities.

Materiality Must Be Evidence-Based and Ready for Assurance

Under the ESRS requirements, a company must explain the rationale for its materiality assessment, the scales and thresholds applied, the data sources used, its approach to stakeholder engagement, and the reasons supporting its final conclusions. As a result, the materiality assessment is gradually becoming a matter of evidence and external assurance.

A key document for preparing for assurance is the scoring file – a working spreadsheet that records all impacts, risks and opportunities (IROs), the scores assigned for the assessment criteria, the justification for those scores, the data sources and references to supporting evidence. This document enables reviewers to verify not only the final list of material topics but also the underlying assessment logic.

Why ESG Reporting Is No Longer Separate from Financial Reporting

Sustainability reporting is becoming an integral part of corporate reporting, linked to financial information, risks, strategy, management decision-making and external assurance.

- ESMA[1] views financial reporting, sustainability reporting and digital reporting as the three pillars of corporate reporting.
- Following the Omnibus proposal, the number of companies within the scope of the CSRD decreased by approximately 80%, from around 49,000 to approximately 6,000.
- Despite this, 67% of surveyed EU companies intend to continue preparing reports in line with the CSRD requirements, while 90% plan to continue disclosing ESG information in one form or another.

Sustainability Reporting Is Becoming Part of Corporate Reporting

Sustainability reporting is no longer a standalone document that a company prepares alongside its financial statements. In the EU, it is becoming an integral part of corporate reporting that must be meaningful to investors, banks, regulators, auditors, supply chain partners and other users.

In ESMA's 2025 Report on the Enforcement of Corporate Reporting[2], financial reporting, sustainability reporting and reporting in the European Single Electronic Format (ESEF) are treated as interconnected areas. The objective of this supervisory approach is to improve the quality of future financial and sustainability reporting by assessing compliance with IFRS, the ESRS and digital reporting requirements. This means that ESG data are progressively becoming part of regulated, verifiable and comparable corporate information.

ESG Issues Have Financial Consequences

Within DMA, financial materiality means that a company must assess how ESG-related risks and opportunities may affect its financial position, financial performance, cash flows, access to finance or cost of capital. In other words, sustainability issues become part of the economic logic of the business rather than merely topics for a non-financial narrative.

In practice, ESG factors may affect revenues, costs, assets, investments, insurance, lending, regulatory costs and the long-term resilience of the business model. For example, climate-related risks may affect assets and capital expenditure, human rights issues within the value chain may affect contracts and reputation, while energy consumption may affect operating costs and financing conditions.

DMA Brings Together ESG Data, Finance and Decision-Making

DMA helps a company understand which ESG impacts, risks and opportunities are material to its business model, financial performance, strategy and long-term resilience. For this reason, a robust DMA should be integrated into management processes rather than remaining an exercise undertaken solely by the sustainability team.

The publication The Double Materiality Audit[3] notes that the impact and financial dimensions of double materiality are interrelated because, despite their non-financial nature, ESG factors are closely linked to financial performance and business risks. This is why the finance function, risk management, internal audit, the legal function, operational departments and senior management should all be involved in DMA.

1 ESMA – European Securities and Markets Authority.
2 ESMA, Report on 2025 Corporate reporting enforcement and regulatory activities, https://www.esma.europa.eu/sites/default/files/2026-05/ESMA32-2064178921-9413_Report_on_2025_Corporate_reporting_enforcement_and_regulatory_activities.pdf
3 SSRN, The Double Materiality Audit: Assurance of ESG Disclosure, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4367032

How ESG Factors Become Financial Risks and Opportunities

An ESG factor becomes financially material when it has the potential to affect the value of a company: its revenues, costs, assets, cash flows, access to finance or cost of capital. DMA helps assess how general ESG issues translate into specific financial risks and opportunities.

- Financial materiality is assessed based on the likelihood of a risk or opportunity occurring and the magnitude of its financial effect.
- Financial effects may relate to revenues, costs, asset values, access to finance and the cost of capital.
- According to Coolset, the magnitude of the impact may be assessed on a scale ranging from less than 0.5% to more than 10% of revenue or the cost base.[4]

First step: Identify the source of the financial effect

An ESG factor is not, in itself, a financial risk or opportunity. To determine this, a company must understand the mechanism through which it may affect the business. For example, climate change may create physical risks to assets, water scarcity may result in operational constraints, customers' emissions requirements may create a risk of losing contracts, while improved energy efficiency may present an opportunity to reduce costs.

In DMA, financial risks and opportunities may arise from three sources:

- material impacts identified during the impact materiality assessment;
- the company's dependencies on natural, human or social resources;
- and other factors, including climate hazards or regulatory changes.

Second step: Assess the likelihood and magnitude of the consequences

Once a risk or opportunity has been identified, the company must assess both the likelihood of its occurrence and the potential financial impact. This is typically done using an assessment scale tailored to the company's business model, risk management framework and financial metrics.

In practical DMA approaches, a scale from 1 to 5 may be applied. Likelihood may be assessed on a scale ranging from "very low" to "very high", while the magnitude of the financial impact may be measured in absolute monetary terms or as a proportion of revenue, costs, assets or capital expenditure. Where the impact is difficult to quantify, the company may apply a qualitative assessment.

Third step: Link the ESG risk to financial decision-making

Financial materiality does not end with assigning a score. Its outcome must be meaningful to the finance function, risk management, investment planning and senior management. Where an ESG risk is identified as financially material, the company should understand whether it affects the budget, investment decisions, insurance, lending terms and conditions, asset valuation or strategic scenarios.

Research on double materiality indicates that financial materiality encompasses sustainability issues that are relevant to enterprise value, namely those that may affect a company's core operations, financial performance, capital market response and investors' judgement. For this reason, financially material ESG issues should be integrated not only into reporting but also into the company's risk management and decision-making processes.

4 Coolset, How to conduct a double materiality assessment for CSRD in 2026, https://www.coolset.com/academy/how-to-conduct-a-double-materiality-assessment-for-csrd-in-2026

Examples of the Financial Impact of ESG Issues

The financial impact of ESG issues may extend well beyond direct costs. It may affect revenues, production volumes, asset values, financing, provisions, insurance, reputation and a company's investment needs.

- The financial consequences of ESG-related risks may be assessed through their impact on revenue, costs, assets, EBITDA, cash flows or access to finance.
- The ESRS do not require every ESG-related risk or opportunity to be monetised where a reliable estimate cannot be made.
- ESMA found that only 35% of issuers in its sample provided sufficient information to enable users to understand the links between sustainability reporting and other parts of corporate reporting.[5]

Climate and Natural Resources: assets, production and raw materials

Climate- and nature-related factors may affect businesses through physical risks, resource scarcity, changes in raw material costs or production constraints. For example, a company may face higher material costs if a component becomes scarce or more expensive due to climate-related events in the region where it is produced.

Similarly, for an agricultural producer, drought may reduce crop yields or production volumes. Likewise, a coastal hotel may lose revenue if rising sea levels and beach erosion make its location less attractive to customers.

Transition Risks: costs, modernisation and impairment

The transition to a low-carbon economy may create financial consequences through new technologies, changing demand, regulatory requirements, energy prices, carbon-related costs or the need to modernise equipment. Some of these costs may be operational, whilst others may be investment-related.

The publication The Double Materiality Audit[6] notes that companies may incur significant expenditure on research, development and the maintenance of technologies aimed at reducing energy consumption and emissions. It also provides an example where changes in demand or a climate-related event may affect the residual value of equipment, its useful life, depreciation or the assessment of asset impairment.

Social and Governance Issues: contracts, people and reputation

Financial consequences may arise not only from environmental issues. Social and governance issues may also affect costs, contracts, customer trust, legal risks and a company's ability to work with international partners.

Such costs may include investment in improving working conditions, employee training, data protection, ethical supply chains, diversity programmes and employee engagement. A further risk is a decline in the value of intangible assets, particularly reputation, following public allegations relating to plastic waste or carbon emissions. For companies operating within international supply chains, this may result in the loss of contracts or additional costs associated with supplier due diligence.

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5 ESMA, Report on 2025 Corporate reporting enforcement and regulatory activities, https://www.esma.europa.eu/sites/default/files/2026-05/ESMA32-2064178921-9413_Report_on_2025_Corporate_reporting_enforcement_and_regulatory_activities.pdf

6 SSRN, The Double Materiality Audit: Assurance of ESG Disclosure, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4367032

DMA as a Bridge Between ESG, Finance, Risk and Strategy

DMA connects the way a company affects people and the environment with the factors that may affect its financial resilience. For this reason, the outcomes of DMA should be used not only for reporting purposes but also to inform strategy, risk management and resource allocation.

- DMA determines which sustainability issues must be included in reporting under the ESRS.
- In its report, Coolset describes DMA as the foundation of CSRD reporting and as a process that influences decisions on investments in decarbonisation and supply chains.
- GRI emphasises that financially material issues cannot be properly identified without first understanding the company's impacts on sustainable development.

From Impacts to Management Accountability

DMA begins with an understanding of how a company affects people, the environment, employees, communities, consumers and partners across the value chain. This is important not only for reporting purposes: such impacts may shape stakeholder expectations, reputational risks, regulatory scrutiny and the company's future obligations.

GRI stresses that each of the two dimensions of double materiality should be considered separately: impacts on the environment and society should not be relegated to secondary importance simply because they are not financially material at the time of the assessment. This means that DMA helps a company understand not only "what affects the business" but also "what the business itself affects".

From ESG Issues to the Risk Management System

Once impacts have been identified, the company should assess which of them may develop into business risks or opportunities. For example, an adverse impact within the supply chain may become a risk of losing customers, facing litigation or having restricted access to international markets. Conversely, positive actions may create opportunities: access to green finance, improved efficiency or stronger trust among business partners.

In this sense, DMA does not replace risk management but broadens its scope. It adds to traditional risk analysis issues that may previously have remained within the remit of the ESG function: human rights, climate adaptation, biodiversity, working conditions, supply chain integrity and stakeholder expectations.

From DMA Outcomes to Strategy and Resource Allocation

The outcomes of DMA should answer a practical management question: which ESG issues should the company prioritise in terms of attention, resources and oversight? Where an issue is material, it should be linked to policies, actions, targets, metrics, responsible business functions and budgets.

DMA serves both as a reporting filter and as a management navigation tool: it helps identify what truly matters to the business, its stakeholders and the company's long-term resilience.

The Role of the Finance Function in DMA

The finance function should be one of the key participants in DMA because it helps translate ESG-related risks and opportunities into the language of financial impacts, budgets, assets, cash flows, controls and management decision-making.

- Coolset recommends validating the outcomes of DMA with the relevant governing bodies, including the Chief Financial Officer or the Board of Directors.
- The external assurance provider may conduct interviews with the finance function and coordinate its work with the financial statement auditor.
- One of the common shortcomings of DMA is that financial materiality is not aligned with the company's risk management approach.

Finance Helps Assess the Magnitude of the Consequences

The finance function is required not only to verify the figures at the end of the process. It should already be involved at the financial materiality assessment stage, when the company determines whether an ESG-related risk or opportunity may affect revenues, costs, assets, capital expenditure, cash flows or access to finance.

The finance team is best placed to establish realistic assessment thresholds: for example, determining what level of potential impact is immaterial and what level is already significant enough to affect the budget, investment plan, asset valuation or financial covenants. Without such involvement, financial materiality may remain a purely formal assessment with little connection to the company's actual economic reality.

Finance Ensures Consistency With Financial Reporting

The outcomes of DMA should be aligned with the company's financial statements, management reporting and internal assumptions. Where a company identifies a climate-related, regulatory or supply chain risk as financially material, this may have implications for asset valuation, provisions, depreciation, capital expenditure, insurance or cash flow forecasts.

The study on the audit of double materiality[7] notes that ESG-related risks may affect reputation, business risk, financial performance and the value of capital assets. It also provides an example showing that commitments to achieve carbon neutrality may alter business activities, distribution channels, inventory valuation or capital expenditure.

Finance Strengthens Controls and Assurance Readiness

DMA must not only be logical but also capable of being verified. To achieve this, a company needs a methodology, assessment thresholds, sources of evidence, assessment tables, stakeholder engagement records and documented final conclusions. Coolset emphasises that the auditor should be able to trace each material topic back to the evidence on which the conclusion is based.

The finance function can help establish internal controls that are already familiar from financial reporting: designated data owners, source verification, version control, documentation of judgements, explanations of changes and regular reviews of conclusions. This reduces the risk that the outcomes of DMA will be challenged during external assurance.

7 SSRN, The Double Materiality Audit: Assurance of ESG Disclosure, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4367032

ESRS and IFRS S1/S2: How to Align the Approaches

ESRS and IFRS S1/S2 do not duplicate one another: the ESRS require a double materiality assessment, whereas IFRS S1/S2 focus on financially material information for investors, lenders and other providers of capital. The practical approach for a company is to conduct a DMA in accordance with the ESRS and then extract the financially material IROs for disclosure under IFRS S1/S2.

- IFRS S1 and IFRS S2 became effective in 2024.
- IFRS S2 has structurally incorporated the logic of the TCFD, while the SASB industry-based metrics have become a source for IFRS S1.
- The ESRS apply double materiality, whereas IFRS S1/S2 apply financial materiality.

EU ESRS: A broader scope through double materiality

The ESRS require sustainability matters to be assessed from two perspectives: how the company affects people and the environment, and how ESG-related risks and opportunities may affect the company itself. This means that material topics may include issues that do not yet have a direct financial impact but are significant because of the company's effects on employees, communities, consumers, the environment or the value chain.

Compared with IFRS S1/S2, the ESRS approach is broader. It covers not only risks and opportunities for the business but also the company's outward impacts. Research on the European approach to double materiality notes that the ESRS are based on double materiality, whereas the ISSB Standards are based on financial materiality and focus on how sustainability-related factors affect investors' decision-making.

IFRS S1/S2: A focus on financially material information

IFRS S1/S2 follow a different logic. They focus on information that could influence the decisions of investors, lenders and other providers of capital when providing resources to the company. Accordingly, the emphasis is on ESG-related risks and opportunities that may affect cash flows, the cost of capital, access to finance, the business model or the company's prospects.

For companies with experience in applying the TCFD recommendations, the transition to IFRS S1/S2 may be easier than the transition to the ESRS because IFRS S2 builds upon the climate-related framework established by the TCFD. At the same time, IFRS S1/S2 do not replace the ESRS for companies that are required to report in the EU: they cover only the financially material component of sustainability-related information, whereas the ESRS also require an assessment of the company's impacts on people and the environment.

Practical Integration: One assessment, different reporting outputs

For companies operating in the EU while also addressing the information needs of investors or partners in global markets, the most effective approach is not to develop two separate assessment systems. Instead, the practical approach is to conduct a DMA under the ESRS as the broader assessment and then use the financially material subset of risks and opportunities for disclosure under IFRS S1/S2.

This provides a practical approach for companies operating in both the EU and Asia-Pacific markets: the ESRS require double materiality, whereas IFRS S1/S2 require financial materiality, allowing a company to perform a DMA under the ESRS and derive from it the financially material IROs for IFRS disclosures. This approach avoids duplication of processes and helps ensure consistency across reporting.

The Future of Corporate Reporting – The EFRAG Leadership's Perspective

The EFRAG leadership does not advocate the full integration of financial reporting and sustainability reporting, but rather a stronger connection between them. The future of corporate reporting lies in a system in which sustainability objectives, impacts, risks, opportunities and assumptions are consistently explained through the company's financial metrics, strategy and decision-making.

- Sustainability reporting and financial reporting should complement one another.
- A complete merger of the two forms of reporting is unlikely in the near future.
- The practical way forward is not a single combined report, but consistency of assumptions, data and explanations.
- A successful connection means that the pathway from impacts, risks and opportunities to financial metrics can be clearly traced.

WOLF KLINZ
Chair of the EFRAG Financial Reporting Board

"The aim of EFRAG is to bring financial reporting and sustainability reporting closer together. When we connect these two areas, we arrive at what we call corporate reporting."

"Individual sustainability objectives have a direct impact on financial reporting. If a company sets itself the objective of achieving climate neutrality, this requires specific decisions and actions to be implemented. Those decisions, in turn, affect the company's financial position."

"It is essential to understand what achieving such objectives means for production facilities, operational efficiency, the provisions that need to be recognised, the potential write-off of assets, or the emergence of assets that may lose their economic value."

"A complete merger of financial reporting and sustainability reporting is complex and unlikely in the foreseeable future. The most practical way forward is connectivity: not combining everything into a single document, but ensuring a consistent link between assumptions and key data."

KERSTIN LOPATTA
Chair of the EFRAG Sustainability Reporting Board

"Financial reporting is already mature: its data are more established, structured and tested in practice. Sustainability reporting is in a different position: we see greater diversity in data sources, information originating from the value chain and data that are only partially structured."

"Sustainability reporting goes beyond today's financial metrics. Financial reporting generally focuses on shorter time horizons, whereas sustainability reporting is more future-oriented."

"The connection between these two forms of reporting should explain whether ESG impacts are reflected in strategy, capital expenditure, asset impairment or cash flows, or whether they currently remain only at the level of impacts."

"It is important to demonstrate that the financial reporting boundary does not always coincide with the impact boundary. It is equally important to explain which data are reliable and which are still evolving, based on scenarios or broad estimates."

"A successful connection is one where the line from impacts, risks and opportunities to financial metrics can be clearly traced."

Source: Conference "25 Years of EFRAG: Leading the Next Era of Corporate Reporting", Brussels, 8 June 2026

Stages of the Double Materiality Assessment Under the ESRS

- Stages of the Double Materiality Assessment (DMA)
- Stage 1. Development and Approval of the Company's DMA Methodology
- Stage 2. Understanding the Company's Business Context
- Stage 3. Identification of the ESG Topics to Be Assessed
- Stage 4. Impact Materiality Assessment
- Stage 5. Financial Materiality Assessment
- Stage 6. Finalisation, Refinement and Validation of the Results
- Stage 7. DMA Reporting
- Stage 8. External Assurance of the DMA Results

Stages of the Double Materiality Assessment (DMA)

The diagram below presents the stages of the double materiality assessment under the ESRS. It illustrates the practical logic of organising the DMA process: from approving the methodology through to external assurance.

As of May 2026, a company developing its DMA approach should take the following sources into account:

- **The current ESRS** – the first set of European Sustainability Reporting Standards, adopted by Commission Delegated Regulation (EU) 2023/2772. These standards establish the core ESRS reporting requirements, including the approach to assessing impacts, risks and opportunities and the disclosure of the DMA process.
- **The draft simplified ESRS** prepared by EFRAG in November 2025 – these reflect the direction of the review and simplification of the ESRS aimed at reducing the reporting burden and strengthening the focus on material information.

The European Commission is expected to adopt a delegated act introducing the revised ESRS in summer 2026, based on EFRAG's technical work. Accordingly, these draft standards should already be taken into account when developing the DMA methodology, particularly with regard to a more practical and proportionate approach to materiality assessment.

- **EFRAG Implementation Guidance on the Materiality Assessment, May 2024** – this sets out the logic of the DMA process through four main steps: understanding the context, identifying actual and potential impacts, risks and opportunities (IROs), assessing and determining the material IROs, and reporting.

The following approaches may be applied when conducting a DMA:

The bottom-up approach involves identifying a broad range of specific **impacts, risks and opportunities (IROs)** and carrying out a detailed assessment of them across individual business activities, products, locations and all elements of the value chain.

The company first compiles a comprehensive list of potential IROs and then systematically assesses their materiality against a range of criteria defined in its methodology and aligned with the standards.

This approach is appropriate for topics and sub-topics for which the company needs to develop a more robust justification: to identify specific impacts, assess their scale, scope, irremediability, likelihood and time horizon, and analyse their potential financial consequences. It also enables a more detailed assessment of the specific characteristics of individual locations, business units or subsidiaries, where the nature of the IROs may differ significantly.

This approach is applied under the ESRS adopted by the European Commission in 2023.

The top-down approach involves a preliminary determination of the materiality of topics, sub-topics or individual IROs based on an overall understanding of the company, its business model, strategy, sector, geographical footprint, value chain and previously identified ESG factors.

The company relies on existing information about its operations: its strategic priorities, core products, markets, regulatory environment, sector-specific characteristics, previous ESG assessments, risk register and stakeholder requests.

This approach makes it possible to reach a preliminary conclusion on whether particular topics are material or immaterial without conducting a detailed assessment of every individual IRO, provided that such a conclusion is sufficiently clear and well substantiated. Where the materiality of a topic is not self-evident, it should be subject to a detailed assessment using the bottom-up approach.

This approach may be applied under the simplified ESRS and may also be combined with the bottom-up approach.

Stages of the Double Materiality Assessment (DMA)

DMA stage name

1. Forming and approving the methodology for DMA assessment in the company
2. Understanding the business context of the company
3. Identifying ESG topics for assessment
4. Assessing the impact materiality
5. Assessing the financial materiality
6. Finilising, updating and validating the results
7. Reporting on DMA results
8. External assurance of DMA results

Key components of each DMA stage

1.
- Determining DMA stages
- Determining the scope and structure
- Involving stakeholders in the assessment process across departments

2.
- Analyzing business activities
- Organizational structure
- Geographical presence
- Value chain

3.
- Identifying potential material topics based on the ESRS
- Identifying industry-specific material topics for the company

4.
- Identifying actual and potential ESG impacts of the company
- Assessing the materiality of ESG impacts
- Identifying material impacts with impact on sustainable development

5.
- Identifying actual and potential ESG topics and opportunities for the company
- Assessing the materiality of ESG risks and opportunities
- Identifying ESG topics with significant financial impact on the company

6.
- Compiling a Materiality Matrix of topics
- Validating DMA results
- Identifying information that requires disclosure

7.
- Methodology and criteria for assessment
- List of material impacts, risks and opportunities
- Impact of DMA on strategy, business model, risk management

8.
- Planning and determining the scope of review
- Review of methodology, data and supporting documents

Documentation, building an evidence base, active engagement and interaction with internal and external stakeholders

Top-down approach to DMA

1.
- Criteria for preliminary selection of material and non-material topics within top-down screening

2–3.
- Preliminary top-down screening of ESG topics based on business model, sectors, geography and value chain
- Preliminary classification: material / non-material topics that require detailed assessment

4–5.
- Detailed assessment of specific IROs is conducted only for topics or subtopics for which materiality or non-materiality is not evident
- For topics where materiality or non-materiality is evident, the conclusion can be confirmed by a reasoned analysis without conducting a detailed assessment

6.
- Validation of top-down conclusions and detailed IRO assessments

7.
- Description of DMA methodology, including top-down screening

8.
- Review of top-down judgments and the evidence base

Developed by the Green Transition Office

Stage 1. Development and Approval of the Company's DMA Methodology (1/2)

Developing and approving the DMA methodology is the preparatory stage that establishes a consistent framework for conducting the entire assessment. The current ESRS do not prescribe a single detailed DMA methodology for all companies. However, they require companies to provide transparent disclosures about the process used to identify IROs and determine which of them are material.

The DMA methodology should set out the key elements that enable the company to substantiate the required disclosures in its reporting. In particular, the methodology may include:

- the objective and scope of the DMA (own operations, value chain);
- the sequence (stages) of the DMA;
- who makes decisions on the materiality of topics, sub-topics and IROs, and at which stage;
- the assessment approaches, input data and assumptions;
- the assessment scales, criteria and materiality thresholds;
- the approach to assessing impact materiality and financial materiality;
- the approach to identifying areas of heightened risk by business activity, business relationships and geographical location;
- the procedure for considering measures to prevent, mitigate and remediate adverse impacts;
- the approach to engaging stakeholders and external experts;
- the link between the DMA and existing due diligence processes, where such processes or elements thereof have already been implemented;
- the responsible individuals, organisational units and the governing bodies;
- the procedure for documenting the DMA process and internally reviewing its results;
- the approach to reviewing and updating the DMA to reflect changes since previous reporting periods.

Documenting the DMA methodology

The ESRS do not require the DMA methodology to be prepared as a separate public document. In practice, it is most commonly maintained as an internal methodology document that ensures the consistency of the assessment process. However, the company is required to describe its methodological approach in the report as part of the ESRS 2 IRO-1 disclosure.

The ESRS also do not establish a separate requirement for the DMA results to be formally approved by senior management. At the same time, the standards require the company to explain which members of senior management and the governing bodies are responsible for overseeing material impacts, risks and opportunities. Accordingly, the DMA methodology should be regarded as part of the company's internal governance framework, helping to document the DMA process, the input data used, the assessment scales and thresholds, and to establish an appropriate evidence base for external assurance.

Stage 1. Development and Approval of the Company's DMA Methodology (2/2)

Time horizons

To characterise potential impacts, risks and opportunities, the ESRS recommend applying the following time horizons:

- short-term – the company's financial reporting period, typically one year;
- medium-term – from the end of the short-term period up to five years;
- long-term – more than five years.

Where these recommended time horizons do not reflect the specific characteristics of the company's business, it may apply alternative time horizons, provided that the chosen approach is justified in the DMA methodology.

Assessment scales for IROs, topics and sub-topics

The DMA methodology should define separate assessment scales for impact materiality and financial materiality. These scales should be tailored to the company's existing risk management framework, internal processes and business model. The ESRS and the EFRAG guidance do not prescribe a single mandatory assessment scale. However, they require companies to apply well-founded qualitative or quantitative thresholds and to explain how these thresholds have been determined and applied.

For example, a company may use a five-level scale: low, moderate, significant, high and critical. It is important that each level is clearly defined and that the number of levels is sufficient to enable meaningful comparison of IROs and topics. For each assessment criterion, the methodology should specify what each score or rating represents. For example, when assessing financial impact, it is advisable to define which monetary amounts or percentages of EBITDA, revenue, assets or capital expenditure correspond to the different levels of materiality, while qualitative criteria may include reputational impact.

Materiality threshold for IROs, topics and sub-topics

The methodology should also define the threshold, that is, the point at which the company distinguishes between material and immaterial topics and IROs. Separate thresholds may be established for impact materiality and financial materiality. The key consideration is that the threshold should be well justified, applied consistently and capable of demonstrating why that particular level distinguishes material IROs from immaterial ones. In line with the EFRAG approach, the DMA process should reflect the specific facts and circumstances of the individual company. Accordingly, the assessment scales and thresholds should take into account the company's business model, sector, geographical footprint, scale of operations, value chain, risk management framework and any other relevant available information.

Stage 2. Understanding the Company's Business Context

At this stage, the company develops a comprehensive understanding of its operations, value chain, external environment and stakeholders to enable the accurate identification of potentially material IROs at subsequent stages. ESRS 1 explicitly states that the company should focus its assessment on areas where material IROs are likely to arise, taking into account its strategy, business model, geographical footprint, sectors, business relationships, nature of activities and other relevant factors.

Business model and company strategy

The company analyses how it creates value, which factors are critical to its development, and which strategic objectives have been established for the short, medium and long term. This helps identify which ESG issues may affect the company's business model, strategic priorities and long-term resilience.

Economic activities

The company identifies its economic activities, operational processes, products or services, sources of revenue and other aspects of its operations in which material IROs, topics and sub-topics may arise.

Organisational structure and geographical footprint

The company analyses its organisational structure, geographical presence, business units, subsidiaries, branches, production facilities, offices and other elements of its operations that fall within the scope of the DMA. This makes it possible to take account of differences between countries, regions, locations or business units where material IROs may arise.

Such analysis also helps determine the appropriate level at which information on material IROs should subsequently be aggregated or disaggregated – for example by sector, subsidiary, geographical location or asset – so that significant differences between individual parts of the company's operations are not obscured.

Value chain

The company analyses its value chain (upstream, own operations and downstream), including suppliers, contractors, business partners, distributors, customers and other business relationships. It also considers the company's products and services, the markets in which it operates, its principal customer segments, and any significant changes during the reporting period. Under the ESRS, IROs may be material in different parts of the value chain.

Regulatory, market and industry environment

The company analyses current and anticipated regulatory requirements, industry trends, the competitive environment, market and technological developments, as well as external ESG factors that may affect its operations. This analysis may draw on legislation, industry benchmarks, reports issued by competitors and peer companies, analytical publications, media reports, academic research and other external sources.

Internal documents and data

The company reviews available internal documents and data, including ESG policies, risk registers, the results of existing due diligence processes, sustainability reports, internal audit findings, records of reported incidents, stakeholder feedback, survey results, and other management and operational information.

Stakeholders

The company identifies the principal stakeholder groups whose interests are affected, or may be affected, by its own operations and business relationships throughout the value chain. This helps ensure that their interests, expectations and concerns are taken into account during the subsequent identification and assessment of IROs.

The outcome of this stage is a structured description of the company's business context, which forms the foundation for the subsequent stages of the DMA.

Stage 3. Identification of the ESG Topics to Be Assessed

At this stage, the company develops a preliminary list of sustainability topics and sub-topics that may be associated with its IROs. This list serves as the basis for the subsequent assessment of impact materiality and financial materiality.

ESRS list of topics and sub-topics

The company should use the ESRS list of topics and sub-topics as the starting point for compiling the preliminary list of topics to be assessed. This list is set out in ESRS 1, Appendix A, "List of Sustainability Matters". The Appendix includes 9 topics and 31 sub-topics covered by the environmental, social and governance ESRS standards.

At this stage, the company may make a preliminary exclusion of topics that are clearly not applicable. However, any such exclusion should be justified and documented, while topics whose status remains uncertain should be retained for further detailed assessment.

Company-specific topics

In addition to the topics listed in Appendix A, "List of Sustainability Matters", the company should identify and include topics that are specific to its own operations. This should be done only where the ESRS list does not fully reflect the characteristics of the company's activities or where additional granularity is required. Such topics may relate to the company's industry, business model, products or services, technologies, or other relevant factors.

Application of the top-down approach

At this stage, the company may carry out a top-down screening of topics and sub-topics based on the results of the analysis of its business context (Stage 2).

Specifically, the company may classify topics and sub-topics as material, immaterial, or requiring further detailed assessment. Where the conclusion that a topic or sub-topic is material or immaterial is clear and can be properly substantiated based on the company's business context, this conclusion may be documented without conducting a detailed assessment of each potential IRO (Stage 4). Where the status of a topic or sub-topic remains uncertain, the relevant IROs should be assessed in greater detail during the subsequent stages of the DMA.

This approach enables the company to focus its detailed assessment on those topics and sub-topics that require more in-depth analysis.

The outcome of this stage is a preliminary list of ESG topics and sub-topics for assessment, including ESRS topics and, where relevant, company-specific topics.

Stage 4. Impact Materiality Assessment (1/3)

At this stage, the company identifies and assesses actual and potential ESG impacts associated with its own operations and its value chain. The objective of this stage is to determine which of the company's impacts on ESG matters are material.

I. Identification of the company's actual and potential ESG impacts

The company compiles a comprehensive list of actual and potential ESG impacts that already exist or may arise over the short, medium or long term. A separate list of such impacts is prepared for each topic and sub-topic identified in Stage 3. Impacts may be either positive or negative and may relate to any part of the company's value chain (own operations, upstream or downstream).

For each impact, the following should be documented:

- the relevant ESRS topic or sub-topic;
- a brief description of the impact;
- the type of impact: actual or potential;
- the nature of the impact: positive or negative;
- where the impact occurs: own operations, upstream or downstream value chain;
- the relevant stakeholder groups or environmental aspects;
- the time horizon (short, medium or long term) – applicable to potential impacts only and not to actual impacts;
- any potential link to a risk or opportunity for the company that should be taken into account during the subsequent financial materiality assessment;
- the information sources and supporting evidence on which the impact description is based.

The ESRS do not specify which organisational unit or individual should be responsible for compiling the list of impacts as part of the DMA. In practice, coordination of this process is typically carried out by the individual or department responsible for the DMA, most commonly the ESG or sustainability function. However, to ensure the quality of the assessment and the completeness of the list of impacts, this process should be undertaken in collaboration with the company's internal subject matter experts for the relevant topics. For example, impacts relating to energy should be identified together with the energy function, while occupational health and safety impacts should be identified together with the occupational health and safety department. This approach combines methodological coordination by the ESG or sustainability function with the specialist expertise of departments that understand the company's operational processes and can provide supporting evidence.

For potential adverse impacts, the assessment should take into account only those prevention and mitigation measures that have already been implemented and can reasonably be expected to reduce the severity or likelihood of the impact. Future measures or measures that have not yet been implemented should not be taken into account.

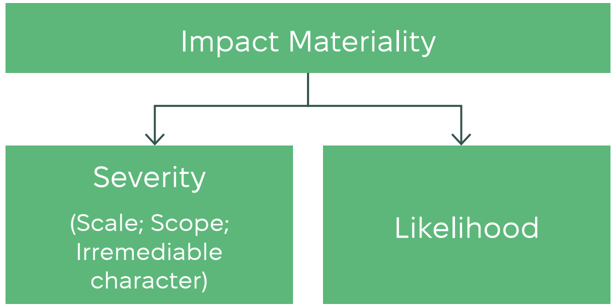
Impacts			
Type:	Positive		Negative
Nature:	Actual		Potential
Time horizon:	Short-term	Medium-term	Long-term
Value chain:	Upstream	Own operations	Downstream

Stage 4. Impact Materiality Assessment (2/3)

II. Assessment of the materiality of ESG impacts

Once the list of impacts has been compiled, the company assesses them against the criteria, scales and thresholds defined in the DMA methodology. The objective of this step is to determine which of the company's impacts are material from the perspective of impact materiality.

The assessment is based on the severity of the impact and, for potential impacts, also takes into account the likelihood of occurrence.



The severity rating is derived from three assessment criteria. The assessment of each impact depends on its type and nature **(see the table below)**.

For each assessment criterion, the company develops a separate scale, for example from 1 to 5, although the ESRS do not prescribe a mandatory number of levels. Each level of the scale should be accompanied by a clear description of what the corresponding rating represents, taking into account the specific characteristics of environmental, social and governance impacts. Such descriptions are necessary to ensure the consistent assessment of all impacts, justify the final score and establish an evidence base for external assurance.

Severity indicates the overall significance of an adverse impact caused to people or the environment. It is determined based on the scale, scope and irremediable character of the impact. **For potential adverse human rights impacts, severity takes precedence over likelihood. This means that even a less likely impact may be considered material if its consequences are severe.**

Scale indicates how serious an adverse impact is or how beneficial a positive impact is for people or the environment.

Scope indicates how widely the impact extends. For social impacts, this may refer to the number of individuals or groups affected. For environmental impacts, it may refer to the geographical area, ecosystem or natural resource affected.

Irremediable character indicates how difficult it is, or whether it is possible, to remedy the consequences of the impact and restore the previous situation for affected people or the environment.

Likelihood indicates the probability that the impact will occur.

Assessment criteria for the materiality of ESG impacts by impact type and nature

Impacts	Severity			Likelihood
	Scale	Scope	Irremediable character	
Actual + Adverse	✓ Magnitude/extent of harm	✓ Extent to which the impact affects people, geographical areas or ecosystems	✓ Difficulty of remediation	✗ Not assessed for actual impacts (the maximum score is assigned or the criterion is excluded)
Actual + Positive	✓ Magnitude/extent of benefit		✗ Not assessed for positive impacts	
Potential + Positive				✓ Likelihood of occurrence
Potential + Adverse	✓ Magnitude/extent of harm		✓ Difficulty of remediation	✓ Likelihood of occurrence

Stage 4. Impact Materiality Assessment (3/3)

Roles and responsibilities in the impact assessment. The ESRS do not specify which organisational unit should carry out the impact assessment. In practice, the process is typically coordinated by the ESG or sustainability function, or by another department responsible for the DMA. However, for each impact, it is advisable to designate a responsible individual or organisational unit that possesses the relevant expertise and is able to perform and validate the assessment. Depending on the topic, such functions may include:

- environmental and energy management;
- occupational health and safety;
- human resources;
- procurement;
- legal and compliance; and other functions.

This approach combines the expertise of the company's ESG specialists with that of subject matter experts who possess the relevant data, understand operational processes and are able to provide supporting evidence for the assessment.

Documenting the impact assessment. For each assessed impact, it is advisable to retain not only the scores assigned against the assessment criteria but also the rationale for those scores. In particular, the company should document the justification for each assigned score, the data sources and supporting evidence used, as well as comments from the relevant functions, stakeholders and experts, where these have contributed to the assessment. Such documentation enables the internal review of the DMA results and provides the evidence base required for external assurance.

Evidence supporting the impact assessment may include:

- internal policies, procedures and action plans;
- monitoring data, measurement results, production or operational reporting;
- records of incidents, complaints, breaches or enquiries;
- findings from internal and external audits;
- results of existing due diligence processes;
- minutes of meetings, interviews or consultations;
- industry benchmarks, academic sources and regulatory documents;
- analytical reports prepared by external experts and specialist organisations.

Determining the final score for each impact. The standards do not prescribe a single mandatory formula for calculating the final impact score. The company determines its own aggregation method within the DMA methodology, for example: the sum of scores, average values, weighted scoring, a matrix, or another approach. It is important that the selected methodology does not understate the materiality of impacts.

III. Identification of material topics from the perspective of the company's impacts on sustainable development. An impact is considered material if its final score reaches or exceeds the threshold established in the DMA methodology.

> A topic or sub-topic is considered material from the perspective of impact materiality if it is associated with at least one material impact.

Examples of possible formulas for calculating the final impact materiality score are provided below:

$$\left(\underset{\text{Max [Scale; Scope; Irremediable Character]}}{\text{Severity}} + \text{Likelihood}\right) / 2 = \text{Final Impact Score}$$

$$\left(\underset{\text{(Scale + Scope + Irremediable Character)/3}}{\text{Severity}} + \text{Likelihood}\right) / 2 = \text{Final Impact Score}$$

$$\sqrt{\underset{\text{Max [Scale; Scope; Irremediable Character]}}{\text{Severity}} \times \text{Likelihood}} = \text{Final Impact Score}$$

$$\sqrt{\underset{\sqrt[3]{\text{(Scale × Scope × Irremediable Character)}}}{\text{Severity}} \times \text{Likelihood}} = \text{Final Impact Score}$$

Stage 5. Financial Materiality Assessment (1/2)

At this stage, the company identifies and assesses ESG-related risks and opportunities associated with its own operations and value chain. The purpose of this stage is to determine which ESG-related risks and opportunities are material to the company.

I. Identification of the Company's Existing and Potential ESG Risks and Opportunities

At this stage, the company compiles a list of ESG risks and opportunities that already affect, or may affect, its financial position, financial performance, cash flows, access to finance, or cost of capital over the short, medium or long term.

A separate list of such risks and opportunities is prepared for each topic and sub-topic identified in Stage 3.

Risks and opportunities may arise from:

- material impacts that may translate into financial consequences for the company;
- the company's dependencies on natural, human or social resources, such as water resources, energy, a skilled workforce, suppliers or local communities;
- other external or internal factors, including climate, regulatory and technological changes, market trends, reputational factors, and changes in customer behaviour.

For each ESG risk or opportunity, it is advisable to record:

- the relevant ESRS topic or sub-topic;
- a brief description of the risk or opportunity;
- financial effect: actual or expected;
- source: impact, dependency or other factor;
- where the risk or opportunity arises: own operations, upstream or downstream value chain;
- potential financial effect: impact on revenue, costs, assets, liabilities, cash flows, access to finance or cost of capital;
- time horizon: short, medium or long term;
- the related ESG impact, where such a link has been established;
- the responsible function or department;
- data sources and evidence on which the formulation of the risk or opportunity is based.

Coordination of this process is typically undertaken by the ESG / Sustainability function or department. At the same time, the list of risks and opportunities should be developed in collaboration with the functions responsible for finance, risk management and operations, including: strategy, finance, risk management, compliance, procurement, HR, HSE and other functions. The outcome is a list of ESG risks and opportunities for subsequent financial materiality assessment.

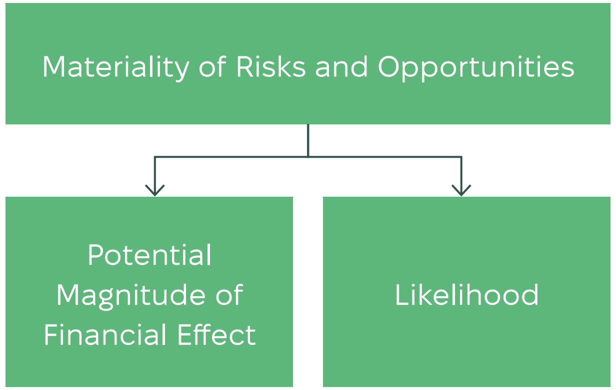
<table>
<tr><th colspan="7">Risks and Opportunities</th></tr>
<tr><td>Type:</td><td colspan="3">Risks</td><td colspan="3">Opportunities</td></tr>
<tr><td>Source of origin:</td><td colspan="2">Impacts</td><td colspan="2">Dependencies</td><td colspan="2">Other factors</td></tr>
<tr><td>Time horizon:</td><td colspan="2">Short-term</td><td colspan="2">Medium-term</td><td colspan="2">Long-term</td></tr>
<tr><td>Value chain:</td><td colspan="2">Upstream</td><td colspan="2">Own operations</td><td colspan="2">Downstream</td></tr>
</table>

Stage 5. Financial Materiality Assessment (2/2)

II. Assessment of the materiality of ESG risks and opportunities

Once the list of ESG risks and opportunities has been compiled, the company assesses them against the criteria, scales and thresholds defined in the DMA methodology. The purpose of this step is to determine which risks and opportunities are material from a financial materiality perspective, i.e. those that have, or may have, a significant impact on the company's financial position.

The key criteria for assessing financial materiality are the likelihood of the risk or opportunity occurring and the potential magnitude of the financial effect:



The magnitude of a financial effect indicates the significance of the financial consequences of an ESG risk or opportunity for the company. It is determined by the potential effect on the company's financial position, financial performance, cash flows, access to finance or cost of capital.

The potential magnitude of financial effects may be assessed **quantitatively or qualitatively**, depending on the nature of the ESG risk or opportunity, the availability of data, and the company's ability to measure the potential financial consequences on a reasonable basis. Where the financial effect can be measured reliably, the company may apply quantitative thresholds. These may be expressed in monetary terms or as relative indicators, such as a percentage of revenue, costs, assets, EBITDA or cash flows.

At the same time, the ESRS do not require every ESG risk or opportunity to be monetised. Where the financial effect cannot be measured reliably as at the assessment date, or where the cost or time required for such calculation would be disproportionate, the risk or opportunity may nevertheless be financially material. In such cases, the company may apply qualitative thresholds or assessment ranges.

The qualitative assessment may take into account the strategic significance of the risk or opportunity, regulatory sensitivity, impact on business reputation, and the potential impact on access to finance. The DMA methodology should provide an approach for assessing both quantitatively measurable and qualitatively assessed ESG risks and opportunities. Appropriate scales and thresholds should be defined for each type of assessment.

Likelihood indicates how likely it is that an ESG risk or opportunity will arise within the specified time horizon.

The likelihood of an ESG risk or opportunity may vary depending on the time period; therefore, the relevant time horizon should be specified for each of them. The company may apply a single likelihood scale for impacts, risks and opportunities, provided that the scale is clearly described and consistently applied throughout the DMA.

The assessment of the materiality of ESG risks and opportunities should be aligned with the company's overall risk management framework. Where the company already has an internal risk assessment scale, it may be adapted for DMA purposes.

When carrying out the assessment, the rationale for the assigned ratings, together with the data sources, should be documented.

III. Identification of material topics from the perspective of their impact on the company's financial position. Risks and opportunities are considered material if their final score reaches or exceeds the threshold established in the DMA methodology.

A topic or sub-topic is considered financially material if at least one material ESG risk or one material ESG opportunity is associated with it.

Example: Materiality Assessment Scales and Criteria

In its 2023 Double Materiality Assessment Report, Borregaard presents detailed scales for assessing impact materiality and financial materiality. The company establishes separate assessment scales for environmental and social impacts and also distinguishes between the assessment of negative and positive impacts. The magnitude of financial effects is assessed using EBITDA and investment thresholds, with separate scales applied for the short term and for the medium and long term.

TABLE 1. NEGATIVE ENVIRONMENTAL SCORE: SEVERITY (A+B+C)/3

Points A/B/C	Scale- negative (A) How grave is the impact on the environment?	Scope (B) How widespread is the impact on the environment?	Remediability (C) How difficult is it to reverse the impact on the environment?
5	Very high (ex. worst in has been in recent years)	Global/total	Irremediable/irreversible
4	High (ex.impact and not reaching goal or leagle requirements)	Widespread	Very difficult to remedy or long-term
3	Medium (ex. impact but fullfilling legal requirements)	Medium (ex.COD, SO2,NOX, dust, P, N, waste; Resource use,...)	Difficult to remedy or mid-term
2	Low (ex. impact but reaching own goal if stricter than legal requirements)	Concentrated (ex. Site soil..)	Remediable with efforts short-term
1	Minimal Impact	Limited	Relatively easy to remedy short-term
0	None	None	Very easy to remedy

For the positive impact on environment, we have used the scoring criteria in table 2.

TABLE 2. POSITIVE ENVIRONMENTAL SCORE: (A+B)/2

Points A/B	Scale- positive (A) How beneficial is the impact on the environment? (Contribution to UN Sustainable Development goals)	Scope (B) How widespread is the impact on the environment?
5	Very high	Global/total
4	High	Widespread (ex.our products)
3	Medium	Medium (ex.COD, SO2,NOX, dust, P, N, waste; Resource use,...)
2	Low	Concentrated (ex. Site soil..)
1	Minimal	Limited
0	None	None

TABLE 3. NEGATIVE SOCIAL SCORE: SEVERITY (A+B+C)/3

Points A/B/C	Scale- negative (A) How grave is the impact on people?	Scope (B) How widespread is the impact on people?	Remediability (C1) negative How difficult is it to reverse the impact on the environment?
5	Absolute /Very high	Global/total	Irremediable/irreversible
4	High	Widespread (Value chain)	Very difficult to remedy or long-term
3	Medium	Medium (Borregaard)	Difficult to remedy or mid-term
2	Low	Concentrated (Borregaard)	Remediable with efforts (time and cost)
1	Minimal/ Very low	Limited	Relatively easy to remedy short-term
0	None	None	Very easy to remedy

TABLE 4. POSITIVE SOCIAL IMPACT SCORE: (A+B)/2

Points A/B	Scale- positive (A) How beneficial is the impact on people? (ex. Contribution to UN Sustainable Development goals)	Scope (B) How widespread is the impact?
5	Very high	Global/total
4	High	Widespread
3	Medium	Medium
2	Low	Concentrated
1	Minimal	Limited
0	None	None

TABLE 5. FINANCIAL MATERIALITY SCORING CRITERIA

SHORT-TERM

EBITDA & investments	Impact points
> 50 mill NOK	3
25-50 mill NOK	2
0-25 mill NOK	1

MID AND LONG-TERM

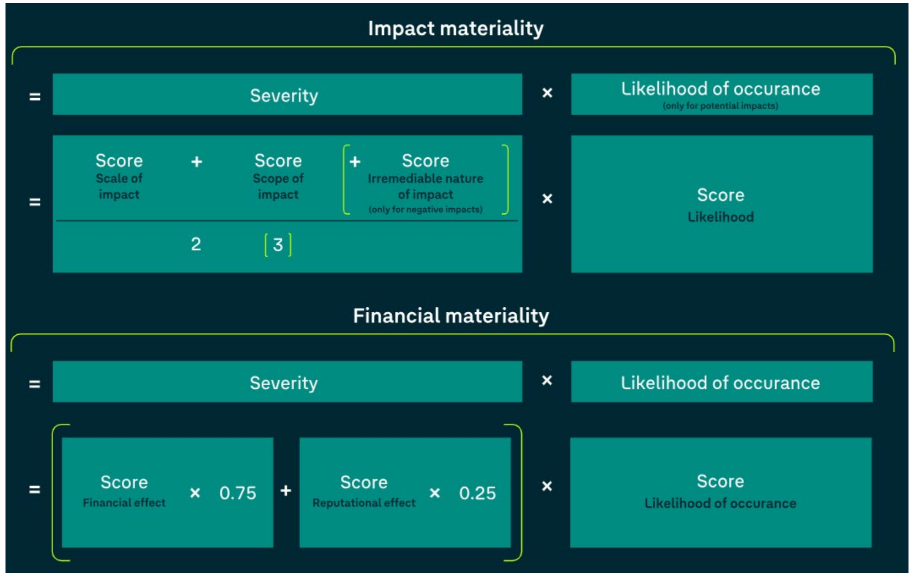
EBITDA & investments	Impact points
> 100 mill NOK	3
50-100 mill NOK	2
<50 mill NOK	1

Source: Borregaard Double Materiality Assessment Report 2023

Examples: Impact Materiality and Financial Materiality Assessment

Volkswagen Group uses an averaging approach to assess **impact materiality**. For positive impacts, severity is determined as the average of two criteria: scale and scope. For negative impacts, a third criterion – irremediability – is included in the calculation. As likelihood is not assessed separately for actual impacts, it is assigned a value of 100% in the formula.

For **financial materiality**, the potential magnitude of financial effects consists of two weighted components: financial effect with a weighting of 0.75 and reputational effect with a weighting of 0.25. This approach to assessing financial materiality is unique. It demonstrates that, within the ESRS framework, a company may adapt its DMA methodology to its own risk management system, the specific nature of its operations, and the characteristics of potential financial consequences.



Source: Volkswagen Group Sustainability Report 2025

OLB Bank uses a formula-based approach in which the severity of impacts is calculated as the arithmetic mean of the relevant criteria. For actual impacts, the bank does not apply a separate likelihood assessment: the result is equal to the severity score. This differs from Volkswagen's approach, where likelihood for actual impacts is assumed to be 100%, but both approaches demonstrate the flexibility permitted in the practical application of the ESRS requirements.

For potential impacts, as well as for **risks and opportunitie**s, OLB Bank uses the geometric mean: the final score is determined as the square root of the product of severity and likelihood.

Impact/risk/opportunity	Extent (A)	Significance (T)	Irreversibility (I)	Severity (S)	Probability (P)	Result (R)	Threshold
Actual Negative effect	A	T	U	$S = \frac{A+T+U}{3}$	–	$E = S$	$E > 3{,}5$
Actual positive effect	A	T	–	$S = \frac{A+T}{2}$	–	$E = S$	$E > 3{,}5$
Potentially negative impact	A	T	U	$S = \frac{A+T+U}{3}$	W	$E = \sqrt{S \times W}$	$E > 3{,}5$
Potential positive impact	A	T	–	$S = \frac{A+T}{2}$	W	$E = \sqrt{S \times W}$	$E > 3{,}5$
Negative financial impact (risk)	A	–	–	$S = A$	W	$E = \sqrt{S \times W}$	$E > 3{,}5$
Positive financial impact (opportunity)	A	–	–	$S = A$	W	$E = \sqrt{S \times W}$	$E > 3{,}5$

Source: OLB Bank Sustainability Report 2025

Stakeholder Engagement (1/2)

Under the ESRS requirements, stakeholder engagement is a cross-cutting element of the DMA and a source of information for identifying and assessing IROs. In particular, ESRS 2 SBM-2 requires companies to disclose a description of their stakeholder engagement process, the key stakeholder groups with which they engage, their understanding of those stakeholders' interests and views in relation to the company's strategy and business model, and how the administrative, management and supervisory bodies are informed about the views and interests of key stakeholders regarding material IROs.

The social disclosures under the ESRS cover four social groups: own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3), and consumers and end-users (ESRS S4). Where the relevant social topic is material, the company must disclose how it engages with the relevant stakeholder group. This includes whether it has channels for receiving enquiries, complaints and reports, and how it responds to identified concerns and adverse impacts.

Stakeholder Engagement Formats

A company may engage in regular dialogue with stakeholders or conduct dedicated consultations for reporting purposes. Engagement formats may include: interviews, surveys, online questionnaires (including the use of Google Forms, Microsoft Forms or other similar tools), workshops, focus groups and consultations. Where direct engagement with certain groups is not possible or appropriate, the company may rely on alternative sources of information: independent experts, non-governmental or representative organisations, industry associations, academic publications, audit findings, incident information and other sources.

When a Company May Engage Stakeholders

Separate stakeholder engagement at each stage of the DMA is not required. The ESRS also do not prescribe a specific point at which the company must undertake such engagement.

Stakeholder Groups under the ESRS		
Group Name	Affected stakeholders	Users of sustainability statements
About the Group	Individuals or organisations whose interests are connected to the company's activities and may be affected by its operations, products, services or business relationships within the value chain	Individuals and organisations that use the company's sustainability reporting to make decisions and/or assess the company's performance
Who Is Included	Employees, local communities, public authorities, consumers, end-users, contractors, civil society organisations, nature (as a "silent stakeholder") and others	Investors, creditors, banks, insurance companies, business partners, public authorities, analysts, civil society organisations and others

In accordance with the ESRS requirements, the primary focus is on engaging stakeholders who are affected or may be affected. This is because these groups can provide information on how the company's activities, products, services or business relationships affect, or may affect, people and the environment, which forms the basis for the impact materiality assessment.

For the financial materiality assessment, the company may additionally use dialogue with users of sustainability statements to validate the relevance of ESG risks and opportunities, their likelihood, and their potential financial magnitude.

Stakeholder Engagement (2/2)

At the stage of understanding the company's operating context, it is advisable to identify which groups may be affected by its activities, products, services or business relationships. Where possible, these groups should be prioritised, taking into account the nature of the potential impacts, the vulnerability of the groups, the scale of the company's activities, its geographical footprint, the sector, and the characteristics of its value chain.

At the IRO identification stage, the company may engage stakeholders or use the results of previous or ongoing stakeholder engagement to identify actual and potential impacts.

At the impact materiality assessment stage, stakeholders may be involved in assessing those impacts that are relevant to them. For example, employees may provide information on working conditions and occupational health and safety; local communities may provide information on the environmental and social consequences of the company's activities; consumers and end-users may provide information on product safety, service accessibility or the protection of personal data.

Where the company has established dialogue mechanisms with shareholders, investors or creditors, it may use this ongoing engagement to determine and validate financial materiality thresholds. In this way, in accordance with the ESRS requirements, the report will disclose information whose omission or misstatement could reasonably be expected to influence the decisions that users of sustainability statements make on the basis of that information.

The company may also first carry out a preliminary DMA assessment based on the information already available from previous stakeholder engagement. It may then collect feedback from relevant stakeholders, verify the completeness of the list of IROs and, where necessary, revise the assessments, thresholds and materiality justifications.

Documentation of Stakeholder Engagement Results

To establish the evidence base for the DMA, the company should document:

- the list of stakeholder groups engaged, together with the rationale for their selection and prioritisation;
- the format, date or period of engagement and interaction;
- the topics considered, the key findings and the feedback received from stakeholders;
- how the information obtained influenced the identification, assessment or validation of IROs;
- which alternative sources were used where direct engagement with certain groups did not take place;
- how stakeholders' views were communicated to the relevant administrative, management and supervisory bodies.

Such documentation is necessary to establish the evidence base for external assurance.

Stage 6. Finalisation, Refinement and Validation of Results (1/3)

Preparation of the final Materiality Matrix

At this stage, the results of the impact materiality assessment and the financial materiality assessment are consolidated into the final material topics matrix. The matrix is not a mandatory format for presenting results under the ESRS requirements; however, it is traditionally used as a practical tool for summarising and visualising the DMA findings.

The list of material IROs identified through the DMA should be reflected in the sustainability report.

Defined threshold

Impact Materiality

MATERIAL TOPICS

Disclosure of relevant material information in the report is mandatory

Topics that are material from the perspective of the company's impacts on people and the environment.

MATERIAL TOPICS

Disclosure of relevant material information in the report is mandatory

Strategic topics that are material from both an impact materiality and a financial materiality perspective.

NON-MATERIAL TOPICS

Disclosure is optional

Ongoing monitoring is recommended, as these topics may become material due to changes in regulation or the company's operating context.

MATERIAL TOPICS

Disclosure of relevant material information in the report is mandatory

Topics that have a significant effect on the company's financial position.

Defined threshold

Financial Materiality

Stage 6. Finalisation, Refinement and Validation of Results (2/3)

Internal validation of the DMA results

The next recommended step is to carry out an internal validation of the DMA results to verify the completeness and accuracy of the assessment. Based on the validation results, the company may refine the wording of the IROs, review individual assessments and strengthen the supporting evidence.

Internal validation may be conducted through working sessions involving the company's relevant internal specialists and, where appropriate, representatives of external stakeholders. In addition, the DMA results should be reviewed with management and the administrative, management and supervisory bodies to finalise the list of material topics, impacts, risks and opportunities to be disclosed in the report.

This approach may be implemented in line with the requirements of ESRS 2. In particular, the company is required to explain who, at the level of the administrative, management or supervisory bodies, is responsible for the management or oversight of material impacts, risks and opportunities.

Identification of information to be disclosed

At this stage, the company determines which information is to be included in the report based on the DMA results. The starting point is the final list of material topics, sub-topics and IROs. The company maps each material topic or sub-topic to the relevant ESRS standards, disclosure requirements and datapoints.

At the same time, the materiality of a topic does not automatically require disclosure of all datapoints under the relevant topical standard. Therefore, an information materiality filter is applied at this stage. The company determines which disclosures and datapoints are necessary for an understanding of the material impacts, risks and opportunities, their consequences, and the company's approach to managing them.

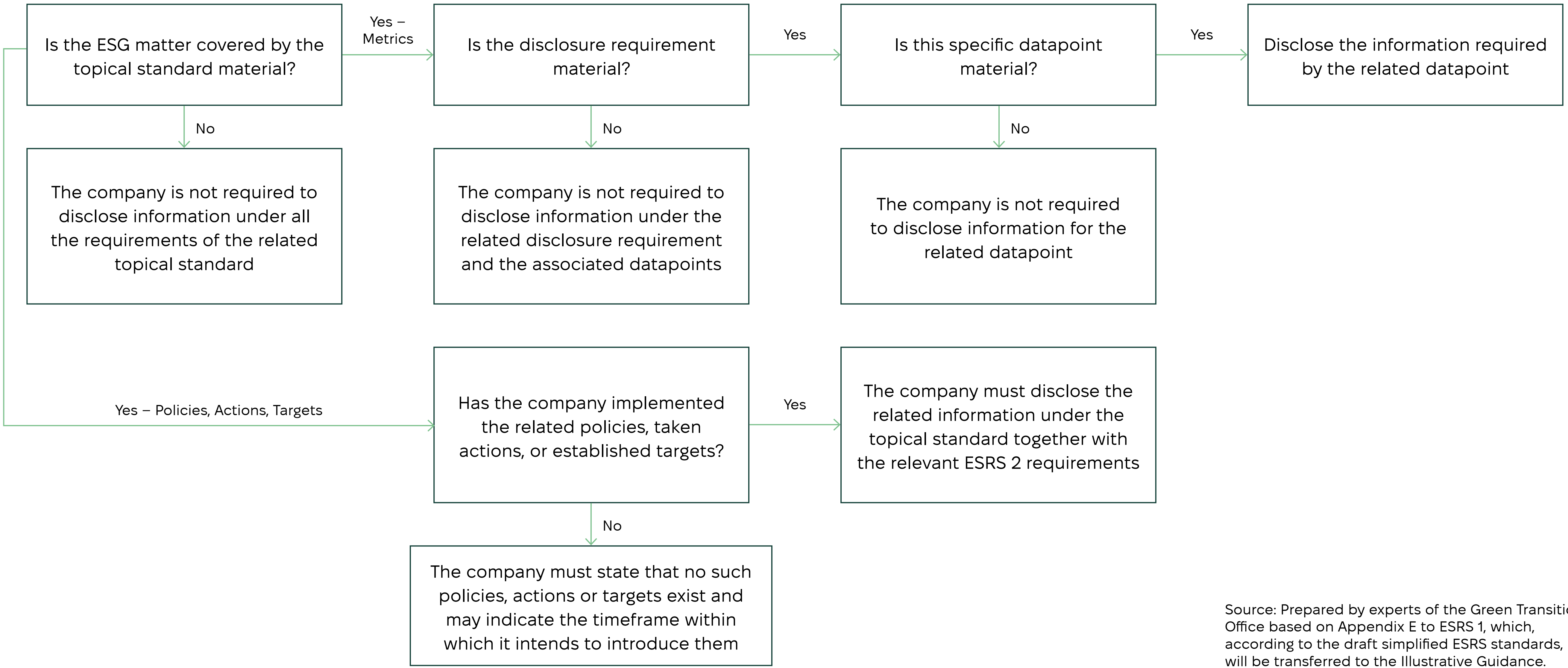
For material topics, it is also necessary to determine which policies, actions, metrics and targets are subject to disclosure. Where these do not exist for a material topic, the company must explain this in the report.

The company should also assess whether the ESRS requirements adequately cover its material IROs. Where a material topic, sub-topic or IRO is not covered by the ESRS, or is not covered in sufficient detail, the company should develop entity-specific disclosures. Such disclosures should provide the material information necessary to understand the relevant IROs.

The outcome of this stage is a working disclosure table linking the DMA results to the report structure and the required disclosure metrics. It is advisable to include material topics and sub-topics, IROs, the list of ESRS datapoints to be disclosed, the functions responsible for data collection, and, where appropriate, the rationale for individual disclosure requirements that are omitted because they are not material.

Stage 6. Finalisation, Refinement and Validation of Results (3/3)

Logic for Determining Information to Be Disclosed Based on the DMA Results



Source: Prepared by experts of the Green Transition Office based on Appendix E to ESRS 1, which, according to the draft simplified ESRS standards, will be transferred to the Illustrative Guidance.

Stage 7. DMA Reporting

At one of the final stages, the company reports the results of the DMA. The company should disclose the assessment methodology, the list of material impacts, risks and opportunities, and explain how these results relate to its strategy, business model and risk management framework.

Assessment methodology and criteria

Under ESRS 2 IRO-1, the company is required to disclose the process used to identify and assess material impacts, risks and opportunities. In particular, it is advisable to describe the key stages of the DMA, the scope of own operations and the value chain, the methodology applied, the input data, the assumptions used, as well as the assessment scales and thresholds. Information on consultations with stakeholders and external experts should also be disclosed.

List of material impacts, risks and opportunities

Under ESRS 2 IRO-2, the company is required to provide a concise description of its material impacts, risks and opportunities. For each material IRO, the company should specify the relevant topic or sub-topic, where it arises within its own operations or the value chain, and explain how the impacts relate to people or the environment, and how the risks and opportunities relate to the company's financial position. The disclosure also requires the company to provide a list of the disclosures it reports, indicating where the relevant information is located within the report.

Where, as a result of the DMA, the company concludes that climate change is not material and therefore does not provide the disclosures required by ESRS E1 Climate Change, the ESRS require the company to explain the basis for that conclusion. The company should describe the assessment approach, the data used, and the reasons why climate-related impacts, risks and opportunities do not meet the established materiality thresholds.

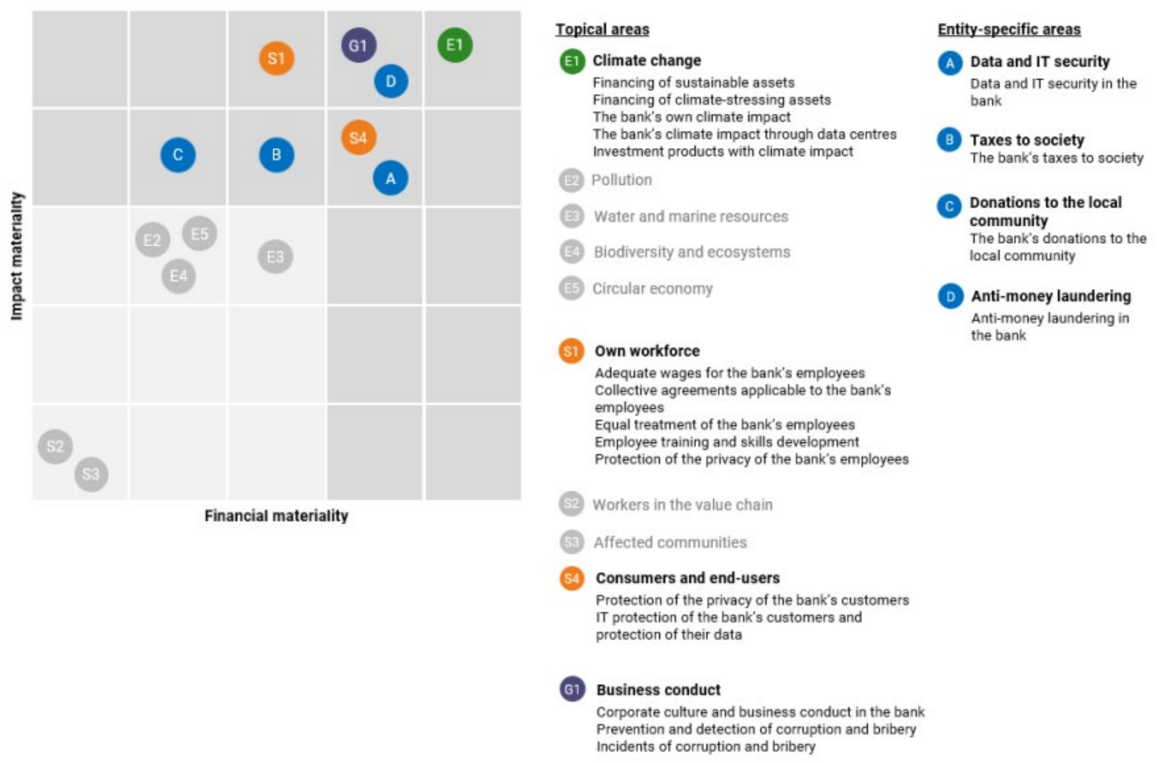
Relationship between material IROs, the strategy, the business model and risk management

Under ESRS 2 SBM-3, the company is also required to explain how material impacts arise in connection with its activities, strategy and business model, how material risks and opportunities affect its business model and value chain, and how the company is already responding, or plans to respond, to them through its strategy and decision-making processes. The disclosure also covers the current and expected financial effects of material risks and opportunities, where such information is available and relevant.

Example: Material Topics Matrix and List of Material Impacts, Risks and Opportunities (IROs)

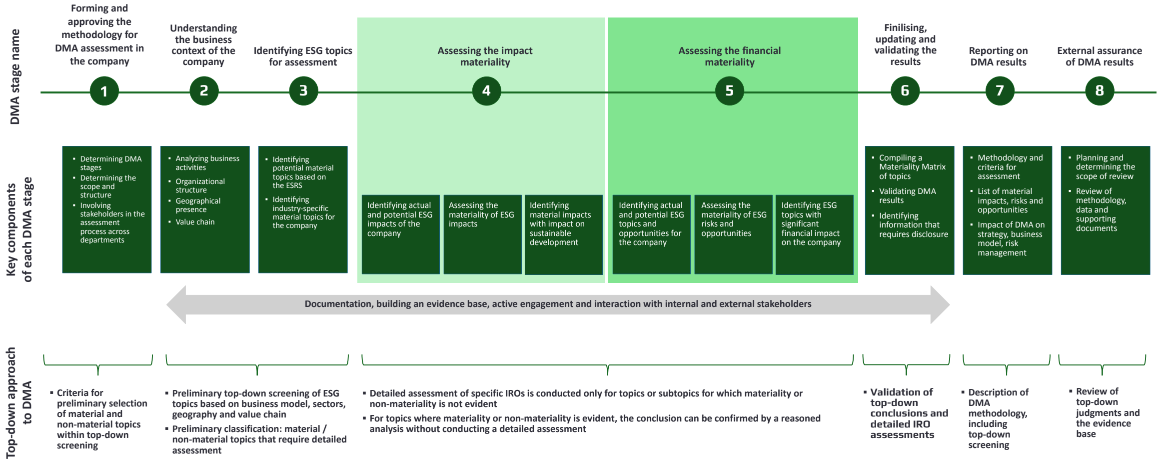
In the **Ringkjøbing Landbobank** Annual Report 2024, the DMA results are presented in the form of a material topics matrix and a detailed list of material impacts, risks and opportunities. The matrix illustrates the positioning of topics across two dimensions, while the list of IROs provides information on the topics, sub-topics, descriptions, location within the value chain, the type of impact, risk or opportunity, and additional information.

Material impacts, risks and opportunities in the area of sustainability in Ringkjøbing Landbobank



The bank's material impacts, risks and opportunities - climate change (ESRS E1)

Subtopic	Description	Value chain	Type	Additional information
Climate change mitigation and energy	**Financing of sustainable assets** Loans for sustainable assets and activities can help reduce CO_2e emissions, e.g. renewable energy and energy efficiency in production and buildings.	Downstream	**Positive actual impact** in the short, medium and long term **Opportunity** for the bank	The bank has set targets for CO_2e reduction in the loan portfolio and views financing of sustainable assets as an important business area with considerable earnings potential.
Climate change mitigation and energy	**Financing of climate-stressing assets** Loans for assets and activities may generate considerable CO_2e emission but sourcing of energy and food is essential to people's conditions of life.	Downstream	**Negative actual impact** in the short, medium and long term **Transition risk** for the bank	The bank has set CO_2e reduction targets and wants to help its customers in the transition to sustainable production, including in farming. Certain sectors are excluded from the loan portfolio.



Source: Ringkjøbing Landbobank Annual Report 2024

Stage 8. External Assurance of the DMA Results (1/3)

Under the CSRD, sustainability reporting is subject to mandatory external limited assurance. Limited assurance means that an independent assurance provider performs specified procedures and expresses a conclusion as to whether any information has come to their attention indicating that the sustainability reporting contains material misstatements or has not been prepared in accordance with the applicable reporting criteria. This approach also applies to the description of the DMA methodology and its results.

The Omnibus I package of amendments and simplifications removed the planned transition to mandatory reasonable assurance for ESRS reporting; therefore, limited assurance remains the primary level of assurance. The European Commission is required to adopt a separate EU standard for limited assurance by 1 July 2027. Until that standard is adopted, assurance providers apply national requirements and/or international assurance standards. In practice, one of the most widely used international standards for the assurance of sustainability information is ISAE 3000 (Revised). It is also advisable to take into account ISSA 5000, the new IAASB international standard for the assurance of sustainability information, which becomes effective for periods beginning on or after 15 December 2026 and may be applied by assurance providers depending on regulatory or professional requirements.

Scope of External Assurance of the DMA

The external assurance provider reviews not only the final list of material topics or IROs, but also the rationale and process by which the company arrived at those conclusions. In particular, the assurance engagement focuses on:

- Assurance of the DMA Process. The assurance provider verifies whether the company has consistently completed the key stages of the assessment: identified the operating context, prepared the list of topics and IROs, assessed the materiality of the IROs, considered its own operations and value chain, applied the defined criteria, scales and thresholds, and validated the results. Particular attention is paid to whether the company's key judgements are supported by appropriate evidence.
- Assurance of DMA Disclosures. The assurance provider verifies whether the description of the DMA in the report accurately reflects the DMA process that was actually carried out and complies with the ESRS requirements. In particular, this includes verifying whether the report correctly describes the methodology, assessment boundaries, information sources, assumptions, criteria, scales, materiality thresholds, stakeholder engagement approach, the process for validating the results, and the relationship between material IROs and the disclosures included in the report.

Preparing for External Assurance

Preparation for external assurance should take place during the DMA process rather than after the report has been finalised. From the outset, the company should establish an evidence base by retaining working files, meeting minutes, data sources, assessment rationales, versions of the DMA results, and decisions taken during the validation process.

Above all, the company should have a documented DMA methodology. It is also important to ensure a clear audit trail across all stages of the DMA: from the analysis of the company's operating context through to the final list of material IROs and the disclosures included in the report. The external assurer should be able to understand how the company moved from a broad universe of topics to the final list of material topics and IROs.

The external assurance provider also assesses whether the report adequately explains the relationship between material IROs and the company's strategy, business model and risk management processes, and whether it describes the role of the administrative, management and supervisory bodies in overseeing the DMA process.

> The key practical principle when preparing for assurance is that every material statement in the report concerning the DMA process should be supported by working documentation: the methodology, assessment tables, records of discussions, data sources, evidence of stakeholder engagement, and explanations of the key professional judgements made.

Stage 8. External Assurance of the DMA Results (2/3)

Selection of an External Assurance Provider

The selection of an external assurance provider should be made at an early stage of the reporting preparation process. This gives the company more time to prepare the supporting evidence and identify the individuals responsible for the process. Before entering into an engagement, it is advisable to discuss with the external assurance provider the expected scope of the DMA assurance engagement and, where possible, agree on the anticipated list of documents, the timetable for submitting materials, and the list of company departments to be interviewed. This approach helps the company prepare more effectively for the assurance engagement and reduces the risk of significant revisions at the final stage.

The key selection criteria should include the provider's independence, experience with the ESRS or other sustainability reporting standards, knowledge of the company's sector, the availability of appropriately qualified specialists, and geographical coverage.

It is also advisable to ask the assurance provider which assurance standard will be applied, for example ISAE 3000 (Revised), ISAE 3410 for specific greenhouse gas emissions metrics, ISSA 5000, or another relevant standard.

Supporting Evidence for Assurance

To prepare for the assurance engagement, the company should compile a package of documents demonstrating both the DMA process and its results, including:

- the DMA methodology;
- a description of the business model, strategy, geographical footprint and value chain;
- evidence supporting the information sources used: internal documents, risk registers;
- incident and complaints data, audit findings, industry benchmarks, and external studies;
- materials relating to stakeholder engagement, including the list of stakeholders, their prioritisation, consultation materials, survey results or meeting records, and alternative sources of information;
- the initial list of topics, sub-topics and IROs that were assessed;
- the scoring file containing the assessment of each IRO together with the rationale for the assigned scores;
- the mapping of IROs to topics, sub-topics, own operations and the value chain;
- minutes of meetings relating to the validation of the results and their approval by management;
- the final materiality matrix or the final list of material topics and IROs;
- the mapping of material topics, sub-topics and IROs to the ESRS requirements and datapoints;
- the draft disclosures describing the DMA process and its results in the report.

Particular attention should be paid to documenting the rationale for professional judgements. Each conclusion should be supported by an explanation of why the assessment is considered justified.

Common Mistakes That Complicate DMA Assurance

When preparing for external assurance, companies should pay particular attention to the following common shortcomings:

- the absence of a documented DMA methodology,
- an unclear assessment boundary,
- materiality scales and thresholds described only in general terms or applied inconsistently,
- IRO assessments that lack sufficient justification,
- financial materiality that is not aligned with the company's risk management approach,
- changes to the DMA results made without adequate explanation in the supporting documentation,
- stakeholder engagement described more extensively in the report than can be substantiated by the available evidence,
- disclosures in the report that do not correspond to the DMA process actually carried out.

Companies should therefore document not only the final DMA results, but also interim versions, comments, changes made following validation, explanations, and evidence supporting the assessments.

Stage 8. External Assurance of the DMA Results (3/3)

Typical Procedures Performed by an External Assurance Provider

The assurance process is based on the collection of evidence by an independent assurance provider in order to verify the reliability of both the DMA process and its results.

As part of a limited assurance engagement, the external assurance provider typically uses a combination of enquiries, interviews, document reviews and selective testing of evidence. The provider may conduct interviews with representatives of the sustainability department, finance, legal, environmental, procurement, HR, risk management, occupational health and safety functions, and other functions responsible for the DMA results.

Where appropriate, the external assurance provider may coordinate its work with the financial statement auditor, particularly regarding the consistency of the assessment of risks and opportunities with the financial information and the disclosure of expected financial effects in the report.

The BAM Group N.V. Annual Report 2025 includes a limited assurance conclusion on the sustainability reporting issued by the external assurance provider EY. The assurance engagement covered whether the sustainability reporting complied with the ESRS requirements, including the DMA process used by the company to determine the information to be disclosed. The assurance conclusion also states that the engagement was conducted in accordance with Dutch Standard 3810N, which is based on ISAE 3000 (Revised).

Limited assurance report of the independent auditor on the sustainability statement

To: the shareholders and the supervisory board of Koninklijke BAM Groep N.V.

Our conclusion

We have performed a limited assurance engagement on the consolidated sustainability statement for 2025 of Koninklijke BAM Groep N.V. based in Bunnik, the Netherlands (hereinafter: the company or Royal BAM Group N.V.) in chapter 6 Sustainability statement of the accompanying management report including the information incorporated in the sustainability statement by reference (hereinafter: the sustainability statement).

Based on our procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the sustainability statement is not, in all material respects:

- prepared in accordance with the European Sustainability Reporting Standards (ESRS) as adopted by the European Commission and compliant with the double materiality assessment process carried out by the company to identify the information reported pursuant to the ESRS; and
- compliant with the reporting requirements provided for in Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation).

Our conclusion has been formed on the basis of the matters outlined in this limited assurance report.

Basis for our conclusion

We have performed our limited assurance engagement on the sustainability statement in accordance with Dutch law, including Dutch Standard 3810N, "Assurance-opdrachten inzake duurzaamheidsverslaggeving" (Assurance engagements relating to sustainability reporting), which is a specified Dutch standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 (Revised), "Assurance engagements other than audits or reviews of historical financial information".

Our limited assurance engagement included amongst others:

- Performing inquiries and an analysis of the external environment and obtaining an understanding of relevant sustainability themes and issues, the characteristics of the company, its activities and the value chain and its key intangible resources in order to assess the double materiality assessment process carried out by the company as the basis for the sustainability statement and disclosure of all material sustainability-related impacts, risks and opportunities in accordance with the ESRS
- Obtaining through inquiries a general understanding of the internal control environment, the company's processes for gathering and reporting entity-related and value chain information, the information systems and the company's risk assessment process relevant to the preparation of the sustainability statement and for identifying the company's activities, determining eligible and aligned economic activities and prepare the disclosures provided for in Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation), without obtaining assurance information about the implementation or testing the operating effectiveness of controls
- Assessing the double materiality assessment process carried out by the company and identifying and assessing areas of the sustainability statement, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation), where misleading or unbalanced information or material misstatements, whether due to fraud or error, are likely to arise ('selected disclosures'). Designing and performing further assurance procedures aimed at assessing that the sustainability statement is free from material misstatements responsive to this risk analysis.
- Considering whether the description of the double materiality assessment process in the sustainability statement made by the executive board appears consistent with the process carried out by the company.
- Determining the nature and extent of the procedures to be performed for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive.
- Performing analytical review procedures on quantitative information in the sustainability statement, including consideration of data and trends
- Assessing whether the company's methods for developing estimates are appropriate and have been consistently applied for selected disclosures. We considered data and trends, however our procedures did not include testing the data on which the estimates are based or separately developing our own estimates against which to evaluate the executive board 's estimates
- Analyzing, on a limited sample basis, relevant internal and external documentation available to the company (including publicly available information or information from actors throughout its value chain) for selected disclosures

The excerpt above is taken from the limited assurance conclusion included in the BAM Group N.V. Annual Report 2025

Source: Royal BAM Group N.V. Annual Report 2025

– elements of the assurance conclusion relating to the assurance of the DMA process

Materiality in Practice

- Materiality: What the Methodology Changes
- Two Transition Patterns: The Financial Materiality Perspective and Breakdown of Topics
- The Evolution of Materiality Assessment Frameworks and Their Impact on the List of Topics
- Patterns Across Five Case Studies and Key Takeaways for Ukraine
- The Experience of Ukrainian Companies: What Practice Shows
- What Kind of Team Is Needed for DMA
- How to Use DMA to Support Management Decision-Making

Materiality: What Does the Methodology Change?

Research Question and Methodology

One of the questions we set out to explore as part of this analytical study was: “Does the list of material topics change depending on the materiality assessment methodology used?” Do GRI, ESRS, TCFD and company-specific frameworks systematically define different assessment boundaries, or are the differences only situational? Recognising that the answers to these questions have direct practical significance for companies preparing to undertake a DMA, we sought to answer them in the following analysis.

We selected five companies: Siemens AG, Shell, Unilever, Deutsche Bank and Volkswagen, and reviewed their reports from 2022 to the present in order to capture the period during which most large European companies transitioned from one methodology to another following the entry into force of the CSRD. This enabled us to examine three or more reporting frameworks for each company, analyse the evolution of their practical approaches to materiality assessment, and evaluate the extent to which both the number of material topics and the composition of those topics changed.

In addition to comparing reporting across three to four reporting years and tracking changes in the list of material topics and the structured IROs within individual sub-topics following the adoption of a different reporting standard, we also sought to take account of the specific operational realities of each industry.

Why Is This Question Important?

The choice of a materiality assessment methodology is not merely a technical matter; it is a strategic decision with implications for access to capital, stakeholder relationships and regulatory compliance. Accordingly, our objective was to test the hypothesis that the chosen methodology has a direct influence on which topics are considered material and therefore become subject to disclosure and assurance.

Company	Baseline Frameworks		Target Frameworks
Siemens AG 2022–2025	GRI	→	ESRS
Shell 2023–2024	GRI, Ipieca	→	ESRS
Unilever 2023–2024	TCFD, GRI	→	ESRS
Deutsche Bank 2023–2024	GRI, SASB, TCFD	→	ESRS
Volkswagen 2023–2025	GRI, SASB	→	ESRS

Frameworks: GRI TCFD SASB Ipieca ESRS

Ipieca - Oil and gas industry standard

Two Transition Patterns: The Financial Materiality Perspective and Breakdown of Topics

Observation No. 1 – Incorporating Financial Materiality (Outside-in)

As noted earlier, between 2022 and 2025 European companies systematically integrated the requirements introduced by the CSRD into their materiality assessment processes. In most cases, this transformation involved a shift in focus from the previously applied GRI and other reporting frameworks towards the ESRS. The first notable observation from the perspective of materiality assessment is that, following the transition to the ESRS, the following topics appeared among the material topics identified by most companies: climate adaptation (considered separately from climate change mitigation), biodiversity and ecosystem services as financial risks, and positive impacts as a distinct IRO category. The GRI Standards did not systematically identify these topics, while the TCFD framework only partially addressed climate-related outside-in risks. However, neither framework systematically brought natural capital and biodiversity to the forefront as financial risks, except in sectors with a direct environmental footprint.

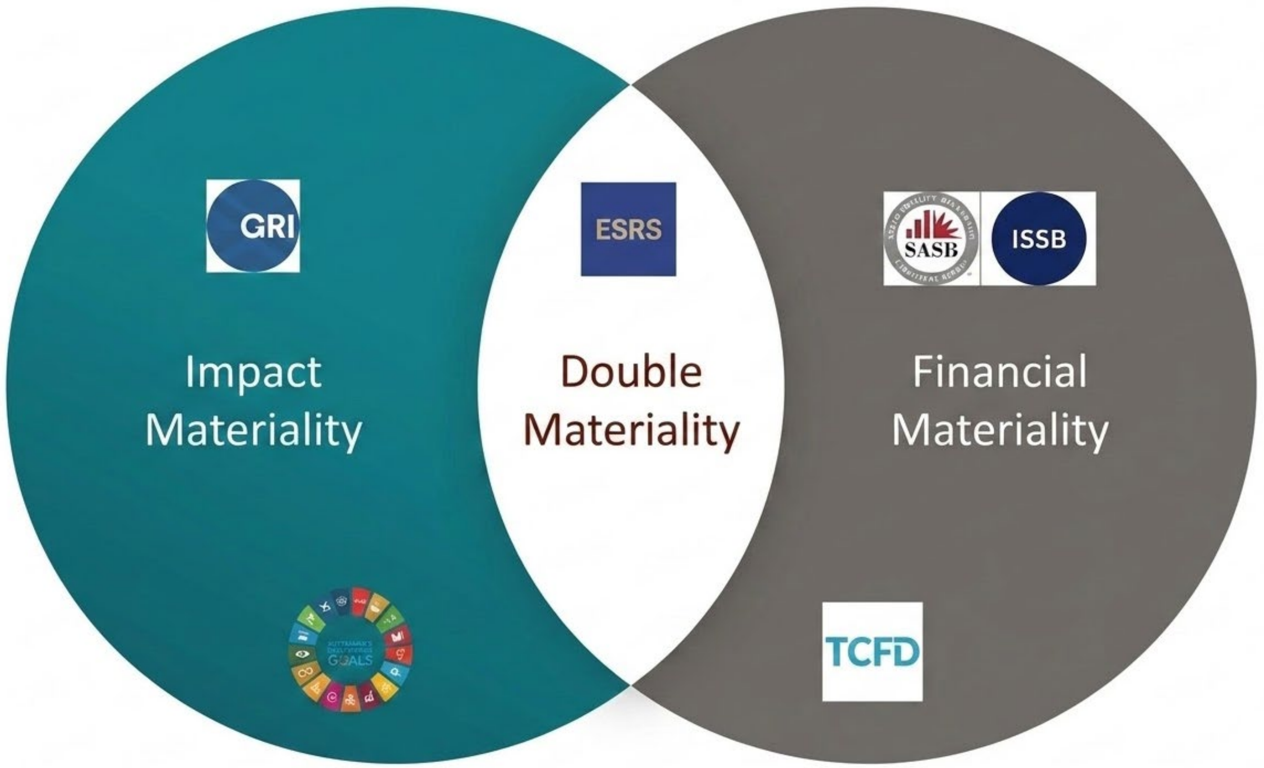
Why GRI and TCFD Did Not Capture Outside-in Risks

This is because the primary focus of the GRI Standards is the inside-out perspective, namely the company's impacts on society and the environment, whereas the TCFD framework focuses on climate-related financial risks. Neither framework requires a systematic assessment of how a company's dependence on natural resources affects the value of its assets and its financial performance.

Observation No. 2 – Breakdown of Topics

The second observation that attracted our attention was that most GRI topics remained material following the transition to the ESRS, but were subsequently broken down into structured IROs within individual topics and sub-topics. For example, "climate change" was divided into mitigation, adaptation and physical risks, each supported by its own evidence requirements and metrics.

The emergence of these two transition patterns – namely the expansion of the range of topics and the increased granularity of their assessment – when moving from any previous reporting framework to the ESRS suggests that the DMA represents the most comprehensive methodology currently available for materiality assessment.



The Evolution of Materiality Assessment Frameworks and Their Impact on the List of Topics

Framework	Type of Materiality	Key Standard	Scope	What It Does Not Capture → Impact of the Transition to ESRS
IMPACT MATERIALITY				
GRI Current	**Impact**	GRI Universal Standards 2021	The company's impacts on stakeholders and society as a whole	Outside-in financial risks; natural capital as a dependency risk; adaptation as a separate topic → the greatest degree of change when transitioning to the ESRS
FINANCIAL MATERIALITY – EVOLUTION TOWARDS ISSB*				
TCFD → - ISSB	**Climate-related Financial**	TCFD Recommendations (2017)	Climate-related risks and opportunities (physical and transition risks)	Non-climate-related nature-related risks; biodiversity; inside-out impacts → partial overlap with the ESRS in the climate pillar, resulting in a smaller shift during the transition ↓ Structurally incorporated into IFRS S2 in 2023
SASB → - ISSB	**Industry-specific Financial**	77 Industry-specific Standards	Industry-specific risks relevant to investors	Inside-out impacts; adaptation; ecosystem services → industry-specific overlap reduces the scale of change in specific sectors ↓ Transferred to the IFRS Foundation in 2022; serves as a source of metrics for IFRS S1
ISSB Current	**Financial**	IFRS S1, IFRS S2	Risks and opportunities relevant to investors (incorporating the legacy of TCFD and SASB)	Inside-out impacts; natural capital where no financial risk has been demonstrated → transitioning to the ESRS adds the full impact dimension
DOUBLE MATERIALITY				
ESRS Current	**Double Materiality**	ESRS 1 (CSRD)	Company impacts together with financial risks and opportunities – both dimensions are mandatory	– the broadest scope; the only framework requiring mandatory external assurance of the list of material topics

* The arrows indicate organisational integration rather than substantive replacement. Companies that had already used TCFD or SASB retained their existing analytical foundations, which reduced the scale of change during the transition but did not eliminate the gap relating to nature-related risks and the inside-out dimension.

Patterns Across Five Case Studies and Key Takeaways for Ukraine

Factors Determining the Scale of the Transition to DMA

The framework used before the transition is the first factor influencing the scale of change. Companies with prior TCFD experience (Deutsche Bank and Unilever) started closer to the ESRS outcome because the climate dimension had already been incorporated into their previous methodology. Companies whose original framework did not include this dimension (Siemens and Volkswagen) experienced the largest gap. In the case of Volkswagen, this involved an increase from 6 to 28 sub-topics. Overall, the scale of change is inversely proportional to the extent to which the original framework covered the outside-in dimension.

The sector in which a company operates also determines the scale of the transition. Shell used Ipieca, the oil and gas industry's sector-specific standard, which had already formalised part of the nature-related topics. This partially compensated for the methodological gap. As a result, the transition to the ESRS expanded the scope of assessment but did not require a complete revision of the original list of material topics.

In the case of Deutsche Bank, the scale of change proved to be minimal for a different reason. As noted above, the TCFD framework already covered climate-related portfolio risk, meaning that the ESRS mainly added nature-related risks.

The IRO Structure – a Prerequisite for Assurance

A clear link between topics and specific IROs is an essential prerequisite for external assurance: without a clear linkage to a specific IRO, no external assurance provider will be able to assure a DMA conducted under the ESRS.

The ESRS framework under the CSRD is the only framework in this comparison that is subject to mandatory external assurance.

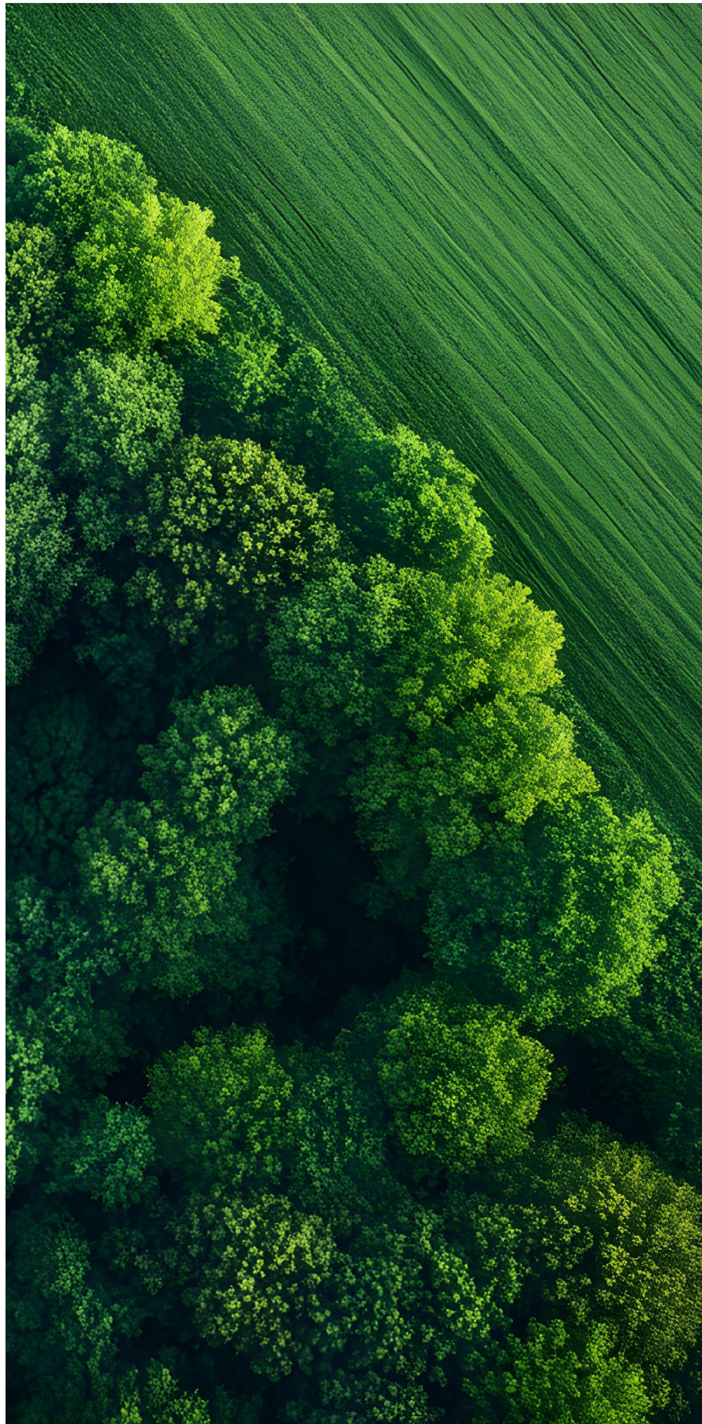
Context and Next Steps for Ukraine

If a Ukrainian company participates in the supply chains of EU organisations, it is already highly likely to receive ESG information requests, regardless of the timeline for the implementation of the CSRD in Ukraine. The Sustainability Reporting Implementation Strategy, approved by the Cabinet of Ministers of Ukraine in 2024, sets the direction for the gradual implementation of the ESRS, thereby defining the country's regulatory trajectory.

Preparing to carry out a DMA is an investment in competitiveness. Companies that have already adopted a double materiality assessment methodology incorporating the IRO structure will be able to complete the subsequent transition with lower implementation costs.

For companies targeting both EU markets and the Asia-Pacific region, balancing the ESRS (double materiality) and IFRS S1/S2 (financial materiality) is becoming a genuine management challenge.

Methodology is not a technical detail; it is a strategic decision.



The Experience of Ukrainian Companies: What Practice Shows

Selection and Context

In April 2026, the Green Transition Office conducted a survey of four Ukrainian companies from the financial, agricultural and industrial sectors that had already completed the DMA process. The purpose of the survey was to gather their practical experience, identify the key challenges, and summarise recommendations for businesses that are only beginning to prepare for a double materiality assessment.

The sample is not representative of the market as a whole; however, it provides an opportunity to identify the first practical observations regarding the implementation of DMA in Ukraine. Its value lies in the fact that these are among the first documented examples of full double materiality assessments conducted in Ukraine in accordance with the ESRS.

Source: Green Transition Office, DiXi Group Survey, 2026.

Duration and Key Challenges

Across the four companies, the process took between 3 and 12 months. This variation may be explained by differences in business models, data availability, team experience, and the resources available to conduct the DMA.

All four companies encountered a common challenge: substantiating the assessment of IROs (impacts, risks and opportunities), which proved to be the most resource-intensive stage of the process.

Three out of the four companies also reported difficulties in integrating the DMA into their internal processes, including strategic planning, risk management and management decision-making. This confirms that the DMA is not a one-off analytical exercise but an integral element of the management system.

Approaches and Tools

Three companies engaged external consultants, either fully or partially. One company carried out the DMA entirely in-house, relying on EFRAG methodological templates as its primary working tools.

All four companies used a materiality matrix.

One company had already successfully completed external assurance of its DMA. For the remaining companies, only internal validation of the DMA results had been completed as of the date of the survey.

Assessment and Practical Recommendations

The overall self-assessment of the success of the process was between 7 and 8 out of 10.

Practical recommendations from the participants for those just starting the process:

- thoroughly study the requirements of the standard before launching the process;
- provide training for the team and establish a dedicated working group;
- systematically document data sources at every stage of the DMA;
- engage senior management;
- provide a clear justification for the evidence supporting the IRO assessments, as this will form the basis for future assurance.

What Kind of Team Is Needed for DMA

DMA cannot be carried out solely by the ESG team. It is a cross-functional process involving finance, risk management, legal, compliance, HR, procurement, operational functions, occupational health and safety, environmental specialists, and senior management.

- The DMA is typically coordinated by the ESG/Sustainability function, while risks and opportunities are identified jointly with finance, strategy, risk management, compliance, procurement, HR, HSE and other functions.
- The first DMA in a large company may take between 6 and 18 months, while subsequent cycles typically take 2 to 4 months, provided that the methodology and evidence base have been retained.
- The most resource-intensive stages are substantiating IRO assessments and engaging with stakeholders.

The ESG Team Coordinates the Process and Methodology

The ESG or Sustainability function usually acts as the coordinator of the DMA. Its role is to organise the process, prepare the methodology, define the stages, collect input data, agree on scales and thresholds, ensure proper documentation, and prepare the results for validation.

However, the ESG team cannot independently assess all impacts, risks and opportunities. Its role is to provide the methodological framework, while the substantive assessment requires the involvement of people who understand the company's operations, finances, workforce, suppliers, customers, production processes, regulatory requirements and actual business risks.

Specialist Functions Provide the Substance and Evidence

The quality of the DMA largely depends on whether the right internal experts are involved. Finance helps assess financial effects; risk management links ESG risks to the corporate risk register; the legal and compliance functions assess regulatory, contractual and legal implications; HR addresses workforce-related matters; procurement covers the supply chain; HSE and environmental functions assess occupational safety, emissions, water, waste and environmental impacts.

The list of ESG risks and opportunities should be developed in cooperation with the functions responsible for finance, risk management and operational activities.

Senior Management Provides Validation and Accountability

Senior management should be involved not only at the end, once the results have already been prepared. Its role is to approve the approach, determine the level of ambition, agree on the materiality thresholds, validate key judgements, and ensure that the DMA results are integrated into the company's strategy, risk management, budgeting and reporting.

Without management validation, the DMA risks becoming merely a technical exercise. Ultimately, it is senior management's responsibility to confirm that the final list of material topics accurately reflects the company's actual business model, value chain, strategic priorities, and the risks and opportunities that may affect its resilience.

How to Use DMA to Support Management Decision-Making

DMA should result not only in a materiality matrix but also in concrete management decisions: which risks to manage, where to direct investments, which policies to update, which data to collect, which targets to set, and which topics to review on a regular basis.

- The materiality matrix is not a mandatory ESRS requirement, but it is widely used as a tool for summarising and visualising the conclusions of the DMA.
- The list of material IROs identified through the DMA should be disclosed in the report.
- Non-material topics should also be monitored, as they may become material due to changes in regulation or in the company's operating context.

From the Materiality Matrix to Business Priorities

The materiality matrix is not the final output of the DMA but a means of summarising its conclusions. The primary value of the DMA lies in helping the company establish priorities: which topics require active management, which should be incorporated into action plans, which require additional data, and which can remain under ongoing monitoring.

Topics may be material from an impact materiality perspective, a financial materiality perspective, or both. It is this latter group that is often of strategic importance: it is significant for people, the environment or stakeholders, and for the company's financial resilience.

From IROs to Policies, Actions, Targets and Metrics

Once an impact, risk or opportunity has been identified as material, the company must decide how to respond. For some topics, strengthening data collection or monitoring may be sufficient. Others require policies, action programmes, targets, designated responsible functions, budget allocations or changes to operational processes.

For example, a material climate-related risk may require scenario analysis, investment in energy efficiency, or the development of an adaptation plan. A material human rights issue within the supply chain may require updates to procurement procedures, supplier due diligence, and mechanisms for responding to breaches. In other words, the DMA should translate reporting conclusions into management actions.

From a One-off Assessment to Regular Review

The DMA should not be treated as a one-off exercise. Its results should be reviewed whenever there are changes to the business model, markets, geographical footprint, regulatory environment, supply chain, asset structure or stakeholder expectations. Where no significant changes have occurred, companies are not required to conduct a completely new DMA every year, but they should be able to justify why the previous conclusions remain valid.

The DMA should be embedded within the annual management cycle: risk reviews, budgeting, strategy updates, reporting, internal control, and preparation for external assurance. This approach makes the DMA not merely an exercise undertaken for reporting purposes, but a continuous tool for managing the company's resilience.

Conclusions

Conclusions

DMA Changes the Logic of Reporting

A double materiality assessment fundamentally changes the approach to sustainability reporting. It shifts the focus from a formal list of ESG topics to a well-substantiated assessment of specific impacts, risks and opportunities. Companies are expected not merely to state that a particular topic is important, but to explain why it is material, what evidence supports that conclusion, which stakeholders have been taken into account, and how the outcome is linked to the business model, strategy and financial implications.

DMA also demonstrates that materiality is not universal across all companies. It depends on the sector, geographical footprint, value chain, business model, asset structure, stakeholders, regulatory environment and the company's future plans. For this reason, a robust DMA should be grounded in the company's specific facts and circumstances rather than replicate the approaches adopted by other companies.

The key conclusion is that DMA is not an appendix to the report but the foundation for determining its content.

ESG and Financial Reporting Are Becoming Interconnected

Modern sustainability reporting is becoming increasingly interconnected with financial reporting. ESG issues may affect revenue, costs, assets, capital expenditure, cash flows, insurance, provisions, access to finance and the cost of capital. For this reason, financial materiality cannot be assessed in isolation from the finance function, risk management, strategy and management reporting.

DMA enables companies to identify where sustainability issues are already having financial consequences and where they remain primarily matters of impact or longer-term risk. This is essential for decision-making: determining which topics require investment, which risks should be incorporated into control systems, which data should be collected, which policies should be updated, and which targets should be established.

Sustainability reporting and financial reporting do not necessarily have to be combined into a single report. However, they should be aligned, logically connected and understandable to users.

A Robust DMA Must Be Evidence-Based

One of the key practical conclusions is that a DMA should be capable of withstanding external scrutiny. To achieve this, a company needs not only a final materiality matrix but also a comprehensive body of supporting evidence: the methodology, scales, thresholds, data sources, rationale for assessments, records of stakeholder engagement, the list of IROs, internal approvals, and explanations of changes compared with the previous reporting period.

Without such evidence, the DMA may appear to be little more than an expert opinion rather than a structured and verifiable process. This creates risks for external assurance, user confidence and the overall quality of the reporting. It is particularly important for a company to be able to explain not only why a particular topic has been identified as material but also why other topics have been excluded or retained solely for ongoing monitoring.

In practical terms, the DMA should be designed as an internal process for managing data, professional judgement and accountability. This is what makes it valuable not only for reporting purposes but also for the management of the company itself.

What This Means for Ukrainian Businesses

For Ukrainian companies, DMA can become a practical tool for preparing for European requirements, improving access to finance, working with international partners, and strengthening the management of ESG risks. Even before the full implementation of EU requirements, Ukrainian businesses are already facing expectations for more structured, comparable and evidence-based sustainability information.

The starting point should not be preparing a perfect report, but establishing a robust process: assign responsibilities, develop the methodology, describe the business context, understand the value chain, identify impacts, risks and opportunities, assess their materiality, and integrate the results into management decision-making.

The companies that will be best prepared are those that view DMA not as a one-off compliance requirement but as a strategic management tool. Such an approach enables companies to better understand risks, identify opportunities, justify investments, respond to partners' information requests, and progressively build a reporting system aligned with European practice.

Answers to Additional Questions

Q&A: Concepts and Logic of DMA (1)

What Is a Double Materiality Assessment (DMA) and How Does It Differ from a Conventional Materiality Assessment?

A DMA is a materiality assessment conducted across two dimensions: impact materiality (how the company's activities affect people and the environment) and financial materiality (how ESG factors affect the company's financial position). The GRI Standards primarily cover the first dimension, while the ISSB covers only the second. The ESRS require companies to assess materiality across both dimensions.

Why Does the Materiality Approach Matter for the Assessment Results?

The materiality approach determines which aspects of a company's activities fall within the scope of the assessment. For example, the GRI Standards primarily focus on the company's impacts on people and the environment, whereas IFRS S1 and IFRS S2 focus on the financial risks and opportunities facing the company. The ESRS combine both dimensions through a double materiality assessment. As a result, changing the materiality approach may affect both the list of material topics and their level of detail.

What Are IROs and What Role Do They Play in a DMA?

IROs are impacts, risks and opportunities associated with ESG topics and sub-topics. The company identifies specific IROs, assesses their materiality against established criteria, and develops the list of material topics. Without a well-substantiated assessment of IROs, the results of the DMA cannot be validated through external assurance.

How Are the Results of the DMA Linked to What the Company Is Required to Disclose in Its Report?

The materiality of a topic does not automatically require disclosure of every datapoint under the relevant ESRS standard. The company applies an information materiality filter: it determines which specific disclosures are necessary for an understanding of the IROs. If no policies or actions are in place for a material topic, this must be explicitly stated in the report. Non-material topics do not require disclosure, but the conclusion that they are not material must be supported by an appropriate evidence base.

Q&A: Methodology and Stages of the DMA (2)

What should the DMA methodology include, and why is it needed as a separate document?

The methodology sets out the logic underpinning the entire assessment: the scope, stages, scales, materiality thresholds, the approach to stakeholder engagement, and the documentation process. The ESRS require the approach to be described in the report under ESRS 2 IRO-1. Without a written methodology, the external assurance provider will be unable to verify either the DMA process or its outcomes.

What are the stages of conducting a DMA under the ESRS?

1. Developing and approving the methodology. 2. Understanding the operating context. 3. Identifying the list of ESG topics. 4. Assessing impact materiality. 5. Assessing financial materiality. 6. Finalisation, refinement and validation. 7. Reporting the DMA results. 8. External assurance.

What is the difference between the top-down and bottom-up approaches to the DMA?

Top-down – an initial screening of topics based on a general understanding of the business model and operating context, allowing clearly non-material topics to be excluded from the outset. Bottom-up – a detailed assessment of specific IROs for topics where the conclusion on materiality is not self-evident. In practice, both approaches are used in combination.

How should the scope of the DMA be determined – what should be included in the assessment, and what should be left outside its scope?

The scope covers the entity's own operations and its value chain: upstream (suppliers and contractors) and downstream (distributors, customers, and the end use of the product). The ESRS require IROs to be assessed across the entire value chain, but the depth of the assessment should be proportionate to the company's actual level of control. The key principle is that the scope is defined in the methodology and remains the same for both dimensions of materiality.

Q&A: Process of Assessment within the DMA (3)

What criteria are used to assess impact materiality?

For negative impacts, severity is assessed based on scale, scope and irremediability, as well as likelihood (for potential impacts). For positive impacts, irremediability does not apply. For actual impacts, likelihood is either not assessed or is assumed to be at the maximum level. A topic is considered material if it is associated with at least one material impact.

What criteria are used to assess financial materiality?

Financial materiality is determined by considering the likelihood of an ESG-related risk or opportunity occurring and the magnitude of its financial effect – its impact on revenue, costs, assets, cash flows or access to finance. Where the effect cannot readily be quantified, a qualitative assessment is applied.

How should the assessments of individual IROs be aggregated into an overall materiality score?

The ESRS do not prescribe a single formula – each company determines its own approach in the DMA methodology. Common approaches include: the product of severity and likelihood, the arithmetic mean of the sub-criteria, or a weighted assessment using different weighting factors. The key requirement is that the formula must not understate the materiality of impacts, risks and opportunities and must be applied consistently across all IROs.

What is a scoring file, and why is it a key element of preparation for assurance?

A scoring file is a working spreadsheet that records all identified IROs, the scores assigned for each criterion, the rationale for those scores, the data sources, and references to supporting evidence. This document is the primary focus of an external assurance engagement: the assurance provider examines not only the final list of material topics but also the rationale for the assessment of the IROs and the way in which the material topics were identified.

Q&A: Approaches to Materiality in Reporting Standards (4)

Why may GRI- and TCFD-based assessments not identify certain topics that become material under the ESRS?

Different materiality frameworks have different areas of focus. GRI primarily focuses on a company's impacts on people and the environment, whereas TCFD covers climate-related financial risks and opportunities. The ESRS combine both perspectives. As a result, when transitioning to the ESRS, certain topics may become more prominent or be addressed in greater detail, such as climate change adaptation, biodiversity, and dependence on natural resources.

What happens to topics when transitioning from GRI to the ESRS – do they disappear or change?

Most GRI topics are retained, but they are broken down into structured IROs within topics and sub-topics, each with its own evidence requirements and metrics. For example, "climate change" includes climate change mitigation, climate change adaptation, physical climate risks and transition climate risks.

Is it possible to report simultaneously under the ESRS and IFRS S1/S2, and how can the two frameworks be balanced?

Yes, and this is a practical challenge for companies entering the EU and Asia-Pacific markets. The ESRS require the application of the double materiality approach, whereas IFRS S1/S2 require only financial materiality. The practical approach is to conduct a DMA under the ESRS and then derive a subset of financially material IROs for IFRS disclosures.

What is the role of the ISSB and IFRS S1/S2 compared with the ESRS?

The ISSB developed IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures), which came into effect in 2024. Unlike the ESRS, the ISSB standards cover financial materiality only. Structurally, the ISSB has incorporated the TCFD framework and builds on the industry-based metrics developed by SASB. For companies with experience in implementing the TCFD recommendations, the transition to IFRS S1/S2 is considerably more straightforward than the transition to the ESRS.

Q&A: Managing the DMA Process and Stakeholder Engagement (5)

Who are stakeholders in the context of the DMA, and when should they be engaged?

The ESRS distinguish between two groups: those affected by the company's activities (employees, communities and suppliers), and users of sustainability statements (investors, banks and regulators). The first group is the primary source of input for assessing impact materiality, while the second is primarily relevant to assessing financial materiality. Stakeholder engagement is not mandatory at every stage, but the outcomes of that engagement must be documented and taken into account in the assessment of the IROs.

How does the DMA differ from the due diligence process, and how can the two be integrated?

Due diligence (including HRDD under the CSDDD) focuses on identifying and managing adverse impacts through operational processes, whereas the DMA focuses on determining the material topics for reporting purposes. Both processes rely on the same underlying inputs: risk registers, audits, incidents, and stakeholder consultations. Companies with an established due diligence process have an advantage, as a substantial part of the evidence base for assessing adverse impacts is already available.

How much time and resources does a DMA realistically require – both for the initial assessment and for subsequent cycles?

The first DMA in a large company typically takes between 6 and 18 months, depending on the complexity of the business model and the availability of ESG data. Subsequent cycles are significantly shorter: 2–4 months, provided that the methodology has been established and the supporting evidence has been retained. The most resource-intensive stages are substantiating the IRO assessments and engaging with stakeholders.

What is the role of senior management and governance bodies in the DMA process?

The ESRS require companies to explain who, at the level of the administrative, management or supervisory bodies, is responsible for overseeing material IROs. The final list of material topics should be reviewed and validated by senior management and the highest governance bodies. The external assurance provider will assess whether key decisions were taken at the appropriate level of governance.

Q&A: Supporting Evidence and External Assurance (6)

What is external assurance of the DMA, and what exactly does the assurance provider examine?

External limited assurance is a mandatory requirement under the CSRD. The assurance provider examines not only the final list of material topics but also the logic of the process itself: whether all stages have been completed consistently, whether judgements are supported by sufficient evidence, and whether the description in the report accurately reflects the process that was actually carried out. The principal assurance standard is ISAE 3000 (Revised); from December 2026, ISSA 5000 will come into effect.

What constitutes the DMA evidence base – what specifically needs to be retained, and how should it be organised?

The evidence base includes: the written methodology, the scoring file containing the assessments and supporting rationales, records of validation sessions, stakeholder engagement materials, internal documentation (risk registers, audits, incident records), and interim versions of the results together with explanations of any changes made. The DMA process should be organised in such a way that the external assurance provider can trace the logic from the initial list of topics through to the final disclosures in the report.

When and under what circumstances should the DMA results be reviewed?

At each reporting date, the company should assess whether there have been any significant changes to its business model, geographical footprint, or value chain that could affect the conclusions of the previous DMA. Where such changes have occurred, the assessment should be reviewed and updated accordingly. A complete reassessment of the DMA from scratch is not required every year, provided that the previous conclusions remain valid and this can be adequately justified.

What common shortcomings make DMA assurance more difficult?

Common shortcomings include the absence of a written methodology, an unclear assessment scope, inconsistent application of scoring scales and materiality thresholds, IRO assessments without adequate supporting rationale, and situations where the report describes a process that is broader than can be substantiated by the available evidence. All of these issues are typically identified during the assurance engagement and require substantial remediation.

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