



Materiality for sustainability reporting

How-to guide

IFRS® Sustainability Disclosure Standards



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Contents

Focusing on decision-useful information	1
Your six steps to identifying material information	2
Step 1: Understand the population of impacts and dependencies across the value chain	3
Step 2: Identify potentially relevant risks and opportunities	10
Step 3: Determine relevant risks and opportunities	16
Step 4: Identify potentially material information	27
Step 5: Assess and determine material information	30
Step 6: Organise and report material information	40
Appendix 1: List of 'How to...'	44
Appendix 2: List of insights	45
Appendix 3: List of examples	46
Keeping in touch	47
About this guide	49
Acknowledgements	49

Focusing on decision-useful information

To make the right decisions, investors need the right information at the right time.

In sustainability reporting, as in financial reporting, you need to provide your stakeholders with information about the topics that matter – and you need to ensure that less-relevant information doesn't get in the way. However, you may face challenges.

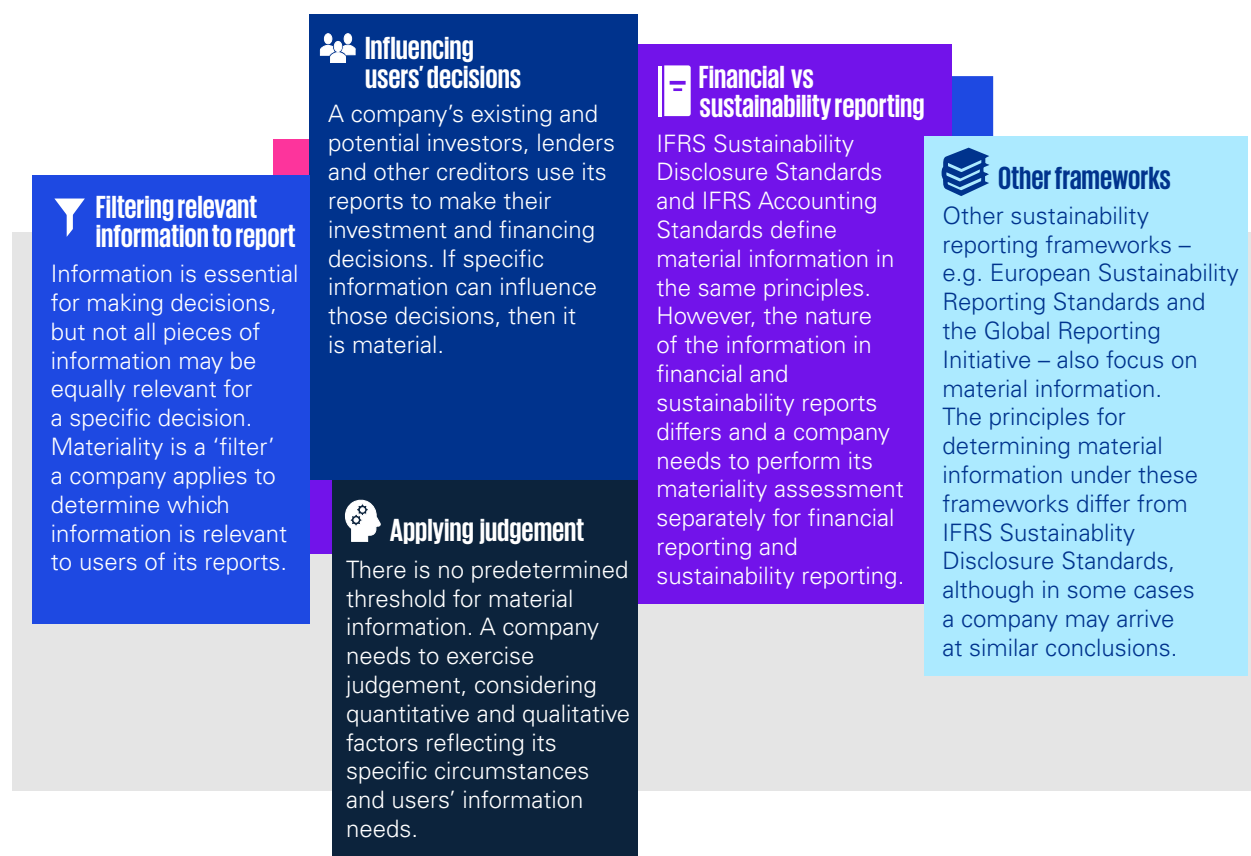
This guide aims to help you navigate the complexities of materiality assessments for sustainability reporting with a clear and structured six-step approach. At each step we provide practical insights together with examples to help you apply the principles effectively.

Together with [First Impressions](#), our guide on applying IFRS® Sustainability Disclosure Standards, this how-to guide will help you provide your investors with the sustainability-related information they need.

As you read through this guide, please keep the following in mind.

Materiality – Key points to keep in mind

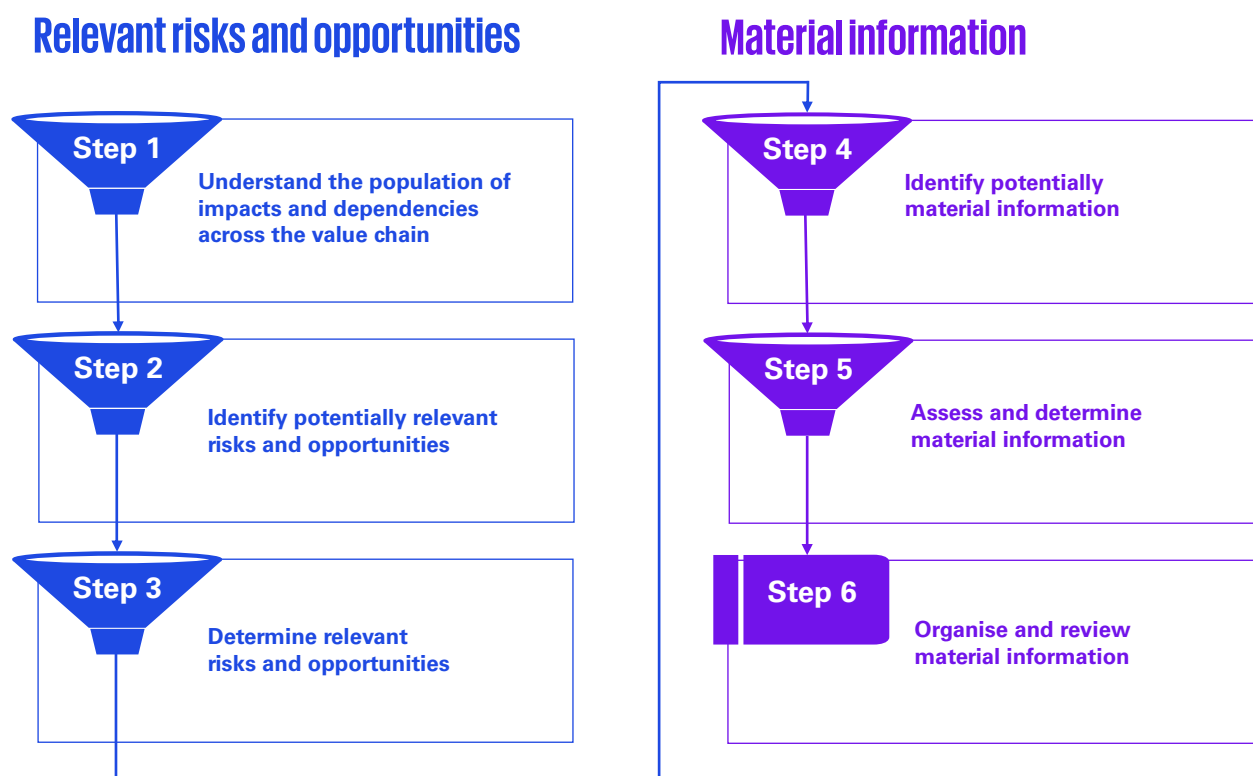
The concept of materiality aims to help you focus on providing decision-useful information to your investors. It determines the volume, type and precision of information you report.



Your six steps to identifying material information

The process starts with the value chain – including the company’s business model and its external environment. The six steps focus on how to filter out first the relevant risks and opportunities¹ and then the material information investors need.

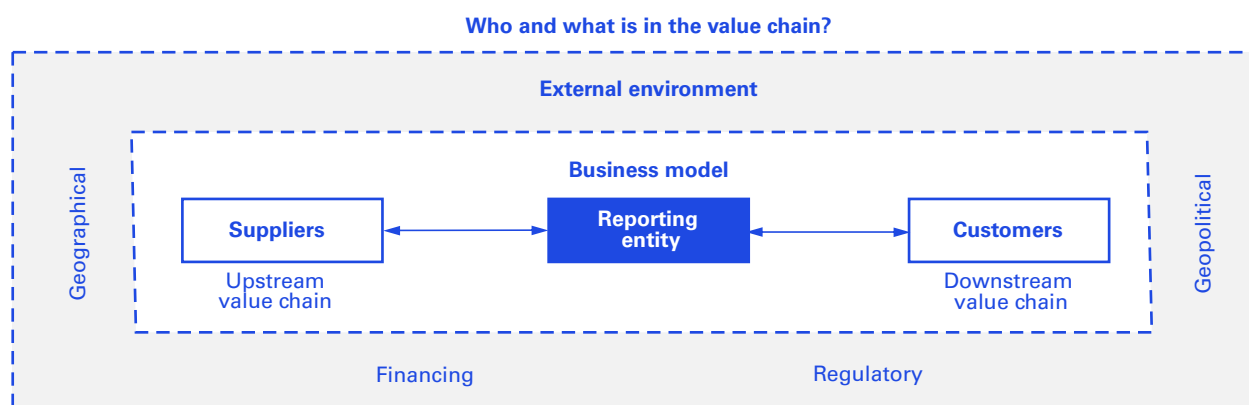
The key judgements about whether information is material are made in Step 5. Steps 1 to 4 help companies to make those judgements.



1. In this guide, ‘relevant risks and opportunities’ refers to sustainability-related risks or opportunities that could reasonably be expected to affect a company’s cash flows, access to finance or cost of capital over the short, medium or long term.

Step 1: Understand the population of impacts and dependencies across the value chain

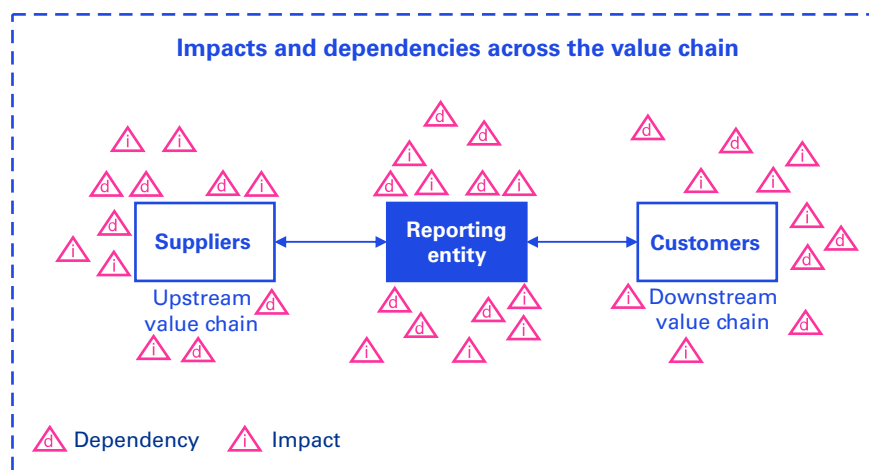
The first thing a company needs to do is map its value chain so that it can identify the impacts and dependencies that exist across it.



A company's value chain includes the full range of interactions, resources and relationships related to its business model and the external environment in which it operates. It encompasses everything that the company uses and relies on to create, consume and dispose of its products or services. [IFRS S1.A²]

When mapping the value chain, a company considers the resources and relationships that it:

- depends on to generate cash flows (e.g. suppliers or natural resources); and
- impacts through its operations (e.g. indigenous communities or the environment).



The output from Step 1 is an understanding of the impacts and dependencies that exist across the company's value chain.³

In [Step 2](#), the company considers whether these impacts and dependencies give rise to potentially relevant sustainability-related risks and opportunities.



In Step 1, consider...

- What is the **lifecycle** of the company's products and services?
- With whom does the company **interact**, and how?
- What **relationships** does the company **depend** on or **affect**?
- What **resources** does the company **depend** on or **affect**?
- What is the **impact** of the external environment?

2. References in square brackets after the text identify the relevant paragraphs of the sustainability standards or other literature – e.g. IFRS S1.B6 is paragraph B6 of IFRS S1; and ISSB EM p. 13 is page 13 of the educational material [Sustainability-related risks and opportunities and the disclosure of material information](#) issued in November 2024.

3. For simplicity, the diagrams illustrating the six-step process exclude the external environment.



How to...

Determine the value chain

To determine its value chain, a company needs to understand the full life cycle of its products and services so that it can:

- identify the interactions, resources and relationships along its supply, marketing and distribution channels; and
- understand where and how it is exposed to different financing, geographical, geopolitical and regulatory environments.

Relevant activities a company may undertake include:

- mapping the supply chain and marketing and distribution channels for each product or service;
- analysing key business relationships with suppliers and customers;
- analysing activities and products/services by geographical location;
- reviewing information provided to investors (including financial statements) and elements of the business plan and strategy;
- assessing the legal and regulatory landscape in relevant jurisdictions; and
- examining publicly available information, including media reports, peer analysis, existing sector-specific benchmarks, scientific reports and other publications on sustainability-related matters.

Some companies may have performed related exercises in the past – e.g. as part of existing risk management processes. These exercises can provide useful sources of information when mapping the value chain.

**Insight...****Does a company need to do an exhaustive search to determine its value chain?**

No.

A company is required to use all reasonable and supportable information that is available to it at the reporting date without undue cost or effort. [IFRS S1.B6, B10]

What constitutes 'undue cost or effort' will depend on the specific circumstances of each company. This assessment weighs the costs of obtaining information against the resulting benefit to users⁴, considering:

- the company's degree of exposure to risks and opportunities;
- the company's skills, capabilities and resources available; and
- the benefits of the resulting information to users. [IFRS S1.B10]

A company can obtain reasonable and supportable information from internal and external sources when determining its value chain. Those sources include, but are not limited to, the following. [IFRS S1.B9]

External sources	Internal sources
<ul style="list-style-type: none"> • Industry and peer group experience • ESG ratings agencies' scores, reports and statistics • News coverage • Academic reports • Direct investor feedback 	<ul style="list-style-type: none"> • A company's risk management processes, including its existing risk register and risk management system • A company's own information that it uses to: <ul style="list-style-type: none"> - prepare its financial statements and related management commentary; - operate its business model; and - set its strategy • Materiality assessments or sustainability reporting prepared under a different framework (see Step 2)

4. In this guide, 'users' is used to refer to the primary users of general purpose financial reports – i.e. a company's potential and actual investors, lenders and other creditors.









How to...

Identify resources and relationships

Identifying resources and relationships is a key part of determining the value chain. A company needs to understand the stages of its value chain and the activities that are part of each stage. It then connects its business activities to the relevant resources and relationships.

Resources and relationships may be internal or external and may include the following. [IFRS S1.B4, ISSB EM p. 25]

Type	Resources and relationships	Type	Resources and relationships
Human 	<ul style="list-style-type: none"> Company's workforce Workers in the supply chain 	Natural 	<ul style="list-style-type: none"> Land Water Minerals
Intellectual 	<ul style="list-style-type: none"> Patents Copyrights Trademarks 	Manufactured 	<ul style="list-style-type: none"> Machinery Equipment Buildings Infrastructure
Financial 	<ul style="list-style-type: none"> Cash Investments Access to financial resources 	Social and relationship 	<ul style="list-style-type: none"> Stakeholder relationships Contractual relationships, such as with customers Indigenous communities



Example 1A – Identifying resources and relationships

Company Z is a construction company that specialises in the design and construction of commercial buildings. Z is located in a single jurisdiction but has several sites under development across the country.

Z considers its operations in the pre-construction, construction and post-construction stages of its value chain, the key activities it performs in each stage and the resources and relationships that it relies on in each.

Value chain stage	Activities	Resources and relationships
Pre-construction	Contracting	Engineering and construction workforce (human)
	Raw materials sourcing	Customer contracts (social and relationship)
	Supplier engagement	Supplier relationships (social and relationship)
	Design and planning	Relationships with government agencies issuing construction permits (social and relationship)
Construction	Permitting and regulatory compliance	
	Project management and logistics	High-quality building materials, including various metal, cement and lumber products (natural)
	On-site construction	Relationships with trade unions (social and relationship)
	Health, safety and environmental controls	Engineering and construction workforce (human)
Post-construction	Quality assurance and compliance monitoring	Access to financing (financial)
	Handover and commissioning	Relationships with government agencies issuing construction permits (social and relationship)
	Post-sale service and maintenance	Customer contracts (social and relationship)
	Client support and warranty management	Engineering and construction workforce (human)



How to...

Assess impacts and dependencies

A company needs to consider how it:

- depends on resources and relationships to generate cash flows; and
- affects resources and relationships through its activities and outputs.

To do this, a company considers how it may preserve, regenerate, develop, degrade or deplete resources and/or relationships in both direct and indirect ways.



Example 1B – Assessing impacts and dependencies

Continuing [Example 1A](#), the management of Company Z uses its understanding of Z's value chain and business model to identify how Z depends on and affects the resources and relationships identified.

Resources and relationships (continued from Example 1A)	Example dependencies	Example impacts
Engineering and construction workforce (human)	Availability of its skilled workforce in multiple locations (direct)	Health, safety and wellbeing of employees at work (direct)
Relationships with trade unions (social and relationship)		
High-quality building materials, including various metal, cement and lumber products (natural)	Timely access to materials and products to maintain operations (direct)	Damage to natural environment in source locations for lumber and mining, quarrying and processing sites for metals and cement (indirect)
Supplier relationships (social and relationship)	Raw material supplier working practices relating to their workforce, local communities and environmental protection (indirect)	
Customer contracts (social and relationship)	Profitability of operations (direct)	
Relationships with government agencies issuing construction permits (social and relationship)	Availability of permits issued by the government (direct) Relevant construction standards set by the government (direct)	Ability of the government to meet regeneration targets in key locations (indirect)
Access to financing (financial)	Adequate cash flow to operate (direct)	

**How to...****Reassess impacts and dependencies across the value chain**

A company needs to reassess its impacts and dependencies across the value chain when a significant event or change in circumstances occurs. Changes can arise even if they are not caused by the company. These may include, for example, a significant change in the company's:

- value chain – e.g. a major new supplier or procurement strategy;
- business model, activities or corporate structure – e.g. a major acquisition or creation of a new product type; or
- exposure to sustainability-related risks and opportunities – e.g. new environmental regulations.

[IFRS S1.B11, IFRS S2.B34]

Step 2: Identify potentially relevant risks and opportunities

Having identified the population of impacts and dependencies across the value chain in [Step 1](#), a company needs to determine whether they give rise to sustainability-related risks or opportunities.

In Step 2, a company identifies sustainability-related risks and opportunities that are *potentially* relevant. This is the starting point for identifying *relevant* risks and opportunities in [Step 3](#).

Business leaders routinely assess and manage the risks and opportunities that influence the success or failure of their companies. Some of these risks and opportunities will be sustainability-related because they arise from the company's dependencies or impacts on resources and relationships. [IFRS S1.2, B2–B5]

To identify potentially relevant sustainability-related risks and opportunities, a company starts with the impacts and dependencies from across the value chain (identified in [Step 1](#)) as well as the sources of guidance applicable to its specific facts and circumstances.



The output from Step 2 is a longlist of potentially relevant risks and opportunities identified from the impacts and dependencies across the value chain.

The longlist is then refined in [Step 3](#) to a list of relevant risks and opportunities.



In Step 2, consider...

- What **impacts and dependencies**, and underlying **resources and relationships**, were identified under [Step 1](#)?
- Which of the risks and opportunities **managed by the business** are sustainability-related?
- Could a change in the underlying resources and relationships affect the company's **business model**?
- Could a change in the underlying resources and relationships affect the company's **strategic advantage**?
- What **guidance** applies to help identify potentially relevant risks and opportunities?

**How to...****Determine whether impacts and dependencies give rise to potentially relevant risks and opportunities**

To determine whether the population of impacts and dependencies identified in [Step 1](#) gives rise to potentially relevant risks and opportunities, a company could consider the following factors.

- **Impact on business model:** If a change in the underlying resource or relationship could affect an aspect of a company's business model, then it is likely that there is a potentially relevant risk associated with the impact or dependency.
- **Strategic advantage:** If an underlying resource or relationship could result in a strategic advantage for the company, then it is likely that there is a potentially relevant opportunity associated with the impact or dependency.

In many cases, companies may be aware of potentially relevant risks and opportunities from existing risk management processes.

**Example 2 – Potentially relevant risks and opportunities arising from a company's human resources**

Software Company E operates in a highly competitive labour market. E's business model depends on a specialised workforce of qualified software engineers, meaning that its success is linked to its ability to attract and retain that resource.

This dependency on a specialised workforce creates a potentially relevant sustainability-related risk. If E is unable to hire and retain qualified engineers, then the resulting loss of work would negatively affect E's business model.

At the same time, E's employment practices affect its workforce. Supporting its workforce's wellbeing and development has resulted in increased employee satisfaction and higher retention rates compared with its peer group.

E anticipates significant growth in the industry in the next five years. E's relationship with its workforce results in a potentially relevant sustainability-related opportunity because it could reasonably be expected that attracting and retaining new engineers will lead to a strategic advantage compared with its peers.

**Example 3 – Potentially relevant risk arising from a company's relationships with environmental activists**

Consumer Goods Company O packages its products in non-recyclable plastic bottles. O identifies a dependency on its relationship with environmental activists advocating against plastic packaging due to its impact on marine life. O identifies this as a potentially relevant risk because bad publicity triggered by the activists' actions could affect its business model. For example, O may need to change its packaging supply chain to address the risk and retain market share.

**Example 4 – Potentially relevant risk arising from the impact of a company's supplier on biodiversity**

Metal Production Company F processes refined metals into sheet metal and other industrial products. F relies on refined metals in its operations that are mined in its upstream value chain.

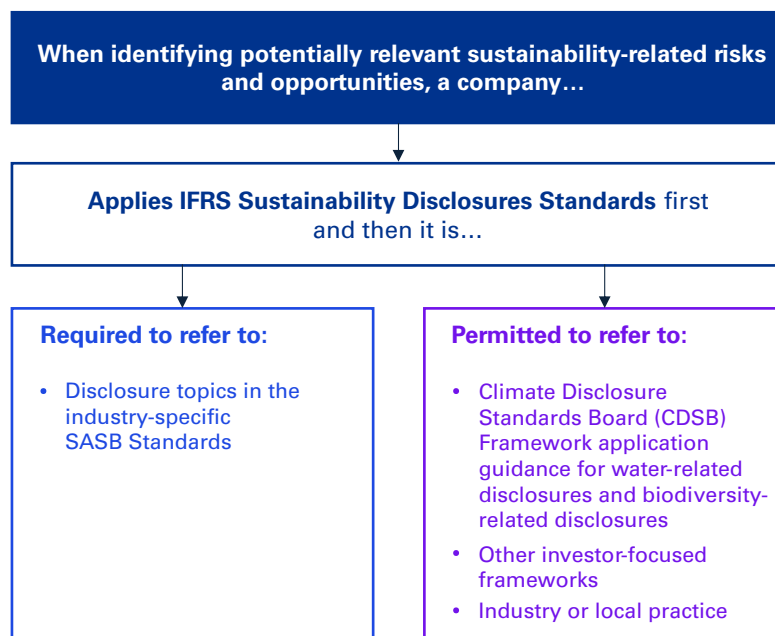
F identifies a key supplier of its refined metals that sources its raw materials exclusively from mines near a biodiversity-sensitive area. F assesses the adverse impact the mining could have on biodiversity as a potentially relevant sustainability-related risk that could affect the supply or cost of its raw materials.



How to...

Determine which guidance to apply to identify potentially relevant risks and opportunities

A company refers to the required and permitted sources of guidance in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* to identify potentially relevant sustainability-related risks and opportunities. It applies judgement to determine which are applicable to the company's specific facts and circumstances and its value chain. [IFRS S1.54–55, B7]



When applying judgement to identify potentially relevant risks and opportunities, a company uses all reasonable and supportable information that is available at the reporting date without undue cost or effort. As described in *Insight... Does a company need to do an exhaustive search to determine its value chain?* this would include a range of internal and external sources. [IFRS S1.B6(a)]

See *Insight... When identifying potentially relevant risks and opportunities, can a company consider results of its assessment prepared under other frameworks?*



How to...

Use SASB Standards to identify potentially relevant risks and opportunities

A company refers to SASB Standards to:

- determine the industry or industries that it aligns with; and
- consider the disclosure topics in the relevant SASB standard(s) to assess whether risks and opportunities are potentially relevant.

When identifying potentially relevant risks and opportunities, a company needs to assess each disclosure topic to determine whether it is applicable to its own specific facts and circumstances.

The assessment of potentially relevant risks and opportunities does not mean that a company is required to report on all disclosure topics identified, or to provide all metrics indicated in SASB Standards. [IFRS S1.55(a), BC132, ISSB EM p. 34]



Example 5 – Using SASB Standards to identify potentially relevant risks and opportunities

Conglomerate G has significant activities in the consumer goods, food and beverage and healthcare industries, and has limited activities in the transportation industry.

G refers to, and considers, SASB Standards and identifies the following six SASB Standards that could apply to its activities.



Of these six SASB Standards, G considers that five of them align directly with its significant activities.

However, G's healthcare activities are complex in nature and do not directly align with any SASB Standard. Through contracts with pharmaceutical companies, G develops generic medications that are subsequently trialed, manufactured and marketed by an integrated pharmaceutical company. G determines the Biotechnology & Pharmaceuticals SASB Standard to be the most aligned to its healthcare operations and, therefore, includes it among the six SASB Standards considered.

G considers the disclosure topics in each of the six SASB Standards and concludes:

- for significant activities, excluding healthcare, most disclosure topics apply;
- for transportation activities, only some disclosure topics apply; and
- for healthcare activities, only the Drug Safety disclosure topic applies because of the reputational risk from fatalities or recalled medications. G concludes that the other topics in the Biotechnology & Pharmaceuticals SASB Standard do not apply because none of the related risks and opportunities are potentially relevant.

G documents its rationale in reaching these conclusions.

G considers these disclosure topics when identifying potentially relevant risks and opportunities. It may also refer to other permitted sources of information.



Insight...

When identifying potentially relevant risks and opportunities, can a company consider results of its assessment prepared under other frameworks?

For some companies, IFRS Sustainability Disclosure Standards will be the first sustainability reporting framework that they apply; others may have already been preparing sustainability reports under other frameworks.

Companies that have previously prepared sustainability reports under other frameworks may have performed an assessment of impacts and dependencies or potentially relevant risks and opportunities. A question arises about whether they can use that assessment to identify potentially relevant risks and opportunities under IFRS Sustainability Disclosure Standards, even if IFRS S1 does not refer to the framework previously used by the company.

IFRS S1 includes the sources of guidance that a company is required to consider and those that a company may consider. For the latter, it refers separately to the sources of guidance that a company may consider when:

- identifying risks and opportunities; and
- determining material information.

Risks and opportunities [IFRS S1.54, 55]	Information [IFRS S1.56–58, C1–C3]
<ul style="list-style-type: none"> • CDSB Framework <i>Application guidance for water-related disclosures and biodiversity-related disclosures</i> • Other investor-focused frameworks • Industry or local practice 	<ul style="list-style-type: none"> • CDSB Framework <i>Application guidance for water-related disclosures and biodiversity-related disclosures</i> • Other investor-focused frameworks • Industry or local practice • European Sustainability Reporting Standards (ESRS) • Global Reporting Initiative (GRI) Standards

The basis for conclusions to IFRS 1 explains the International Sustainability Standards Board (ISSB)'s reasoning for not explicitly including ESRS and GRI in the identifying risks and opportunities list. This is intended to drive the appropriate assessment under IFRS Sustainability Disclosure Standards rather than to prohibit a company from using reasonable and supportable information that is available to it without undue cost or effort.

Therefore, it appears that it is appropriate for a company to use its assessment of impacts and dependencies or potentially relevant risks and opportunities prepared under another sustainability reporting framework to inform its assessment under IFRS Sustainability Disclosure Standards. We believe that in doing so, a company should:

- carefully review its judgements previously made;
- determine if they meet the objectives and requirements of IFRS Sustainability Disclosure Standards; and
- update them as necessary. [IFRS S1.B6(a), BC137]



Example 6 – Using a double materiality assessment prepared under ESRS

Multinational Company P owns Subsidiary Q, which has performed a double materiality assessment (DMA) under ESRS.

Although not required by IFRS Sustainability Disclosure Standards, P considers that Q's DMA is reasonable, supportable and available without undue cost or effort. Therefore, P includes it as an input when identifying potentially relevant risks and opportunities under IFRS Sustainability Disclosure Standards. P carefully reviews Q's judgements previously made to determine if they meet the objectives and requirements of IFRS Sustainability Disclosure Standards and updates them as necessary.



Example 7 – Using a range of sources to identify potentially relevant risks and opportunities

Hotel Group H owns and operates hotels across multiple jurisdictions.

After mapping its value chain, H identifies a large population of impacts and dependencies that are connected to resources and relationships from across its value chain.

To identify the potentially relevant risks and opportunities connected to these impacts and dependencies, H uses all reasonable and supportable information available to it without undue cost or effort. It considers:

- disclosure topics included in the SASB Standard for Hotel and Lodgings; and
- the risks it monitors via its risk management processes.

As part of its existing risk management process, H:

- performs peer benchmarking;
- reviews its responses to ESG ratings questionnaires as well as the recent questions asked by its investors during outreach;
- analyses regulatory trends across its key jurisdictions; and
- conducts risk identification workshops with key internal stakeholders.

Based on the activities performed, H verifies whether there are additional, potentially relevant risks and opportunities related to its impacts and dependencies.

The output of this exercise is a list of potentially relevant risks and opportunities. H documents the process it followed.

The list and process documentation are reviewed by an internal expert committee, including the Chief Financial Officer, who is responsible for the group's sustainability reporting.

H decides not to refer to additional sources of guidance beyond those identified above as the expert committee is satisfied that the list is sufficiently complete to proceed with determining which potentially relevant risks and opportunities are in fact relevant ([Step 3](#)).

Step 3: Determine relevant risks and opportunities

A company does not need to report on all potentially relevant risks and opportunities, only those that are relevant.

Risks and opportunities are considered relevant if they could reasonably be expected to affect a company's prospects – i.e. cash flows, access to finance or cost of capital over the short, medium or long term. [IFRS S1.B13]

The assessment of relevant risks and opportunities filters the range of potentially relevant risks to focus only on those that could reasonably be expected to affect the company's prospects.

It is important that a company documents the process followed to identify relevant risks and opportunities to support regulatory, assurance or other challenges from internal or external parties. See [Step 6](#) for further information about the disclosure of a company's materiality assessment process.



The output from Step 3 is a shortlist of relevant risks and opportunities that have been narrowed down from those identified as potentially material in [Step 2](#).

In [Steps 4–6](#), the company then identifies material information about these risks and opportunities.



In Step 3, consider...

- What **potentially relevant risks** and **opportunities** were identified under [Step 2](#)?
- Could the potentially relevant risk or opportunity affect the company's **cash flows**, **access to finance** or **cost of capital**?
- Which **time horizons** are relevant for the potentially relevant risks and opportunities?
- Would **users'** expectation differ from management's?
- Are there **mitigation activities** in relation to the relevant risk?



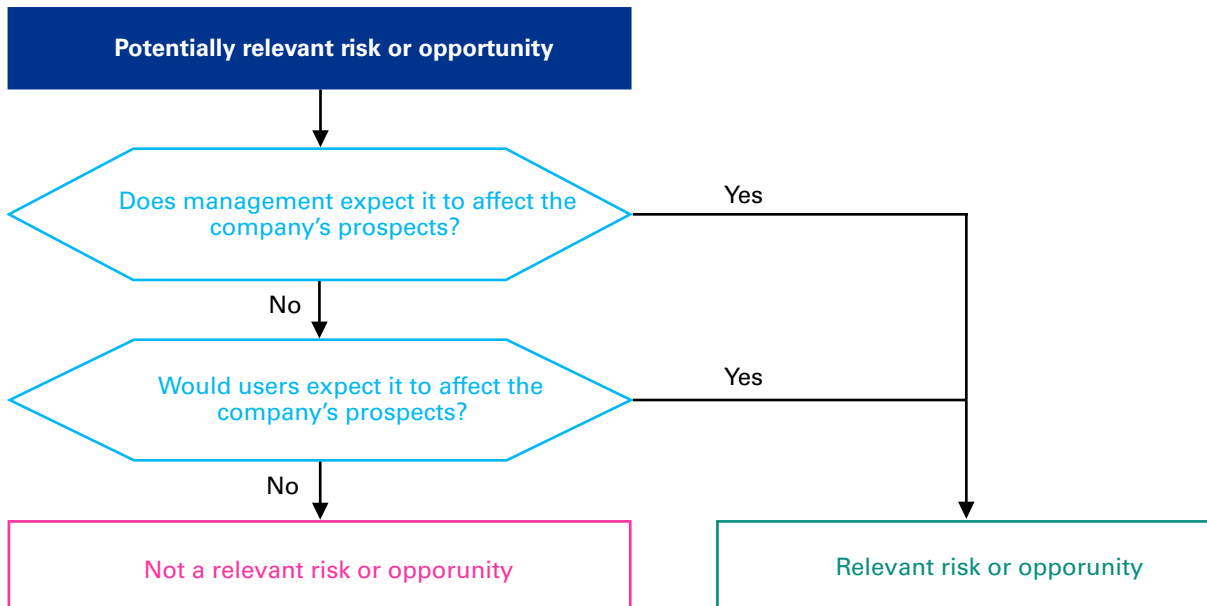
How to...

Determine whether risks and opportunities are relevant

A company makes a judgement about whether a risk or opportunity could affect its prospects.

To do this, it considers potentially relevant risks and opportunities, both individually and in aggregate, to assess whether they have the potential to affect its cash flows, cost of finance or access to capital in the short, medium or long term.

A company needs to consider both its own and users' perspectives. This is important because users have access to different information and their expectations may differ about the extent to which certain risks and opportunities could affect a company's prospects. [IFRS S1.B16]



In practice, when making this judgement a company considers a range of factors, including but not limited to the potential magnitude and likelihood of the effects of the potentially relevant risk or opportunity.

Other factors could include, for example, whether the potentially relevant risk or opportunity:

- is already monitored as part of the company's risk management processes (management perspective);
- affects the key value drivers of the business or the company's ability to execute its strategy (both management and users' perspectives);
- is prevalent in the company's jurisdictions or industry (both management and users' perspectives);
- is a pervasive issue across the business model and/or value chain (both management and users' perspectives); and
- is a priority for investors (users' perspective).

A company only needs to consider the common information needs of users – i.e. investors, creditors and other lenders. Individual users may have different information needs – e.g. if they are making decisions based specifically on a company's social impacts. A company is not required to consider the needs of individual investors or specific types of investors. [IFRS S1.B18]

For discussion of how to consider mitigation activities, see [Insight... Can a company consider its mitigation activities when identifying relevant risks?](#)

**Example 8 – Process to identify relevant risks**

Logistics Company L identified a dependency on supply of labour in a key hub location when understanding the impacts and dependencies across the value chain (Step 1). L's business model relies on agency workers to manage its fluctuating demand.

It then identified a potentially relevant risk of higher labour costs due to a sharp increase in competition for the same pool of agency workers following the recent relocation of major employers to the same local area (Step 2). L also noted a risk of reduced revenue if it is unable to meet its customers' demands, particularly as flexibility in meeting unpredictable demand is a key differentiator for L against its competitors.

When considering the potentially relevant risk, L identified a relevant disclosure topic relating to 'Workforce conditions, health and safety' in the most relevant SASB Standard, Road Transportation. L already tracks a risk relating to availability and cost of labour via its risk management system.

L determines that this is a relevant risk. In making this judgement, L considers information from its existing risk management processes about the potential magnitude and likelihood of the labour cost increases and revenue reduction.

It also considers that the risk:

- is connected to one of the company's principal risks and already tracked via the company's risk management system;
- could affect a key value driver of the business – i.e. its ability to be flexible to demand;
- could have a pervasive impact on its business strategy if it changes the decision to rely on agency workers rather than employees;
- relates to a topic (relationships with workforce) that has been a priority for investors in recent engagement with them; and
- relates to a topic that is pervasive across its industry and could also affect other locations in its operations.

**Example 9 – Relevant risk – User perspective**

Chemical Company T is aware of an industry risk related to the illegal dumping of toxic waste by suppliers. The issue has received substantial global press attention and is included in T's list of potentially relevant risks.

Through its due diligence process, T has not identified any evidence of current or past illegal practices either within its own manufacturing sites or at any of its suppliers. T does not believe that the risk would affect its prospects; however, it understands that users are aware that the company operates in the same jurisdictions and industry as competitors that have identified issues.

Because users could reasonably expect this industry risk to affect T's prospects, T determines that the risk is relevant.

**Example 10 – Relevant risk – Management perspective**

Bank B provides loans to a diversified portfolio of companies across multiple jurisdictions and industries. Given this diversity, B is aware that users may not expect that a biodiversity-related risk could reasonably be expected to affect its prospects. However, B has analysed the exposure of companies in its loan portfolio for the purposes of its financial and sustainability reporting. Based on its analysis, B identified several concentrations of biodiversity-related risk. In assessing the credit risk of customers that could be affected, management identifies these areas of risk and reasonably expects that the aggregate risk could affect B's prospects.

**Insight...****Is a company required to use thresholds to determine relevant risks and opportunities?**

No. IFRS Sustainability Disclosure Standards do not require a company to use thresholds to determine potentially relevant risks and opportunities, unlike some other sustainability reporting frameworks.

Determining relevant risks and opportunities requires judgement that will differ from company to company. [IFRS S1.B19]

The assessment of relevant risks and opportunities filters the range of potentially relevant risks to focus only on those that could reasonably be expected to affect the company's prospects. This ensures that a company provides only relevant (i.e. company-specific) information to users.

If a company uses thresholds to help determine relevant risks and opportunities, then it needs to ensure that any threshold does not result in excluding information that is material to users. See [Step 5](#) for relevant considerations.

**Insight...****Is a company required to use a scoring system to determine relevant risks and opportunities?**

No. Under IFRS Sustainability Disclosure Standards, companies apply judgement to determine which risks are relevant. There is no specific guidance in the Sustainability Disclosure Standards on whether a company needs to 'score' each potentially relevant risk and opportunity.

In practice, scoring can provide a useful indication of which potentially relevant risks and opportunities are relevant, provided that it is balanced to include a range of considerations.

If a company uses a scoring system, then it needs to ensure that the system does not result in excluding information that is material to users.

**Insight...****Can a risk be relevant if a company determines that it has no or low exposure to it?**

Yes, if users expect that the company may be exposed to this risk.

For example, a company may have operations located in an area prone to flooding (i.e. companies in the area are generally exposed to flood risk). Because the company is located on higher ground, it has never experienced any flooding and has obtained expert opinions that the flood risk is minimal across its sites and key access routes. However, users expect that the company may be exposed to flood risk and, therefore, this risk is relevant.

**Insight...****Is a company required to allocate relevant risks and opportunities to different time horizons?**

Yes, a company needs to consider all time horizons over which a relevant risk or opportunity could reasonably be expected to affect its prospects then allocate the risk or opportunity to the appropriate time horizon.

IFRS Sustainability Disclosure Standards do not define short, medium and long term, but require a company to provide a definition of each, explaining how they link to its strategic planning horizons. [IFRS S1.30(c), S2.10(d)]

The assessment of what is considered to be short, medium or long term may depend on the company's industry or investment cycles. Some companies may find it useful to align with management processes such as forecasting and budgeting.

See [Step 5](#) for further discussion of the material information to provide.

**Example 11 – Defining time horizons**

In 20X0, Manufacturing Company M identifies climate-related risks, including:

- obsolescence of a key product that it expects will be phased out via government legislation from 20X5, leading to falling demand; and
- risk of supply chain interruption for a critical component manufactured solely at a factory in a high flood risk zone.

M defines short term as less than three years, medium term as three to 10 years and long term as more than 10 years. These periods are in line with its internal strategic planning horizons and forecasting.

It considers that the risk of obsolescence is relevant in the short and medium term and that the risk of supply chain interruption becomes relevant in the long term.

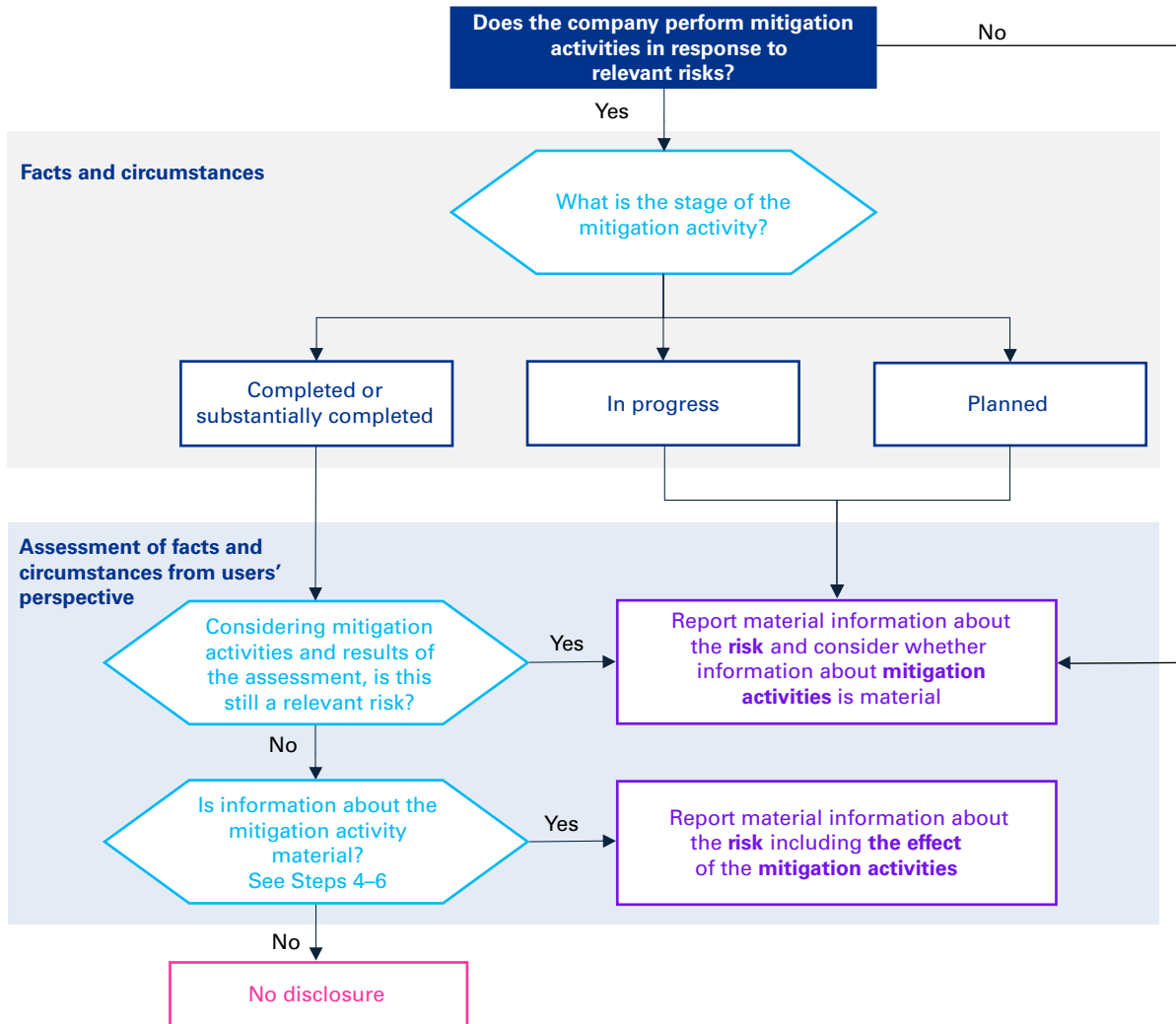
See [Example 21](#) in Step 5 for an illustration of the material information disclosed by M.



Insight...

Can a company consider its mitigation activities when identifying relevant risks?

As part of its risk management policy, a company may undertake mitigation activities in response to relevant risks. Mitigation activities are strategies and actions taken to reduce or eliminate the potential effect of risks on a company. IFRS S1 does not specify whether, in assessing risks as part of its sustainability reporting, a company considers its mitigation activities. It appears that a company can consider its mitigation activities when determining relevant risks by applying the following approach. We believe that this assessment should be performed from the users' perspective.



A company's assessment of the effect of mitigation activities on its conclusion of whether a risk is relevant may require significant judgement based on the specific facts and circumstances. If a company considers the effect of mitigation activities when determining relevant risks, then we believe that it should develop a reasonable approach and apply it consistently to similar facts and circumstances.

In addition, we believe that a company should consider whether information about its mitigation activities and the approach applied is material and requires disclosure (see Steps 4–6). Also, we believe that when a company considers mitigation activities as part of its assessment of whether a risk is relevant, it should ensure that it does not omit material information about the risk and related mitigation activities.



How to...

Consider the stage of mitigation activities

When assessing the effect of mitigation activities on sustainability-related risks, we believe that a company should apply the guidance in *Insight... Can a company consider its mitigation activities when identifying relevant risks?*

The following table illustrates how the stage of mitigation activities can affect a company's materiality assessment.

Stage	Description	Impact on assessment
Completed or substantially completed	No further substantive action or cash outflows required. The mitigating asset is in the location and condition (or procedures are in place) necessary for the asset (or procedures) to be capable of operating in the manner intended by management.	<p>A company can consider completed mitigation activities when determining if a risk is relevant.</p> <p>A company needs to assess the specific facts and circumstances from the users' perspective to determine whether the risk is relevant. Separately, the company needs to consider whether information about its mitigation activities is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company with a manufacturing facility on the coast has built a flood wall to reduce the risk of flooding affecting its operations. The flood wall was completed in the previous reporting period.</p> <p>The company considers the relevant factors – from its users' perspective – to assess whether and to what extent the mitigation activity addresses the risk and whether the risk is relevant. For further details, see <i>How to... Consider the effect of mitigation activities</i> and Examples 12 and 13.</p>	
In-progress	A company has commenced mitigation activities, but further action or cash outflows are required.	<p>A company should not consider in-progress mitigation activities when determining whether a risk is relevant. This is because the company remains exposed to the risk until mitigation activities are complete. Also, the company needs to consider whether information about mitigation activities performed to date or planned activities that may lead to future cash outflows is material (see Steps 4–6).</p>
	<p>Example</p> <p>A company with a manufacturing facility on the coast has started construction of a flood wall with scheduled completion in the next reporting period. The company determines that the mitigation activity is in the in-progress stage. Therefore, it does not consider it when determining whether the risk of flooding is relevant.</p> <p>The risk of flooding is relevant because:</p> <ul style="list-style-type: none"> the incomplete flood wall means that the company remains exposed to flood risk; and future cash outflows are required to complete the flood wall. <p>Therefore, the company reports material information about the risk of flooding and considers whether information about the construction of the flood wall is material (see Steps 4–6).</p>	

Stage	Description	Impact on assessment
Planned	A company has not started mitigation activities and further substantive actions or cash outflows are required.	A company should not consider planned mitigation activities when determining whether a risk is relevant because they have not been started. Separately, the company needs to consider whether information about planned mitigation activities is material (see Steps 4–6).
	<p>Example</p> <p>A company with a manufacturing facility on the coast has planned construction of a flood wall and the project is scheduled to begin within three years. The company determines that the mitigation activity is in the planning stage, and therefore it does not consider it when determining whether the risk of flooding is relevant.</p> <p>The risk of flooding is relevant because:</p> <ul style="list-style-type: none"> the company is exposed to the flood risk; and the company may need to access capital to finance the future cash outflows required to construct the flood wall. <p>Therefore, the company reports material information about the risk of flooding and considers whether information about the planned flood wall is material (see Steps 4–6).</p>	



How to...

Consider the effect of mitigation activities

When assessing the effect of mitigation activities in determining whether a sustainability-related risk is relevant, a company needs to consider factors relevant to its specific facts and circumstances. We believe that the following factors may be helpful for the analysis. Individual factors may not be determinative on their own.

Factor	A company...
Pervasiveness of the risk	<p>Evaluates how widespread the risk is – e.g. within its industries, regions or societies in which it operates – and how it affects the business.</p> <p>This factor is important because users may have expectations about a company's susceptibility to a risk.</p>
Proven effectiveness	Assesses whether mitigation activities are proven or involve new, untested technologies.
Investment of resources	<p>Considers its investment made in mitigation activities to date – e.g. the amount of funds and effort a company has dedicated to mitigating a risk.</p> <p>This factor is important because the more resources a company has dedicated to mitigation activities in response to a risk, the more likely it is that the risk is relevant.</p>
Future costs	Considers the ongoing maintenance and monitoring required for mitigation activities to remain effective.
Third-party reliance	Considers its dependency on third parties for implementing and/or maintaining mitigation activities.

Factor	A company...
Strategy or business model changes	Analyses how significant any changes to its strategy or business model are in response to the risk – e.g. diversifying supply chains, changing raw materials, divesting segments or relocating assets.
Underlying causes of risks	<p>Considers:</p> <ul style="list-style-type: none"> the specific facts and circumstances that give rise to sustainability-related risks; whether it can influence these circumstances; and whether and how these circumstances may change over time. <p>For example, a company cannot influence extreme weather events that may increase in frequency or severity over time.</p>
Timing of mitigation activities	Assesses when the mitigation activities were, or are expected to be, completed.
Frequency of control failures	Considers whether there have been instances of control failures associated with the mitigation activities and whether it has responded to the failures effectively.
Human rights impact	<p>Evaluates if the risk might affect human rights.</p> <p>This is important because users may be particularly sensitive to a company's susceptibility to human rights impacts.</p>
Significance of remaining activities	<p>Considers whether substantial effort and time are required to implement and/or maintain the mitigation.</p> <p>For example, only the push of a button is required to implement the mitigation activities.</p>

As outlined in *Insight... Can a company consider its mitigation activities when identifying relevant risks?*, some information may be material regardless of whether the risk is relevant. Companies need to ensure that material information about the risk and related mitigation activities is not omitted. See *How to... Determine if information about mitigation activities is material*.



Example 12 – Effect of mitigation activities – Asset completed

Company V has a manufacturing facility on the coast. V has built a flood wall designed to reduce the likelihood of flood-related damage. The flood wall was completed in the previous reporting period.

V determines that its mitigation activities and the related asset are complete.

V assesses its specific facts and circumstances from the users' perspective to determine whether, considering the mitigation activities, the risk of flooding is relevant. It considers that:

- the likelihood of flood-related damage is remote based on historical evidence and scientific projections;
- the flood wall is a proven technology supported by real-life use cases in similar circumstances;
- future maintenance costs are not material to the financial statements and there is no reliance on third parties;
- the ongoing mitigation activities do not require a change in strategy or business model; and
- the amount invested in the flood wall is not material to V's financial statements.

V concludes that the risk is substantially addressed by its mitigation activities and is not relevant. V considers whether information about the mitigation activity is material (see Steps 4–6).



Example 13 – Effect of mitigation activities – Procedures in place completed

Modifying [Example 12](#), Company V has developed an operational response to the risk of flooding. In the event of a flood, V's personnel are trained to follow a specific procedure to fill and place sandbags on-site to minimise the impact of flooding on the facility.

V determines that its mitigation activities are complete because the plan is in place with materials ready for use and personnel trained in their duties.

V assesses its specific facts and circumstances from the users' perspective to determine whether, considering the mitigation activities, the risk of flooding is relevant. It considers that:

- the use of sandbags is a proven method of mitigating flood-related damage;
- future maintenance costs are not material to the financial statements and there is no reliance on third parties;
- the ongoing mitigation activities do not require a change in strategy or business model; and
- the remaining mitigation activities require a moderate amount of effort and time because sandbags need to be filled and brought to the appropriate location on-site to mitigate the risk of flooding.

Based on the significance of remaining activities, V determines that it is still exposed to the risk of flooding and that the risk is relevant. Therefore, V reports material information about the risk of flooding and considers whether information about the procedures in place is material (see [Steps 4–6](#)).



Example 14 – Effect of mitigation activities – Policies in place but activities ongoing

Company J uses pipelines to supply natural gas. J identifies a dependency on its relationships with indigenous communities living alongside the site of a pipeline under construction. The construction of the pipeline may impact the community due to noise, land disturbance and air or water pollution at culturally significant sites. J determines that there is a potentially relevant risk because the community could block the progress of the pipeline and J could also fail to protect the community's interests adequately. This would result in costly delays, fines and legal costs.

J's management has established mitigation activities in the form of industry-leading policies, audited monitoring controls and extensive ongoing community engagement. J determines that the policies are in place – i.e. these mitigation activities are complete – and ready to be operated during the construction of the pipeline.

J assesses its specific facts and circumstances from the users' perspective to determine whether, considering the mitigation activities, the risk relating to the affected community is relevant. It considers that:

- it has a proven track record of positive community relations on other projects;
- the future costs of applying the policies are not material to the financial statements; and
- the risk is pervasive to companies in its industry and locations.

Based on its assessment, J determines that this is a relevant risk because of its pervasiveness to companies in the industry and users' expectation about J's exposure. J reports material information about the risk and considers whether information about the mitigating activities is material (see [Steps 4–6](#)).



Example 15 – Effect of mitigation activities – Internal policy

Defence Company D operates under stringent export control regulations. D has not breached these regulations in the past 15 years since it enforced a policy to prohibit export of its goods.

Management acknowledges that there is a risk of breaching the export control regulations if it sells products internationally. Management and users are aware of the regulatory environment and the approach D takes to address the risk.

D assesses its specific facts and circumstances from the users' perspective to determine whether, considering the mitigation activities, the risk relating to the export regulations is relevant. It considers that:

- users are already aware of the regulatory environment and D's approach to mitigating the risk;
- D has a proven track record of complying with its policy on prohibiting export of its goods;
- no changes are required in its strategy or business model to comply with the regulations; and
- the risk is pervasive to companies in the industry that export its goods.

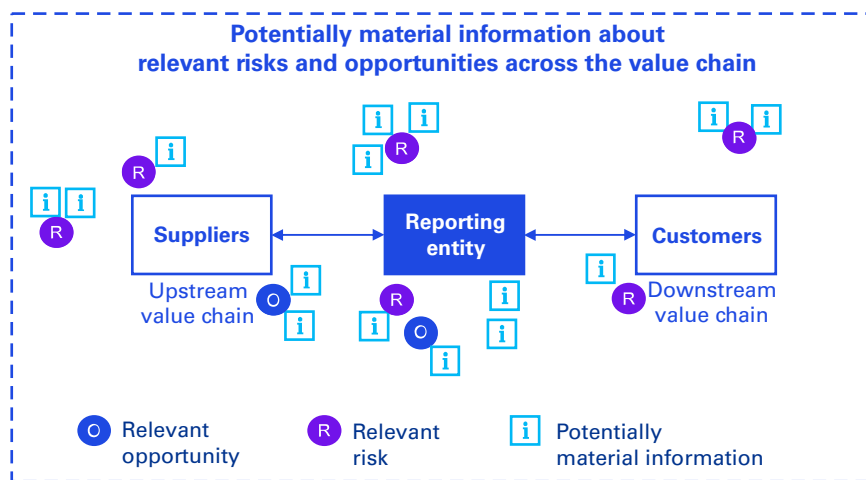
Having assessed these factors, D concludes that the sustainability-related risk related to the export regulations is effectively managed and, therefore, not relevant. D considers whether information about its internal policy is material (see Steps 4–6).

Step 4: Identify potentially material information

Having determined relevant risks and opportunities, a company then identifies a longlist of potentially material information about them.

Potentially material information is information that may be applicable to users' needs. A company identifies potentially material information using the applicable sources of guidance and considering other information available to it, making sure that any information faithfully represents its specific facts and circumstances. See [Step 5](#) for the determination of material information. [IFRS S1.56–58, C1]

The ISSB initially released only its climate-related standard (IFRS S2 *Climate-related Disclosures*) to accompany IFRS S1, but this does not mean that companies are required to report only on climate-related risks and opportunities⁵. When there is no currently effective sustainability disclosure standard that applies specifically to a relevant sustainability-related risk or opportunity (i.e. for all topics other than climate), a company refers to the additional sources of guidance. This will apply while the ISSB develops a full suite of IFRS Sustainability Disclosure Standards.



The output from Step 4 is a longlist of potentially material information that relates to the relevant sustainability-related risks and opportunities determined in [Step 3](#).

The list is then refined in [Step 5](#).



In Step 4, consider...

- What **relevant risks** and **opportunities** were identified under [Step 3](#)?
- What **guidance** applies to help identify potentially material information?
 - Required guidance: specific IFRS Sustainability Disclosure Standards if applicable, otherwise SASB Standards
 - Other guidance: other frameworks (CDSB⁶, ESRS, GRI, other investor-focused), industry or local practice
- Is there additional information that may be **relevant** to users and **faithfully represents** the facts and circumstances of the relevant risk or opportunity?

5. IFRS S1 includes a 'climate-first' transition relief which allows companies to report only on climate-related risks and opportunities in the first year they apply the standards, rather than reporting on all sustainability-related risks and opportunities. [IFRS S1.E5–E6]

6. CDSB Framework *Application guidance for water-related disclosures and biodiversity-related disclosures*.



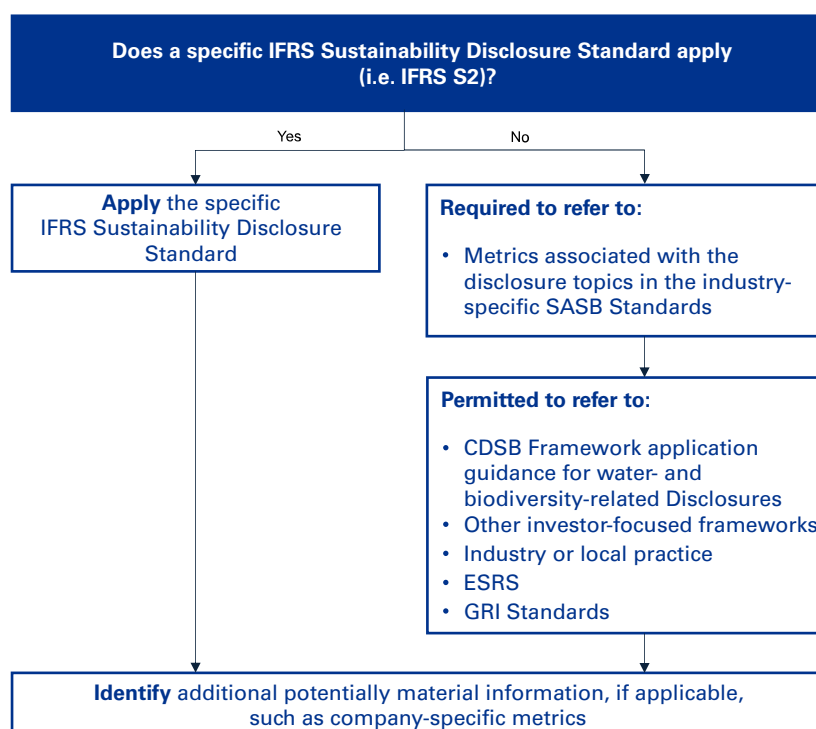
How to...

Identify potentially material information

First, a company considers whether a specific sustainability disclosure standard (i.e. IFRS S2) applies to a relevant risk or opportunity. It then uses judgement to identify additional information that:

- is relevant to users' decision-making; and
- faithfully represents the characteristics of, and the circumstances related to, the identified sustainability-related risk or opportunity.

In making this judgement, a company considers the additional sources of guidance specified in IFRS S1. [IFRS S1.56–58, C1–C3]



Example 16 – Identifying potentially material information – Clothing retailer

Company R is a clothing retailer. R has identified that its relevant risks and opportunities include:

- environmental impacts in the supply chain (particularly focusing on climate- and water-related risks);
- labour conditions in the supply chain; and
- management of chemical products.

R determines that its activities align with the Apparel, Accessories & Footwear SASB Standard.

R applies IFRS S2 and considers the relevant SASB Standard to identify metrics and disclosure topics that apply to its specific facts and circumstances.

R then uses judgement to determine whether there is additional information about its relevant risks and opportunities that might be necessary to meet users' needs. It determines that the CDSB Framework *Application guidance for water-related disclosures* and ESRS E3 *Water and marine resources* are potentially relevant to users' decision-making and could result in information that faithfully represents its circumstances. R considers the requirements and guidance in these sources in the absence of other IFRS Sustainability Disclosure Standards.

R assesses the requirements and guidance of the sources it has referred to and assesses what is relevant to users to identify potentially material information.



Example 17 – Identifying potentially material information

Company K is an agricultural chemical company that develops, produces and distributes sustainable farming chemicals.

In [Step 3](#), K identified a relevant opportunity related to the climate-resilient solutions it is developing as part of its product innovation.

When identifying potentially material information about the opportunity, K considers the relevant disclosure topics in the Chemicals SASB Standard. Management applies judgement and considers GRI and ESRS, identifying additional potentially material information.

K then maps information required in those standards to information it had previously reported or collected for management decision-making purposes, identifying items not already included in the standards (i.e. company-specific information).

K also performs peer benchmarking to identify information not already included in the longlist reported by its peers and that could potentially be relevant to its facts and circumstances and the identified opportunity.

The process to identify potentially material information about this opportunity results in the following longlist of potentially material information.

Information source	Potentially material information
SASB RT-CH-410a.1	Revenue from products designed for use-phase resource efficiency
ESRS 2.68(a)–(e), 69(a)–(c)	Descriptions of actions taken in the year and planned, including the scope of key actions and a description of time horizons Type and amount of current and future financial resources allocated to the action plan
GRI 201 Economic Performance 2016 Disclosure 201–2	Opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure, including: <ol style="list-style-type: none"> a description of the opportunity and its classification as either physical, regulatory or other; a description of the impact associated with the opportunity; the financial implications of the opportunity before action is taken; the methods used to manage the opportunity; and the costs of actions taken to manage the opportunity.
Company-specific information	Climate adaptation benefits
	Climate resilience partnerships
	Market size
	Early-phase technical details
	Customer educational materials
Peer benchmarking	Description of products in development
	Customer case studies

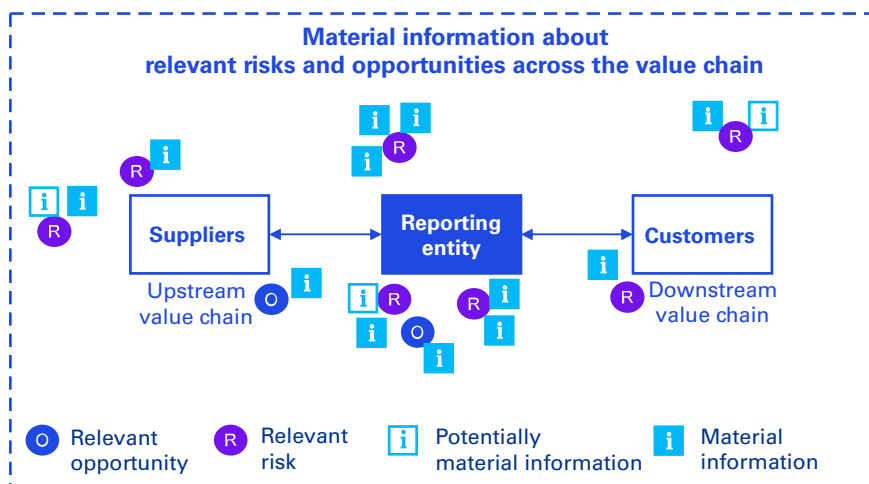
See [Example 20](#) in Step 5 for how K refines the list of *potentially* material information to information that is material.

Step 5: Assess and determine material information

Not all information identified in [Step 4](#) needs to be reported. Some information may be relevant and faithfully representative, but may not influence users' decisions.

After identifying potentially material information, a company needs to filter out any information that it believes would not influence user decision-making based on its specific facts and circumstances.

A company determines whether each potentially material piece of information is, in fact, material. This is based on whether the potentially material information could affect users' investing or financing decisions relating to the company.



The output from Step 5 is a list of material information that has been narrowed down from the longlist identified as potentially material in [Step 4](#).



In Step 5, consider...

- What **potentially material information** was identified under [Step 4](#)?
- Could the potentially material information **influence users' decisions**?
- What **quantitative** and **qualitative factors** are relevant to the specific facts and circumstances?
- Does the potentially material information meet the **collective information needs** of users?
- Does the potentially material information enable users to understand the **amount, timing and uncertainty of future cash flows**?



How to...

Assess if information is material

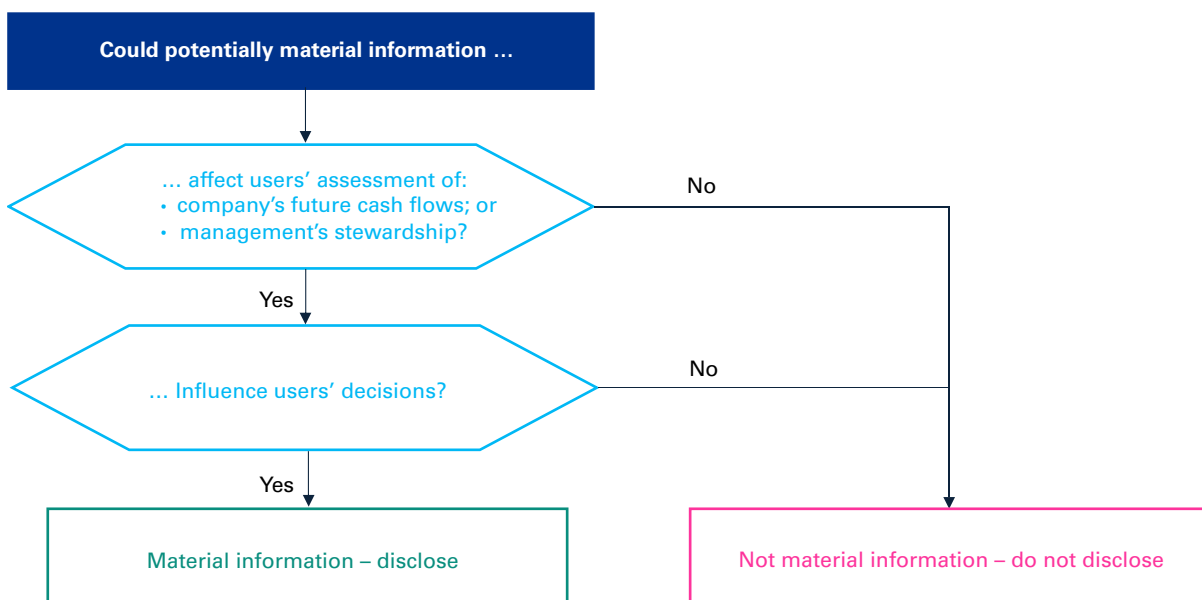
Information is material if it could reasonably be expected to influence users' decisions to:

- provide resources to the company (e.g. buying, holding or selling the company's equity shares, or providing or selling loans and other forms of credit); or
- influence management's actions (e.g. by exercising voting rights or engaging in dialogue with management). [IFRS S1.18, B14]

Users make investing and financing decisions based on expectations about their returns (e.g. dividends, principal and interest payments or share price increases). In forming these expectations, users assess the amount, timing and uncertainty of a company's future cash flows and management's stewardship of its economic resources⁷. [IFRS S1.B15]

Not all pieces of information that would affect users' expectations about their returns would influence users' decisions. Information about a risk could indicate to users that a company's cash flows will be affected; however, the potential effects may be insufficient to influence their decisions.

A company assesses the materiality of information based on whether it could affect users' assessments of the company – i.e. would user decisions be influenced by a specific piece of information? This assessment considers both quantitative and qualitative factors.



Aggregation is an important consideration when determining how to present material information.

See Step 6 [How to... Aggregate and disaggregate information](#).

If a company uses thresholds to help determine relevant risks and opportunities, then it needs to ensure that any threshold does not result in excluding information that is material to users. See [Insight... Is a company required to use thresholds to determine relevant risks and opportunities?](#)

7. In this guide, we refer to user assessments of the amount, timing and uncertainty of a company's future cash flows and management's stewardship of its economic resources as 'assessments of the company'.



Example 18 – Assessing if information is material – Human rights violations in supply chain

Company N has determined that the risk of human rights violations across its supply chain is relevant based on users' expectations.

N's management has assessed that the risk of human rights violations across its own supply chain is not relevant, but its industry peers have disclosed such risks throughout their supply chains in their own sustainability-related financial disclosures. Therefore, users may expect that human rights violations across the supply chain could affect N as well – i.e. this risk is relevant for N (see [Step 3](#)).

The potentially material information about this risk and how N assesses this information is as follows.

Potentially material information	N's assessment of whether information could affect or influence users'...			Information material?
	...assessment of future cash flows	...assessment of management's stewardship	...decisions	
List of individual suppliers and their details	No	No	No	No
Managing the supply chain in relation to human rights violations	Yes	Yes	Yes	Yes

Therefore, N discloses material information about its supply chain management process.

N reports that its exposure to the risk is low and discloses information about its policy to establish a supply chain that sources materials from jurisdictions that differ from those of its competitors. N also discloses information about its comprehensive supply chain audit process to identify and assess the risk of human rights violations in its supply chain.

See [How to... Determine if information about mitigation activities is material](#) for further guidance.



How to...

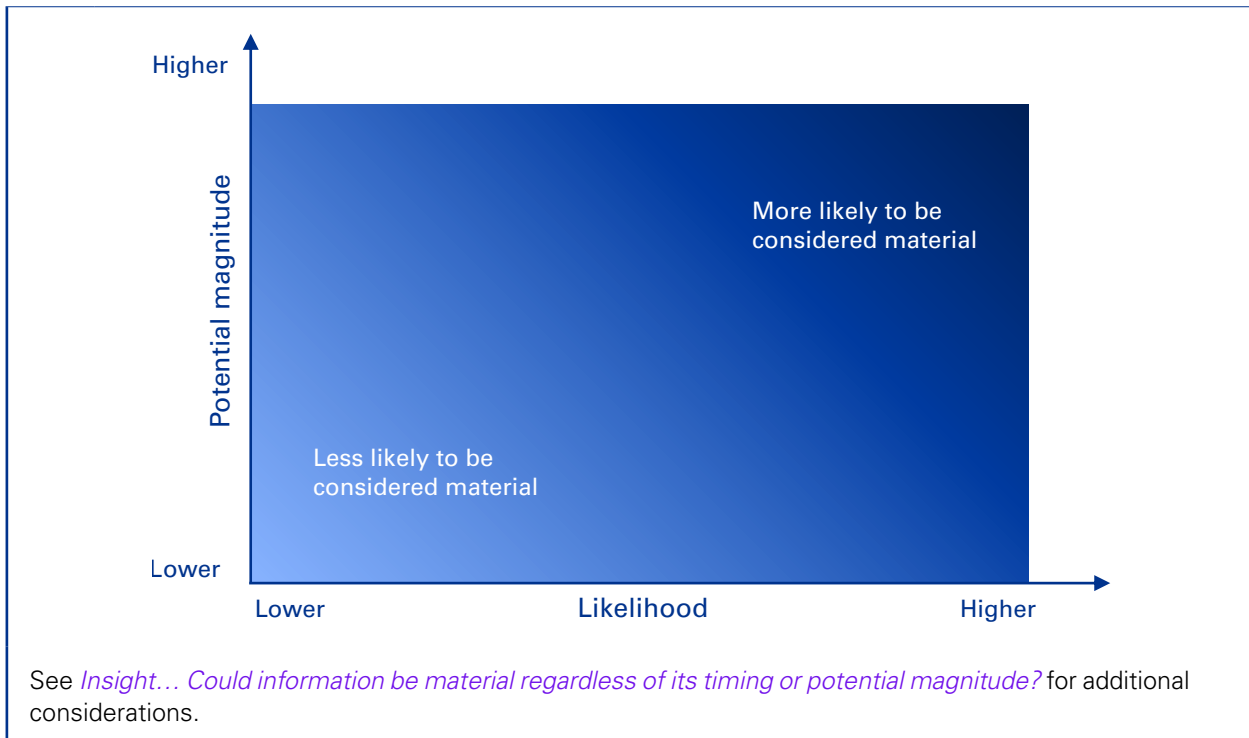
Assess future cash flows when making materiality judgements

Users consider the amount, timing and uncertainty of future cash flows when making their assessments. Therefore, a company needs to consider the same factors when determining what information may be applicable to users. [IFRS S1.B15]

Information about a possible future event that is only expected to affect the company's cash flows many years in the future is less likely to be considered material than information about a possible future event with similar effects that is expected to occur sooner. [IFRS S1.B24]

When assessing information about a company's exposure to an uncertain outcome, a company considers whether users' assessments of the company might be affected by the information, taking account of both:

- the range and likelihood of possible outcomes; and
- the potential effect on the amount, timing and uncertainty of its future cash flows. [IFRS S1.B22–B24]

**Insight...**

Does a company need to model its future cash flows when assessing if information is material?

No. Although a company needs to assess potential magnitude and likelihood of occurrence when determining whether information is material, it does not need to model its future cash flows (e.g. prepare detailed forecasting specifically for this purpose).

**Insight...**

Could information be material regardless of its timing or potential magnitude?

Yes, some information could reasonably be expected to influence users' decisions regardless of the timing or magnitude of the potential effect on the related risk or opportunity. [IFRS S1.B24]

For example, a company may determine that a quantitatively small metric is material because it expects the associated sustainability-related risk or opportunity to be subject to a high level of scrutiny from users (qualitative factor). Users' view on the matter may differ from management's and unless management provides sufficient information, users may not be able to make an informed decision.

**Example 19 – Quantitatively small metric – Information material**

Company S has information about a large change in water consumption at a location where the availability of water is plentiful and associated costs are insignificant. S concludes that this information is not material because the level of water consumed at the site is not likely to influence users' decisions.

S also has information about a quantitatively small change in water consumption at a location where the water supply is severely restricted and costly. S concludes that this information is material because it could affect users' assessments of the site's ability to continue in operation and, therefore, influence their decisions.

**Insight...****Can information about the absence of a risk be material?**

Yes, information that a company is not exposed to a risk may be material if the risk is relevant – i.e. users expect the company to be exposed to it (see [Step 3](#)). For example, this may occur when the company's industry peers have announced that they are affected by the risk (qualitative factor). Management needs to consider whether information about why it is not exposed to this risk could affect users' assessments of the company enough to influence their decisions (e.g. workplace injuries). [*ISSB EM p. 14*]

**Example 20 – Identifying potentially material information**

Continuing [Example 17](#), Company K considers its longlist of potentially material information about the relevant opportunity. For each item of potentially material information, K assesses whether disclosure could reasonably be expected to affect users' assessments of the company enough to influence their decisions. For example, K performs the following analysis.

Potentially material information	Analysis	Conclusion
Revenue from products designed for use-phase resource efficiency (SASB RT-CH-410a.1)	The product is still in the development stage. Although there are no sales in the current period (quantitative factor), K considers that a discussion of the anticipated market related to this opportunity could affect users' assessments of the company (qualitative factor). K determines that this information could reasonably be expected to influence users' decisions.	Material
Customer case studies (Peer information)	Customer case studies are not relevant to users because the product is still in development. K has performed no case studies at this stage. Certain competitors have included case studies in investor presentations based on similar product lines. K determines that the absence of case studies could not reasonably be expected to affect users' assessments of the company.	Not material

K considers whether any of the material information about this opportunity may be commercially sensitive. See [Insight... Can a company omit material information if it is commercially sensitive?](#)

**Insight...****Can a company omit material information if it is commercially sensitive?**

Yes, in limited circumstances and only for sustainability-related opportunities.

IFRS Sustainability Disclosure Standards include an exemption from reporting commercially sensitive information if:

- the company has a competitive advantage because the information is not publicly available – e.g. via investor presentations or marketing materials; and
- it would be impossible to disclose the information without seriously prejudicing the economic benefits a company could otherwise realise from the opportunity. [IFRS S1.B34–B35, BC83]

When applying this exemption, a company needs to consider whether the information could be disclosed in a different way – e.g. providing less granular information. If this is not possible, then the company could exclude the information provided that it:

- discloses that it has applied the exemption for that piece of information; and
- reassesses at each reporting date whether the exemption remains appropriate. [IFRS S1.B36]

This exemption does not apply to sustainability-related risks. [IFRS S1.B37]

**How to...****Provide information about time horizons**

A company needs to disclose material information about the time horizon over which each relevant risk and opportunity could reasonably be expected to impact the company's prospects. A company also needs to describe how it defines the short, medium and long term, including how these definitions link to strategic planning horizons. [IFRS S1.30(a)–(c)]

IFRS Sustainability Disclosure Standards do not mandate use of particular time horizons. Short-, medium- and long-term time horizons may vary from company to company depending on industry-specific characteristics and other factors, including the company's internal planning horizons. [IFRS S1.31]

A company could consider how it currently assesses its forward-looking information for management purposes – e.g. short-term budgeting processes, forecasting periods, strategic planning and long-term investment planning, and financing projections. It could also consider other reporting requirements, such as jurisdictional or prudential requirements, which specify the time horizons required for regulatory information.

**Example 21 – Providing information about time horizons**

Continuing [Example 11](#), Manufacturing Company M discloses that it defines short term as less than three years, medium term as three to 10 years and long term as more than 10 years. It explains that these periods are in line with its internal strategic planning horizons and forecasting.

M provides the following information.

- Management expects the obsolescence risk to impact the business in the short and medium term. Therefore, M reports that it has incorporated the impact of falling demand into the financial plan used to support asset valuations.
- Management expects that supply chain interruption risk could impact the business at any time but will increase over time. M reports that it has incorporated costs associated with broadening the supply chain in its long-term strategy. It also includes a cross-reference to further discussion on investment planning and broader supply chain risk-mitigation activities elsewhere in the annual report.



How to...

Determine if information about mitigation activities is material

As discussed in *Insight... Can a company consider its mitigation activities when identifying relevant risks?*, we believe that a company should consider whether information about its mitigation activities and the approach applied is material and requires disclosure. Also, we believe that when a company considers mitigation activities as part of its assessment of whether a risk is relevant, it should ensure that it does not omit material information about the risk and related mitigation activities.

The following table illustrates ways to determine whether information about mitigation activities is material based on scenarios explored in [Step 3](#).

Example reference	Is the risk relevant?	Is the information about mitigation activities material?
<p>Example 12</p> <p>Effect of mitigation activities – Asset completed</p>	No	<p>In Step 3, Company V determined that the risk of flooding was not relevant.</p> <p>When assessing whether information about the flood wall is material, V considers whether the information has the capacity to influence users' assessments of the company.</p> <p>V notes that the flood wall mitigates the flood risk despite its facility being located on the coast. The mitigation of the risk could affect users' assessment of future cash flows because V would not be subject to the costs related to flood damage in the future (quantitative factor). However, V notes that completion of the flood wall is widely known by its investors and considered general knowledge in the region (qualitative factor). Therefore, V determines that further disclosures would not influence users' decisions.</p> <p>V considers whether information about its process to conclude that the risk is not relevant is material.</p>
<p>Example 13</p> <p>Effect of mitigation activities – Procedures in place completed</p>	Yes	<p>Company V considers flooding to be a climate-related physical risk. It applied IFRS S2 to identify potentially material information about its specific facts and circumstances.</p> <p>V assesses whether information about the sandbagging procedure is material and notes that it could affect a user's assessment of the company. The procedure is intended to minimise the costs of potential flood damage and illustrate management's awareness of, and response to, the flood risk.</p> <p>V determines that the information could influence users' decisions and reports material information about the risk and the mitigation activities.</p>

Example reference	Is the risk relevant?	Is the information about mitigation activities material?
Example 14 Effect of mitigation activities – Policies in place but activities ongoing	Yes	<p>Company J considered the sources of guidance that apply to its specific facts and circumstances. J identified that ESRS E3 <i>Affected communities</i> includes requirements representing potentially material information that do not conflict with IFRS Sustainability Disclosure Standards.</p> <p>J considers whether the information in the potentially relevant disclosure requirements is material. For its circumstances, J determines that information about the following could influence users' decisions:</p> <ul style="list-style-type: none"> • policies related to affected communities; • processes to remediate negative impacts and channels for affected communities to raise concerns; and • approaches to mitigating risks and the effectiveness of the actions. <p>J reports this information as it is material.</p>
Example 15 Effect of mitigation activities – Internal policy	No	<p>Company D considered industry and local practice when identifying potentially relevant information about its specific facts and circumstances.</p> <p>When assessing whether information about the mitigation activities is material, D considers whether the information has the capacity to influence users' assessments of the company.</p> <p>D notes that if it were to breach the export control regulations, then it would be subject to costly delays, fines and legal costs. Therefore, information about the mitigation activities could affect users' assessment of the company. D enforces its internal policy to minimise the risk of illegal export of its goods. It determines that information about the policy and its track record of compliance for the past 15 years is material because it could influence users' decisions, and therefore reports the information.</p> <p>D considers whether information about its process to conclude that the risk is not relevant is material.</p>



Insight...

What are the challenges in obtaining data?

Information included in sustainability-related financial disclosures will come from a variety of sources and will include a combination of direct and indirect measurement, as well as estimation.

Companies will need to implement systems, processes and controls that allow timely reporting.

Information that a company reports is not required to be perfectly precise in all respects, but factual information and assumptions applied in making estimates need to be free from material error. [IFRS S1.D15]

This is particularly relevant, as many companies are likely to face challenges in obtaining information about activities outside their control. These challenges may include:

- understanding the quality and availability of data;
- obtaining information in a timely manner;
- using measurement techniques that are aligned with other parties; and
- identifying appropriate estimates and approximations when data is unavailable.

**Example 22A – Estimating data**

Manufacturing Company X purchases and receives delivery of raw materials on a quarterly basis from Company Y. X determines its Scope 3 Category 1 greenhouse gas (GHG) emissions (Purchased Goods and Services) for the purchased raw materials based on supplier-specific emissions data provided by Y.

Y has provided emissions data for the first three quarters of the year; however, the Q4 data will not be available before the date that the sustainability-related financial disclosures will be authorised for issue.

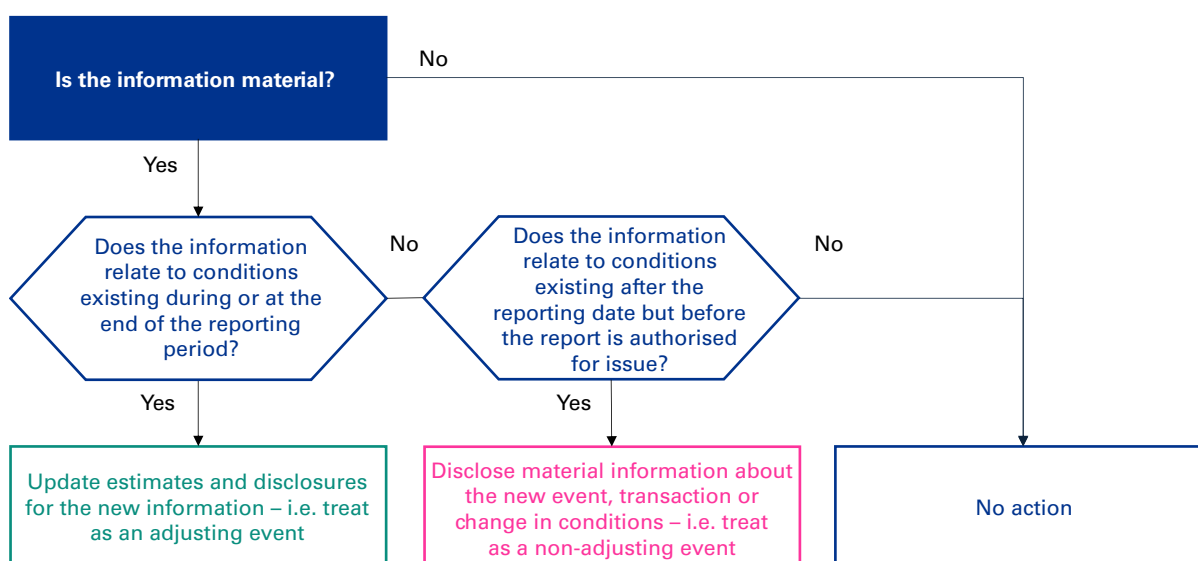
In the absence of supplier-specific data, X uses the average-data method to calculate its Q4 emissions. X uses the trailing four-quarter-average emissions-per-unit rate for the raw materials based on the supplier-specific data available and multiplies it by the amount purchased in Q4.

X considers the effectiveness of its inventory controls and the reliability of the supplier's data for the periods used in the estimate and determines that the assumptions used in the calculation are reasonable, supportable and free from material error.

**How to...****Consider information after the reporting date**

Information that becomes available after the reporting date may influence users' decisions. Therefore, companies need to assess any information obtained between the reporting date and the date on which the sustainability-related financial disclosures are authorised for issue.

**Information about an event, transaction or change in conditions
identified after the reporting date**



This is consistent with the approach followed for adjusting and non-adjusting events under IFRS Accounting Standards.

**Example 22B – Estimating data and updating it for actual results**

Continuing [Example 22A](#), in the absence of supplier-specific emissions data Company X uses the average-data method to calculate its Q4 emissions.

Before the date the sustainability-related financial disclosures were authorised for issue, X obtained the supplier-specific emissions data from Company Y for Q4.

This supplier-specific data relates to conditions that existed during the reporting period. X recalculates its Q4 emissions data and determines that adjustments to its GHG emissions metrics are not required because the changes are not material.

**How to...****Reassess materiality judgements**

IFRS S1 requires a company to reassess its materiality judgements at each reporting date. This is because what a company determines to be material can change as its circumstances and strategies change. [IFRS S1.B28]

The purpose of the reassessment is to identify whether additional information is now material or if previously disclosed information is no longer material. Judgements are based on what could influence users' decisions. For example, a company may:

- revisit old assessments in light of new risks, opportunities, or user expectations;
- consider if information previously deemed immaterial could now affect users' decisions;
- evaluate whether users might misunderstand the entity's exposure or response to a risk, and if clarification would influence decision-making;
- include additional forward-looking information when long-term risks become more probable or better defined.

**Insight...****Outcome of materiality assessments made under IFRS Sustainability Disclosure Standards and IFRS Accounting Standards may differ**

A company will already have experience in making materiality judgements in preparing its financial statements.

Materiality judgements under IFRS Sustainability Disclosure Standards and IFRS Accounting Standards are made on a similar basis – i.e. by considering the information's ability to influence users' decisions.

However, the types of information required to meet the objectives of each set of IFRS Standards differ. Sustainability-related financial disclosures provide information about relevant sustainability-related risks and opportunities. Financial statements provide information about a company's assets, liabilities, equity, income and expenses.

This means that information required by IFRS Sustainability Disclosure Standards:

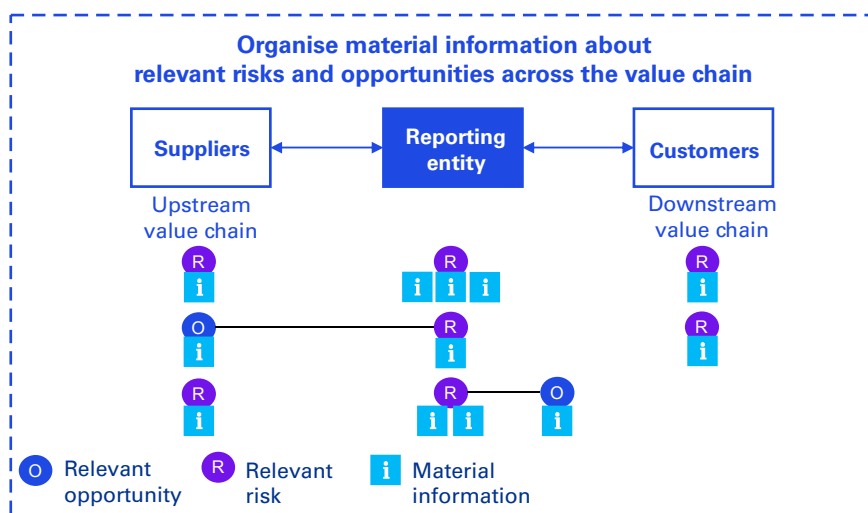
- includes information that does not form part of the financial statements (e.g. information about the company's strategy);
- includes information about a company's value chain, which is outside the reporting entity boundary;
- may be material even though there is no corresponding financial statement effect (e.g. information about a potential change in strategy that has not yet affected the financial statements); and
- covers a longer time horizon than the information in the financial statements.

Companies need to be aware of the different objectives when identifying material information to disclose in the financial statements and sustainability-related financial disclosures. They also need to connect relevant pieces of information.

Step 6: Organise and report material information

A company organises the material information in its sustainability-related financial disclosures in a way that tells a clear, concise and connected story.

When organising its sustainability-related financial disclosures, a company needs to ensure that material information is not omitted or obscured by immaterial information. In doing so, it aggregates and disaggregates information at the appropriate level.



The output of Step 6 is an organised set of material information about relevant sustainability-related risks and opportunities.

This information is reported in sustainability-related financial disclosures.



In Step 6, consider...

- What **material information** was identified under **Step 5**?
- Is the material information presented at an appropriate level of **aggregation**?
- Has the company performed a **holistic review** of the reporting package?
- Is information provided about **key judgements** made in preparing the sustainability-related financial disclosures?
- Is any material information **omitted** or **obscured**?

**How to...****Avoid obscuring information**

Information is obscured if it is communicated in a way that would have a similar effect for users as omitting or misstating that information.

Some ways that material information may be obscured include:

- scattering material information about a sustainability-related risk or opportunity throughout the sustainability-related financial disclosures;
- inappropriately aggregating or disaggregating certain pieces of information; and
- reducing the understandability by hiding material information among immaterial information such that a user is unable to identify what information is material. [IFRS S1.B27]

A company needs to provide material information that is prominent and distinguishable from immaterial information to satisfy legal, regulatory or other requirements.

To distinguish immaterial information disclosed under IFRS S1 a company may, for example:

- use digital tagging so that users can extract material information;
- use formatting, such as boxes or shading;
- present information in separate sections within one report; and
- provide two separate sets of information.

**How to...****Aggregate and disaggregate information**

When providing material information, management needs to make aggregation judgements. Management considers whether:

- some information about sustainability-related risks or opportunities may be material to users when it is considered in aggregate, even though it would not be material when considered in isolation; and
- some aggregated information about a sustainability-related risk or opportunity may not be material to users, but disaggregated information relating to a particular site or activity may be material.

[IFRS S1.B29–B30]

**Example 23 – Presenting aggregated information**

Food Manufacturer U has a diverse supply chain that includes a large number of small businesses across multiple jurisdictions. It has identified multiple location-specific biodiversity-related risks that could affect its supply chain resilience.

U determines that information about each individual risk is not material because the supply chain is diverse and any individual impact would be too small to affect investor decisions. However, when considered in aggregate, information about the risks is material to users. This is because of U's high dependence on small producers that U assesses as having low resilience to biodiversity-related risks. U considers the prevalence of the risks and the significant impact that would occur if multiple risks crystallised at the same time. Therefore, U provides information about its exposure to this aggregated risk, including explaining its actions to manage the resilience of its supplier portfolio.

**Example 24 – Presenting disaggregated information**

Company W assesses that water is a critical part of its operations. The availability of water varies across all sites, one of which is water-stressed. W determines that reporting its aggregated water usage is not a useful metric because it obscures the location-specific risk. Therefore, W provides disaggregated information about water usage at the water-stressed site but does not provide disaggregated water usage data covering other sites where water supply is plentiful.

**How to...****Disclose information about key materiality decisions**

There is no explicit requirement to disclose the process followed for identifying material information about sustainability-related risks and opportunities. However, a company needs to disclose its process to identify, assess, prioritise and monitor relevant risks and opportunities as part of its risk management disclosures. [IFRS S1.43(a)]

In addition to risk management disclosures, a company discloses material information about the key decisions made in preparing its sustainability-related financial disclosures. These judgements depend on facts and circumstances at the time when the company prepares its disclosures. [IFRS S1.74]

Some of these decisions may be made during the materiality assessment process. [IFRS S1.75]

Area	What to disclose
Significant judgements	<p>The judgements that have had the most significant effect on the information included in the disclosures about relevant risks and opportunities. [IFRS S1.74–75]</p> <p>This could include explaining judgements made in:</p> <ul style="list-style-type: none"> • identifying relevant risks and opportunities; • assessing the impact of mitigation activities; • determining which sources of guidance to apply (see Steps 4 and 5); • identifying material information to include in the sustainability-related financial disclosures; and • assessing whether an event or change in circumstances is significant and requires the reporting company to reassess the scope of its value chain.
Sources of guidance	<p>A company discloses which SASB Standard(s) and other sources of guidance it has applied to prepare its disclosures, including the industry or industries it has used. [IFRS S1.59]</p> <p>This is to help users understand how the company has identified material information and prepared the disclosures.</p>

As facts and circumstances can change, materiality judgements may be vulnerable to hindsight challenge if they are not subject to due process and properly documented. Therefore, a company needs to ensure that its decision-making process has been documented for governance and/or assurance purposes.



How to...

Perform a holistic review

A company needs to 'step back' to assess whether information is material, both separately and in combination with other information in the context of all of its sustainability-related financial disclosures.

As part of its review of disclosures, a company considers the following areas.

Area	What to consider
Materiality	Whether information is material both separately and in combination with other information when considered as a whole. This includes identifying: <ul style="list-style-type: none"> • relevant relationships between different items of information; and • those items of information that are individually immaterial but when considered together could reasonably be expected to influence users' decisions.
Connectivity	Whether users will understand the connections between a company's sustainability-related financial disclosures and other disclosures in its general-purpose financial reports.
Understandability	Whether information in the sustainability-related financial disclosures is communicated in an effective and understandable way, and organised to avoid obscuring material information.
Fair presentation	Whether the sustainability-related financial disclosures as a whole provide a fair presentation of the company's sustainability-related risks and opportunities.

Appendix 1: List of 'How to...'

Title	Page
Determine the value chain	4
Identify resources and relationships	6
Assess impacts and dependencies	8
Reassess impacts and dependencies across the value chain	9
Determine whether impacts and dependencies give rise to potentially relevant risks and opportunities	11
Determine which guidance to apply to identify potentially relevant risks and opportunities	12
Use SASB Standards to identify potentially relevant risks and opportunities	12
Determine whether risks and opportunities are relevant	17
Consider the stage of mitigation activities	22
Consider the effect of mitigation activities	23
Identify potentially material information	28
Assess if information is material	31
Assess future cash flows when making materiality judgements	32
Provide information about time horizons	35
Determine if information about mitigation activities is material	36
Consider information after the reporting date	38
Reassess materiality judgements	39
Avoid obscuring information	41
Aggregate and disaggregate information	41
Disclose information about key materiality decisions	42
Perform a holistic review	43

Appendix 2: List of insights

Title	Page
Does a company need to do an exhaustive search to determine its value chain?	5
When identifying potentially relevant risks and opportunities, can a company consider results of its assessment prepared under other frameworks?	13
Is a company required to use thresholds to determine relevant risks and opportunities?	19
Is a company required to use a scoring system to determine relevant risks and opportunities?	19
Can a risk be relevant if a company determines that it has no or low exposure to it?	19
Is a company required to allocate relevant risks and opportunities to different time horizons?	20
Can a company consider its mitigation activities when identifying relevant risks?	21
Does a company need to model its future cash flows when assessing if information is material?	33
Could information be material regardless of its timing or potential magnitude?	33
Can information about the absence of a risk be material?	34
Can a company omit material information if it is commercially sensitive?	35
What are the challenges in obtaining data?	37
Outcome of materiality assessments made under IFRS Sustainability Disclosure Standards and IFRS Accounting Standards may differ	39

Appendix 3: List of examples

Example	Title	Page
Example 1A	Identifying resources and relationships	7
Example 1B	Assessing impacts and dependencies	8
Example 2	Potentially relevant risks and opportunities arising from a company's human resources	11
Example 3	Potentially relevant risk arising from a company's relationships with environmental activists	11
Example 4	Potentially relevant risk arising from the impact of a company's supplier on biodiversity	11
Example 5	Using SASB Standards to identify potentially relevant risks and opportunities	13
Example 6	Using a double materiality assessment prepared under ESRS	14
Example 7	Using a range of sources to identify potentially relevant risks and opportunities	15
Example 8	Process to identify relevant risks	18
Example 9	Relevant risk – User perspective	18
Example 10	Relevant risk – Management perspective	18
Example 11	Defining time horizons	20
Example 12	Effect of mitigation activities – Asset completed	24
Example 13	Effect of mitigation activities – Procedures in place completed	25
Example 14	Effect of mitigation activities – Policies in place but activities ongoing	25
Example 15	Effect of mitigation activities – Internal policy	26
Example 16	Identifying potentially material information – Clothing retailer	28
Example 17	Identifying potentially material information	29
Example 18	Assessing if information is material – Human rights violations in supply chain	32
Example 19	Quantitatively small metric – Information material	33
Example 20	Identifying potentially material information	34
Example 21	Providing information about time horizons	35
Example 22A	Estimating data	38
Example 22B	Estimating data and updating it for actual results	39
Example 23	Presenting aggregated information	41
Example 24	Presenting disaggregated information	42

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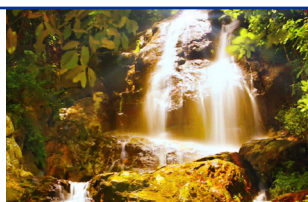
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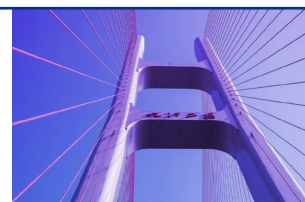
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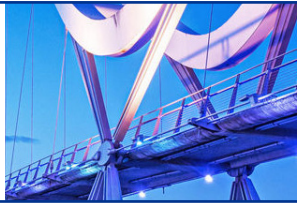
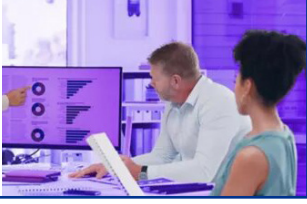
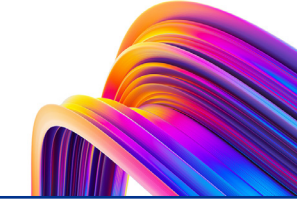










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