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Workshop 5 BAS 2024-2025

Double Materiality – Best practices

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De in deze presentatie opgenomen informatie en ingenomen standpunten zijn voor rekening van de sprekers en geven niet noodzakelijk het standpunt van het IBR weer.

Les informations contenues dans cette présentation et les opinions exprimées au cours de cette présentation sont celles des orateurs et ne reflètent pas nécessairement l'opinion de l'IRE.

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PRESENTERS

Harry Everaerts

EY

Thomas De Cuyper

PwC

Karen Tytgat

Syensqo

Davy Peeters

Toyo Ink

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AGENDA

INTRODUCTION

Double Materiality Assessment

- Financial materiality
- Impact materiality

Tips and Best Practices

- Process tips
- Value chain considerations
- Obtaining stakeholder views
- Scoring
- Linking to the ESRS's

Benchmark to set the tone

Preparers' viewpoint

Auditors' viewpoint

The concept of Double materiality

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According to ESRS 1, section 3.2, performing a materiality assessment is necessary for companies to **identify the material impacts, risks and opportunities** they are to report on.

The actual and potential (financial) **risks** and **opportunities** posed by an ESG topic on the organization

Outside-in perspective

Financial materiality

Examples could be:

- *Extreme weather events impedes access to sites for employees for extended time periods, reducing productivity*
- *Renewable energy markets offer growth potential via diversification of revenue streams by investing in more types of energy carriers, gaining access to green financing, as well as improved energy efficiency, resulting in potential cost savings.*

Inside-out perspective

Impact materiality

The actual and potential impact of the organization on **people** or **the planet**

Examples could be:

- *Carbon (equivalent) emissions from production facilities, exacerbating climate change*
- *Providing training and maintaining health and safety standards at facilities to contractors and employees, resulting in a positive impact on workers' well-being.*

Setting the Tone
Detail by ESRS sub-topic – Overview results recent French Survey

ESRS : ENVIRONMENT

	Sustainability Matters	% Matériel
ESRS E1	Climate change adaptation	93%
	Climate change mitigation	100%
	Energy	85%
ESRS E2	Microplastics	41%
	Pollution of air	56%
	Pollution of water	61%
	Pollution of soil	53%
	Pollution of living organisms and food resources	41%
	Substances of concern	59%
	Substances of very high concern	56%
ESRS E3	Water	68%
	Marine Resources	20%
ESRS E4	Direct impact drivers of biodiversity loss	71%
	Impacts on the state of species	53%
	Impacts on the extent and condition of ecosystem	63%
	Impacts and dependencies on ecosystem services	54%
ESRS E5	Resources inflows including resource use	75%
	Ressources outflows related to products and services	66%
	Waste	78%

- Low materiality: Less than one-third of the companies in the sample considered this SM to be material
- Average materiality: More than one-third and less than 90% of the sample considered this SM to be material
- Strong materiality: More than 90% of the sample considered this SM as material

ESRS : SOCIAL

	Sustainability Matters	% Matériel
ESRS S1	Working conditions	97%
	Equal treatment and opportunities for all	86%
	Other work-related rights	34%
ESRS S2	Working conditions	78%
	Equal treatment and opportunities for all	41%
	Other work-related rights	58%
ESRS S3	Communities' economic, social and cultural rights	56%
	Communities'civil and political rights	42%
	Rights of indigenous peoples	36%
ESRS S4	Information-related impacts for consumers and/or end-users	71%
	Personal safety of consumers and/or end-users	78%
	Social inclusion of consumers and/or end-users	51%

ESRS : GOVERNANCE

	Sustainability Matters	% Matériel
ESRS G1	Corporate culture	73%
	Protection of whistle-blowers	56%
	Animal welfare	20%
	Political engagement and lobbying activities	47%
	Management of relationships with suppliers including payment practices	61%
	Corruption and bribery	97%

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Best Practices

Syensqo viewpoints

Stakeholder engagement

We combined **internal** and **external** stakeholder engagement
➔Through external surveys, dialogues, etc., we are now building further on external evidence from desk research

IRO identification

IRO assessment

Reporting

INTERNAL STAKEHOLDERS

Integrate existing risk management processes into the new DMA process

Close cross-functional collaboration is key

Test scoring criteria & methodologies by using a range of concrete ESG examples, and discuss with internal experts

EXTERNAL STAKEHOLDERS

Consider EU CS3D regulation to simultaneously develop the needed due diligence for the DMA process

Build a collaborative external stakeholder network

Ensure objectivity

If timing and resources allow, perform a readiness assessment with your external auditor to avoid any DMA discussions with significant reporting consequences during the actual audit

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Best Practices

Syensqo viewpoints

Value chain

Leveraged due diligence processes and available value chain information

Performed complementary desktop research, where useful, to enrich with indirect views of stakeholders

- External tools, like ENCORE, Human Rights Toolkit for Financial Institutions, etc.
- Trustworthy publications & information from (European) institutions, governments, business or sector associations, international organizations, civil society, etc.
- Etc.

Structured step-by-step process to assess potential value chain IROs

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Best Practices

Syensqo viewpoints

Timing	As the DMA forms the basis of reporting under the CSRD, start early and focus on (sub-sub-)topics that are not evidently material *(e.g. climate change is a "no brainer" for most companies)*
Project & Change management	Ensure a good understanding of the concept of double materiality, and especially impact materiality, across all contributing functions
Documentation	Document every process step in a DMA report and a DMA database to establish a clear & accessible audit trail and to make DMA reviews more efficient
Validation & Iterations	DMA is characterized as an iterative process, it is normal to discuss certain topics several times and to gain progressive insights as you advance

Ensure the right level of granularity for validation

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Best Practices

Toyo-Ink viewpoints: **Process Insights**

- Structured periodic meetings to keep momentum - balance speed
- Confidential information:
- Had to remind the DMA team about:
  - Scope is not only own site and operations.
    - Subsidiaries, external warehouses
    - Value chain perspective (upstream and downstream).
  - Short- and long-term perspective.
  - Gross IRO - Assess the risk as if no preventive measures or actions were taken. Report on the mitigation measures and the good work of the organization.
  - Not only negative impact. Consider as well positive impact. Duplicate the line and keep both the positive and negative impact.
- Team dynamics, behavioral biases, and organizational forces.

Toyo-Ink viewpoints: **Forces in play during DMA – Team dynamics**
How to Mitigate These Forces?

- Establish the right team
- External experts or facilitators
- Upskilling of the team
- Awareness for the risk of common behavioral biases
- Use Structured Risk Assessment Tools
- Use Data & Case Studies – Providing real-world examples can help ground discussions in reality
- Assign an experienced (neutral) facilitator for the discussions
- Validation

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Best Practices

Toyo-Ink viewpoints: **Scoring of Impacts**

- Define different realistic scenarios and do the scoring for each:
  - Scenario 1: Likelihood 10 * Severity 6 = 60
  - Scenario 2: Likelihood 4 * Severity 8 = 32
  - Not (max likelihood of all scenarios) * (max severity of all scenarios) = 80
- Retain the scenario with the highest score
- Document the different scenarios - Substantiation of the assessment.
- Duplicate the line, narrow the scope and do the scoring for each scope. Possibly, you have another scenario for each scope.

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Best Practices

Toyo-Ink viewpoints: **Example 1/3**

Working conditions - Health and safety for Own workforce & workers in the value chain

Upstream Manufacturing processes performed by employees from companies along the value chain (extraction industry, chemical manufacturing) can face dangerous working conditions, such as high temperatures, heavy machinery, hazardous materials, potentially leading to incidents or illness. Also physical risks can be related to industrial hazards in the industries, generating the risk of injuries, or even death, to the company's personnel during manufacturing operations, that are typically related to slips, trips, and falls; contact with objects with the risk of falling/moving during manual labor. Other injuries can also occur when dealing with machinery, and any activity related to the maintenance of equipments, representing a significant source risk to physical hazard (Environment Clearance)	**Impact** Neglecting employee health and safety can result in higher health care and socio-economic costs. The ILO estimates that on-the-job accidents and illnesses take around 2 million lives and costs the global economy an estimated $1.25 trillion. For blue collars, the manual handling and exposition to hazardous substances represent significant risk for the well-being, psychological and physical health of the workers. The effects on workers and their families cannot be fully calculated; however, the most salient cost to workers is the loss of quality of life, and even premature death.	Upstream	Negative	Actual	Short term
Own operations TIE's workforce can be grouped in two types of conducted work: white collar workers, performing office-related work with limited occupational health and safety risks ("slip and fall" risk); and blue collars, performing industrial work which involves manual tasks, such as the use of machinery and equipment and the handling of hazardous substances. Specific health and safety risks in the ink industry include a.o. manual handling, chemicals and unsafe use of machinery (Robison insurance brokers).		Own operations	Negative	Actual	Short term
Own operations EuPIA has an exclusion list of hazardous substances. As a member of EuPIA, TIE is comitted not to use. Once a raw product is reclassified as a product of high concern, TIE phases it out within 6 months.		Own operations	Positive	Actual	Short term

Toyo-Ink viewpoints: **Example 2/3**

Energy

Upstream TIE's upstream activities require a significant amount of energy for various purposes. Energy is instance required for the production of upstream components (e.g. chemical compounds, machinery etc).	**Impact** GHG emissions from TIE's own operations and value chain contribute to climate change and its consequences, including a higher frequency and intensity of extreme weather events (e.g.; floods, droughts, wildfires, etc), biodiversity loss, etc. (GIEC IPCC AR6). These physical impacts will negatively impact society through disrupting our food production systems, increasing health risks (e.g. heat related, nutrition-related, etc.), etc. Additionally, the increased GHG emissions could lead to some areas becoming uninhabitable in the future, bringing permanent and international displacement on a massive scale. A UN estimate suggests that water stress could displace 700 million people by 2030 (European Parliament).	Upstream	Negative	Actual	Short, mid and long term
Own operations Energy is needed for TIE's main business activities: mixing, grinding and dispersing. Cost spent on energy its a rather limited aspect of TIE business (not energy intensive and does not need to comply with energy policies from a regulatory point of view). However, energy is still flagged as applicable/ relevant topic for TIE, as it is used but the intensity thereof would be taken into account in the assessment phase. TIE plans to procure 100% green energy from 2025 onwards and is investing in renewable energy (solar panels)		Own operations	Negative	Actual	Short, mid and long term
Downstream Energy is required for the drying/curing when applying the ink on its substrate. Some type of inks use more energy to dry than others.		Downstream	Negative	Actual	Short, mid and long term
Downstream TIE develops, manufactures and commercializes Low Energy inks that requires less energy to be cured. In this sense, the Company has a positive impact by lowering the need for energy further downstream.		Downstream	Positive	Actual	Short, mid and long term

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Best Practices

Toyo-Ink viewpoints: **Example 3/3**

Pollution of air – Across Value Chain

Across entire value chain TIE makes use of transportation throughout the entire value chain, mostly through trucks and sea freight (very little air freight).	Most of transport rely on fossil fuels which emit air polluting gasses.	Downstream	Negative	Actual	Short, mid and long term
Across entire value chain TIE makes use of transportation throughout the entire value chain, mostly through trucks and sea freight (very little air freight).	The mostly used inks contain liquids (solvents, water) that need to evaporated during the ink drying process after the ink has been applied on the substrate. The dried ink left on the substrate is a fraction of the volume transported and applied during the printing process. The other fraction is waste and evaporated. TIE focuses on energy-cured inks, which are 100 percent solid inks. Therefore customers can consume lower volume to print versus alternative technologies . Less volume leads to less transport .	Downstream	Positive	Actual	Short, mid and long term

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CSRD | Auditor view on observed practices on ESRS implementation (1/2)

		Observed approaches	Key challenges
1	Double Materiality Assessment	Companies acknowledge the strategic importance of data-driven DMAs over qualitative ones.	Data accessibility affects outcomes; managing large datasets can be challenging.
2	Stakeholders	Companies are not yet fully incorporating the complete input/concerns of all stakeholders.	Optimizing stakeholder engagements.
3	Value chain	The least advanced of the four studied areas; some companies have opted for a simplified value chain mapping.	Value chain representations lack differentiation, masking complexities.
4	Organizational consequences	The CSRD has improved interdepartmental cooperation among reporting entities, fostering shared accountability.	Affected departments require upskilling and governance for effective coordination.

CSRD | Auditor view on observed practices on ESRS implementation (2/2)

- Different outcomes and level of details applied ;
- Different level of engagement with internal and external stakeholders;
- A clear definition of the sustainability matter and the related IRO will support consistency in the scoring;
- Important to perform the scoring at IRO level, not at topic level – clustering is coming later in the DMA process;
- Importance to show interdependencies between impacts and risks/opportunities;
- Not only focus on negative impacts or risks but also consider positive impacts and opportunities – Define a scoring scale for positive impact as well;
- Due diligence processes are a key input for the DMA exercise – Companies need to consider all existing DD processes and upcoming ones;
- Not all companies are preparing a DMA memo, but this is an essential document for auditors;
- Dialogue between businesses, advisory partners and auditors is a key step;
- Not always consistency observed between the output of the DMA (material IROs) and the content of the Sustainability statement;
- All material IROs have to be considered and included in the Sustainability Statement, not only the material IROs in the short-term .

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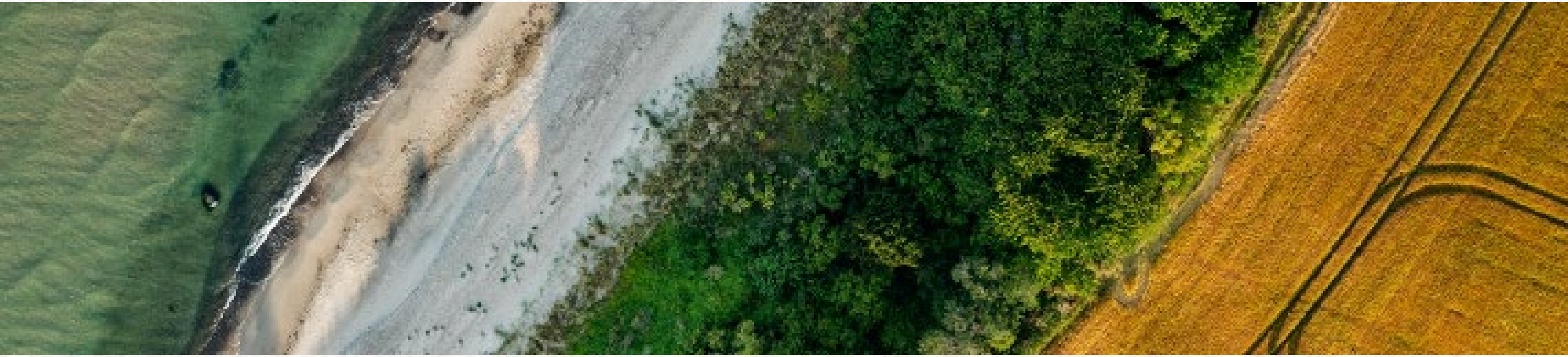

Thank you for your participation