A. About UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 450 banks, insurers, and investors and over 100 supporting institutions – to help create a financial sector that serves people and planet while delivering positive impacts.

Through its finance sector frameworks, in particular the Principles for Responsible Banking (PRB) and the accompanying Impact Management Protocol for Banks, UNEP has been pushing for an impact driven approach to sustainability management. In addition, through the Impact Management Platform, it has been working with peer organizations, including GRI, to converge on impact management more broadly.

B. Context to UNEP FI’s Input to the Invitation for Public Feedback

UNEP FI welcomes the issuance of specific guidance on the Materiality Assessment process required by CSRD and outlined in ESRS 1, as the double materiality approach is distinctive and ambitious. The practitioners that UNEP FI works with have expressed the need for more clarity and guidance. Particularly welcome is the coverage of value chains and how materiality assessment applies to different value chains and different parts of those value chains.

The methodology and requirements underpinning CSRD and ESRS align very closely with the frameworks and methodology that the UNEP FI has set out for the banking sector. Therefore, we have recently started to map out this alignment and initiating a Working Group to help banks leverage their work with UNEP FI for the benefit of ESRS reporting. Also, UNEP FI has previously worked with its network of banks to pilot implementation of EU Taxonomy disclosures. We therefore hope to be in a unique position to provide meaningful feedback on the EFRAG’s Implementation Guidance.

C. Summary of our input

Our feedback is structured around four categories of observations:
1. Observations relating to the **overall approach**; in particular we would recommend to grant more coverage to the identification and assessment positive impacts, as it is the case for negative impacts.

2. We also hereby included **considerations relevant to undertakings from the finance sector**, observing a certain bias in relevance of the guidance towards primary and secondary sectors.

3. In complement, we are sharing **suggestions to improve clarity, readability / usability**, namely by avoiding ambiguous terminology, including key concepts in the body of the text, and some adjustments in the use of visuals.

4. Finally, we offer suggestions for **additional guidance elements that could be developed** to simplify IRO identification and enhance reporting consistency and comparability.

You will find more detailed comments in the section below. We remain available to discuss any questions you might have in relation to this contribution.

The points raised in this document have also been disaggregated and submitted per the relevant sections of the guidance, namely:

- 2. The ESRS approach to materiality
- 3. How is the materiality assessment performed?
- 5. Frequently asked questions

### D. Detailed commentary on the guidance

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While the guidance acknowledges both positive and negative impacts overall, it provides effective orientation as regards the identification and assessment of negative impacts but does not give due coverage to positive impacts. These are essential to the development of business solutions and the transition to a sustainable economy and would therefore deserve extra coverage.

While a better embedding of positive impacts would ultimately require adjustments to AR16 (see below comments in section V on possible future development of guidance), in the meantime the inclusion of an example of positive impacts, and the addition of a few nuances to the sections focusing on “affected stakeholders”.

Section 2.1 (para 37) helpfully includes **examples** of material IROs and how these might emerge over time; however, both consider negative impacts.

➢ **SUGGESTION:** Adding one further example, based on positive impacts would help consolidate the narrative and guidance as regards the relevance of both positive and negative impacts. The example could be about a business development enabling the
delivery of positive impacts to underserved population groups (e.g. access to and/or affordability of health, education or other services).

The treatment of affected stakeholders, namely in Sections 3.1 and 3.5 is focused on the consideration of how stakeholders might be negatively affected. Omitting the positive dimension has a knock-on effect on subsequent financial materiality analysis, as most opportunities require a positive impact component – much less opportunities will be found if only negative impacts are considered, which will act counter to the overall goal of seeking to couple financial and sustainability performance. Indeed, stakeholders can be involved to help identify and assess both positive and negative impacts.

➢ SUGGESTION: Adding “negatively or positively” [affected] in the texts of Sections 3.1 and 3.5 would act as a helpful reminder that impacts can be positive and/or negative, that stakeholders can be engaged to identify both types, and ultimately to incentivize/enable reflection on business model development.

b. Treatment of financial materiality

Section 2 very effectively describes the differences and interconnections between impact and financial materiality, and Section 3.3.2 (para 87) recognizes that financial materiality derives from both the undertaking’s impacts as well as from its dependencies and contextual factors.

Section 3 (para 63) stipulates that the undertaking does not need to perform two separate and independent processes to establish impact and financially material topics, however, the information/data on financial risks and opportunities being distinct to that on the undertaking’s impacts, there is necessarily a step or series of actions that are specific to financial materiality assessment. The affirmation in para 63 could therefore be misleading.

➢ SUGGESTION: Consider reformulating para 63 to avoid obscuring the distinct nature of financial materiality considerations.

Relatedly, Section 3.3.2 has only three short paragraphs (paras 89-91) on the specifics of financial materiality assessment, with no further reference to the notion of dependencies and contextual exposures, making this section less clear and explicit than the rest of the Section 3 and undermining the overall clarity on double materiality assessment.

Finally, in section 5.7 of the Guidelines it is mentioned that if a company reports on any Taxonomy eligible activities it engages in, this can inherently help in the identification of impacts, based on the criteria of substantial contribution of the activity to some of the environmental objectives, and also based on compliance or not with the DNSH for the remaining environmental objectives. As such, the Guidelines establish a link between the eligible activities according to the Taxonomy and impact materiality. It is worth noting, however, that the fact of having Taxonomy eligible activities can also be an input from the point of view of financial materiality.

For example, the technical screening criteria of an eligible activity could change in the future because it is an activity where there is a lot of technological progress and research, with the
transition risks that this entails, and this could be relevant from the point of view of financial materiality when performing the materiality assessment. was an activity included in the EU Emissions Trading System, this fact should also be considered as a legal transition risk that would have financial implications for the company.

➢ **SUGGESTION:** Section 3.3.2 could helpfully include i) more extensive/practical reference to the analysis of dependencies and contextual exposure ii) a visual representation of the financial materiality assessment “overlay” to the impact materiality assessment

➢ **SUGGESTION:** FAQ 25 could better explain the fact that having eligible activities in accordance with the Taxonomy can be an input to be considered within the framework of the materiality assessment process, both from the point of view of impact materiality and also financial materiality.

c. **Reference to valuation**

Section 5.3 (FAQ 10) indicates that impact valuation enables the comparison of different impacts. While this is indeed the objective of impact valuation methodologies (which are still in their infancy), it is important to bear in mind that i) there are very strong risks of inaccuracy in attributing the same units of measure to inherently different impact categories and their incomparable indicators ii) the materiality perspective of these methodologies may or may not be an impact perspective (i.e. limited to financial materiality).

➢ It would be advisable not to reference impact valuation as a confirmed tool in the current early stages of development of the practice.

### II. Considerations relevant to undertakings from the finance sector (and other parts of the tertiary sector for whom most material impacts are “downstream”)

#### a. Bias towards primary and secondary sectors / upstream and operations

While the Guidance is amply clear on the fact that the full value chain (including upstream and downstream activities) is in scope, it carries an inherent bias towards impacts generated by undertakings’ direct operations and their upstream activities and hence to those sectors for whom most material impacts are generated by operations and upstream activities.

Given the huge proportion of undertakings that do not fall in this category, typically those in the tertiary sector and in particular financial institutions (see Fig. 1 below), it would be advisable to introduce some balancing elements in the text. This would be a helpful basis ahead of more detailed treatment in the future Sector Standards.
The two main aspects of the guidance which instill this bias are: on the one hand, the treatment of (affected) stakeholder engagement, and on the other hand, the treatment of materiality assessment criteria and setting thresholds.

As regards the question of **stakeholder engagement**, this is practice that is greatly emphasized in the document, with multiple dedicated sections, in particular Sections 3.1 (para 69), 3.3.1 (para 85) and 3.5. For sectors such the financial sector where the bulk of impacts are downstream, the bulk of affected are likewise downstream and bear no direct relation to the undertaking. While some engagement may be possible, it is necessarily of a very different nature and volume of that which can/should be expected of undertakings in sectors whose impact associations are located with direct operations.

Giving such prominence to the concept of engagement overshadows this reality and could lead undertakings to distort and/or oversell information on stakeholder engagement activities in an attempt to match the guidance.

The treatment of **materiality assessment criteria / thresholds** (Section 3.6) with the detailed breakdown of scope scale generates similar difficulties.

- **SUGGESTION:** As a manner of compensating the bias and averting such distortion risks, a cross-reference to the Implementation Guidance on Value Chains could helpfully be introduced in the corresponding sections (Sections 3.1 (para 69), 3.3.1 (para 85), 3.5 and 3.6).
- **SUGGESTION:** Also, in FAQ 2 it would be useful to include a specific example from the banking sector to explain what it means for a banking entity to be "connected" to an impact.
III. A few opportunities for user friendliness / usability

a. Positioning of the guidance:

The guidance points out in several instances that ESRS does not mandate a process or steps, however much in the guidance (necessarily and inevitably) outlines processes and steps, and even ESRS itself offers a very clear decision tree process to be followed. This makes for somewhat ambiguous reading for the user: are some parts of the guidance more authoritative than others? Are there completely different ways of doing things?

➢ SUGGESTION: Given the disclaimers included at the very front of the document which clearly signal that the material is non-authoritative, the text itself could be ridded of further allusions to this.

b. Use of visuals and navigation of the guidance

i) The document contains very helpful visuals, however it would gain from having a front / summary visual to ensure clarity upfront on the process as whole.

While the introduction to Section 2 provides a sequential overview of the process as a whole, there is no up-front visual representation of this, making it more difficult to absorb the guidance.

In particular, it is important that the distinction between the impact materiality assessment process and the determination of material information be clear. As alluded to in several parts of the guidance (e.g. Section 2 (para 32), Section 2.3, Section 3.3) the materiality assessment and determination of material IROs is the basis for determining material information; i.e. these are related but distinct concepts which are arrived at in a sequence of analysis.

Relatedly, the points in relation to the determination of material information (Sections 2.3, 2.4 and 2.5) come before the deep-dive on materiality assessment (Section 3).

➢ SUGGESTION: It would be helpful to introduce a simple visual representation of the process as a whole, including the distinction between the materiality assessment process and the determination of material information, and to include it in the very first part of Section 2. In addition, the diagramme sections might hyperlink to the relevant parts of the document.

ii) A note on Figure 1c) Section 2.1 (para 35) – this figure comes in a sequence of 3 diagrammes and does not seem to be alluded to in the narrative. It also brings in the question of sustainability topics and AR16, before these items are unpacked by the narrative (this happens in Section 2.2). This combination of factors is possibly a bit overwhelming and/or confusing for readers, undermining the value of the figure.
➢ SUGGESTION: Figure 1c) may come to life much more effectively if positioned at the end of Section 2.2.

c. Ensuring all key concepts are covered directly in Sections 1, 2 and 3 rather than in the FAQs.

Certain concepts included in the FAQs are very important and are only/mainly treated in the FAQs. Examples below:

- FAQ 2: Can positive impacts be netted against negative impacts?
- FAQ 9: How to consider time horizon in the double materiality analysis?
- FAQ 18: Does the undertaking use the same criteria when defining the level of disaggregation across all IROs?
- FAQ 25 What is the relationship between taxonomy eligible activities and materiality?

➢ SUGGESTION: Consider including the treatment of these key concepts and positionings in the main body of the document, not just in the FAQs.

➢ SUGGESTION: In addition, consider including a glossary.

d. Avoiding ambiguous terminology

Certain terminology choices / phrasings present some ambiguity; the clarity of the document could be enhanced by adjusting phraseology in a few places, in particular:

“key concepts” in the heading of Section 2.2 suggests a review of what key concepts around materiality mean / how they are used. In practice the section is about “sustainability matters”, the overall key concepts having been (rightfully) addressed in the previous section.

➢ SUGGESTION: The section heading could be helpfully rephrased as “Sustainability matters” (or topics) for the materiality assessment.

“context” in Section 3 covers both contextual information in the strict sense of term (e.g. legal and regulatory landscape) and the very nature of the undertakings business (business model, plan, strategy...), which makes the use of the word “context” somewhat misleading / unclear

➢ SUGGESTION: Consider rephrasing more accurately, for instance “Understanding the business and its context”.

“actual / potential” in Section 3.2, Step B differentiates between current and potential future impacts. The use of the word “actual” indicates “confirmed” impacts (which may or may not be the case depending on whether direct measurement or proxies were used), and the word “potential” by itself could be used precisely to consider such “unconfirmed” impacts.

➢ SUGGESTION: Ideally, consider switching to “current impacts” and “potential future impacts”. At a minimum, add a clear definition from the start (i.e. where mentioned for the first time) to avoid ambiguity.
IV. Additional guidance elements that could be developed going forward to simplify IRO identification and enhance reporting consistency and comparability

In Section 3.2 Step B, the Guidance orients readers on sustainability matters and topics to consider, bearing in mind that AR16 is not comprehensive. Importantly, it acknowledges that future sector standards will help facilitate this identification process (para 72).

While there will always be entity-specific impacts, the bulk of material impact topics are driven by the nature of the activities / the sector of the undertaking. This means most impact topics are objective and predictable; there is therefore a big opportunity to simplify identification by providing a consolidated mapping of positive and negative impacts per sector. Such a mapping is also critical to improve the consistency and comparability of what is reported; currently the absence of a common reference point is a key risk / undermining factor to consistency and credibility of sustainability reporting under any framework (ESRS, GRI or other).

➢ SUGGESTION: A mapping of positive and negative associations between sustainability topics and all economic activities / sectors ought to be developed going forward and should underpin the different sector standards. Key sectors per sustainability topics – i.e. sectors with a particularly strong association (positive and/or negative) to a topic - could be specifically identified for even further support to the materiality analysis. The work of UNEP FI (Sector Impact Map, Key Sector Mapping) could be a built on / a source of inspiration in this regard.

➢ SUGGESTION: Relatedly, a consolidated view of sector value chains and typical stakeholder profiles could be developed to support the early stages of the materiality assessment process (Section 3.1 Step 1).