



Think Ahead

An aerial photograph of a vast desert coastline. The left side of the image shows rolling sand dunes in shades of orange and gold, with long shadows cast across them. The right side shows a deep blue ocean with white waves crashing onto a sandy beach. The horizon is visible in the distance under a clear sky.

**SUSTAINABILITY
REPORTING –
RISK AND
MATERIALITY**

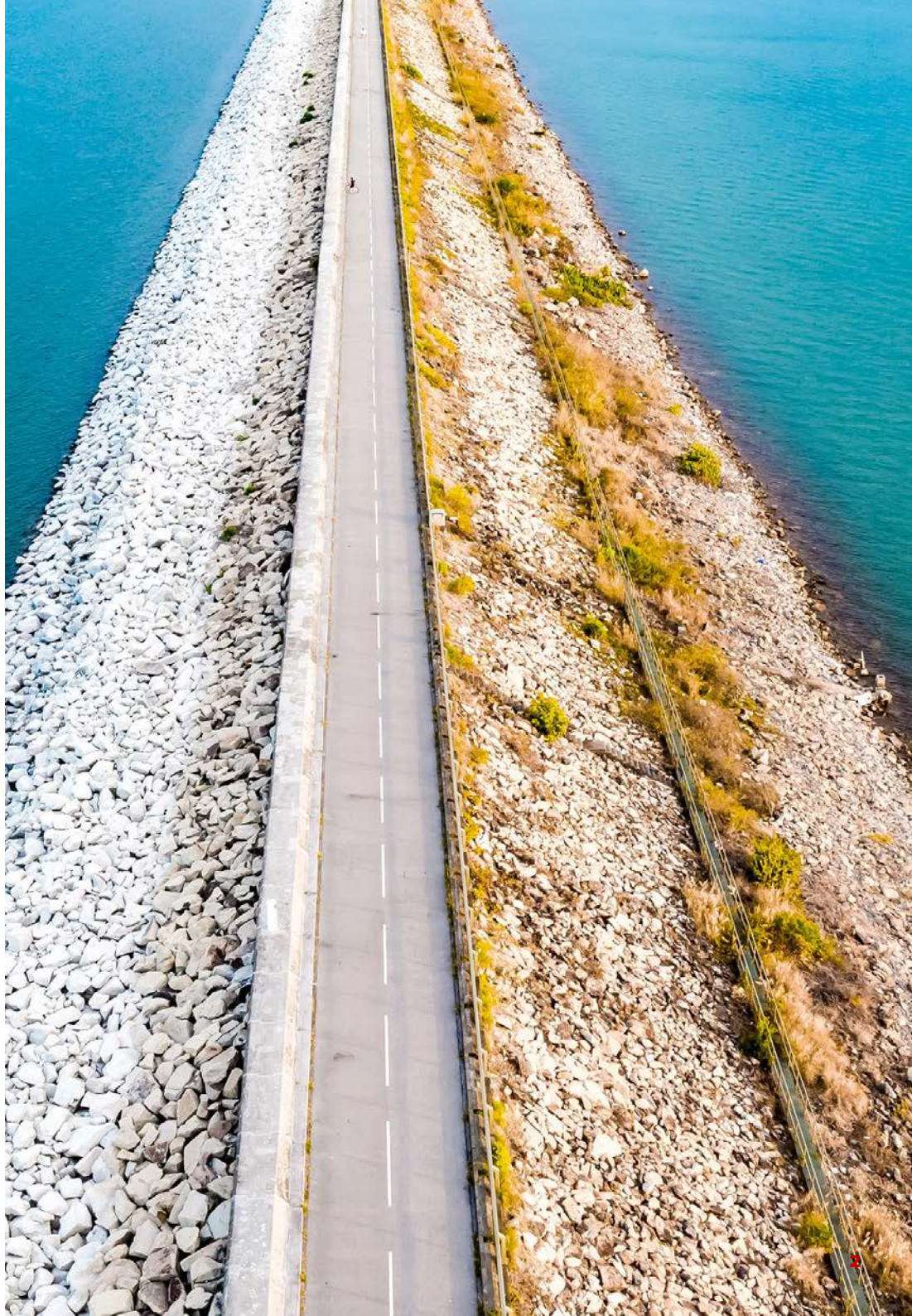
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AUTHOR



Aaron Saw
Head of Corporate Reporting Insights – Financial



About ACCA

We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over **252,500** members and **526,000** future members in **180** countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgement to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators, and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all.

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Introduction

Identifying relevant sustainability-related risks and opportunities (SRROs), and then the key information for decision-making requires time and resources. To help you do this, ACCA outlined the three steps in Chapter 3 of the [Sustainability Reporting – the Guide to Preparation](#) (the Guide) (Machado et al. 2023). For details of the three-step approach, read Chapter 3 in the Guide: ‘Determining the material sustainability-related information to be reported’.

In this article, we supplement these steps with further illustrative, anonymised real-life examples, including a few that demonstrate the practices of lesser-resourced organisations, such as small and medium-sized entities (*SMEs*).¹ The examples are there to inspire our community of accountants, finance and business professionals to learn, adapt and improve their approaches to identifying and communicating risks and opportunities. The examples are biased towards climate-related risk as this is where most organisations are beginning their journeys. This is unsurprising, given the severe operational disruptions that climate-related events are causing many. These events emphasise the urgent importance of addressing both physical and transitional climate-related risks and their impact on business continuity, with strategies that include managing and mitigating risks and adapting to take advantage of emerging opportunities. ACCA will feature examples that go beyond climate-related risk in our future work, as the practice develops. Continue engaging with our work and read other complementary resources on [ACCA’s sustainability reporting hub](#).

Be pragmatic about the information to be disclosed about SRROs and the strategies for managing them; provide the most relevant information you can and continue improving the reporting process.

Terms defined in the Glossary are in *italics* the first time they appear in this article.

¹ These examples are based on desk research and insights from roundtable participants. See Acknowledgements. This article and all the examples in this article are not interpretations of, or amendments to, the requirements in any sustainability reporting framework or standard.





Step 1: Identifying
the organisation's
SRROs

Identifying a sustainability-related risk or opportunity requires a thorough knowledge of the organisation's business activities, the resources and relationships on which it depends and those that it affects, as well as its regulatory environment.

Establishing the context of the organisation's relationships with the natural environment and the society on which it depends will guide the organisation in identifying the key stakeholders and the information that could influence their decisions.

Scanning the environment

Part of the initial process of identifying SRROs is understanding the current regulatory and reporting landscape of the jurisdiction(s) where the organisation operates, including the jurisdictions where key customers and suppliers operate. Potential shifts in the regulatory and reporting landscape may affect the organisation's activities, its business model and its business strategy, and therefore its future cash flows, access to finance and the cost of capital. An organisation may be affected, indirectly, by the SRROs affecting its key customers and suppliers in the *value chain*.



EXAMPLE A: Possible changes in legislation influencing access to finance and cost of capital

Evolution of financial regulation and standards could change the expectations of lenders and borrowers about providing sustainability-related information. In the near future, information about *greenhouse gas (GHG) emissions*, as well as financial ratios, could be required in debt covenants.

Managers and staff of Company A engage with customers, suppliers, lenders, investors and chambers of commerce at different times throughout a year. The company's risk and governance function collates insights gathered by its business development, customer relations and public relations functions to supplement its horizon scanning for possible changes in the regulatory and corporate reporting environment. Separately, the risk and governance function also monitors news and announcements by the government that may affect the company's business. These insights collectively enable Company A to identify SRROs among other risks or opportunities facing the company.



EXAMPLE B: Identifying climate-related transition risks from shifts in the regulatory landscape

Company B is a lender based in a jurisdiction outside Europe. The managers and staff of its finance and business development functions attended a presentation on the Carbon Border Adjustment Mechanism (CBAM).³ Upon analysing its customer relationship management (CRM) system, Company B observed that some of its customers (borrowers) are trading with European organisations and so could be affected by the CBAM. The company realised that it needs new data and new skills to quantify the risk and assess the potential effects on the recoverability of amounts outstanding.

² Explore the importance of proactive climate-risk assessment in supporting organisational survival in '[Weathering the Storm: Building Resilience Against Climate Disruptions](#)' (Skelton 2024).

³ The [Carbon Border Adjustment Mechanism](#) (CBAM) puts a price on the carbon emitted during the carbon-intensive production of goods that are entering the European Union (EU) to encourage cleaner industrial production in non-EU countries (European Commission 2024).

Leveraging the existing risk-management process

Sustainability-related risks should be managed together with other risks faced by the organisation. Many organisations have siloed management and reporting of financial and sustainability-related matters. As a result, they don't realise they already have access to insights related to SRROs that might be relevant for reporting. To streamline cost and effort and to produce connected information, it makes sense to leverage existing risk-management processes to identify and manage sustainability-related risks. Roundtable participants indicated that the risk-management processes may need customisation to reflect the unique circumstances of each organisation, including the timing and nature of information to be presented to the organisation's governance body, such as the board of directors, for decision-making. For example, an organisation's emissions planning (a part of transition planning) in response to its climate-related risks and opportunities is an iterative process leveraging risk-management processes, among other functions in the organisation.⁴

Organisations can be overwhelmed by the sheer effort of garnering insight on SRROs necessary before identifying those that could affect the organisation's prospects⁵ and then deciding the material information to be communicated. To manage this effort, organisations can use qualitative assessments before progressing to quantitative assessments. The latter are often perceived as more sophisticated. This approach requires the organisation to think about its activities and the related resources and relationships, essentially its business model and strategy, while not being overwhelmed with details. Qualitative rating systems, for example red, amber or green ratings, are especially useful as risk indicators when providing quantitative information is less feasible.⁶ Aside from revealing risks, a qualitative assessment may unveil new benefits or opportunities from managing the organisation's sustainability-related risks.



EXAMPLE C: Identifying new opportunities

While assessing the firm's own climate-related risk in Location C, a partner in a small and medium-sized practice (SMP) realised that SME clients, including mid-sized businesses in the firm's vicinity and in other locations, are facing similar challenges. These clients would be asking similar questions and looking for solutions. There were opportunities to develop solutions for common issues faced by the firm and its clients. This prompted discussions with other partners to evaluate the prospects of offering climate-risk assessment as a service.



Tip

An organisation (a parent) that identifies SRROs as a group would need to extend this exercise to its subsidiaries. Thereafter, it should extend the exercise as far as possible through the value chain, depending on available skills and resources. Analysing where an SRRO may be concentrated in the organisation, in the subsidiaries, or in the value chains, would be helpful in assessing the extent to which the risk or opportunity could affect the organisation's prospects. Section 3.2 of the [Guide](#) explores identifying SRROs centrally or at a suitable component.



⁴ You can explore the need for strategies and transition plans to combat climate change in [The Role of the CFO and Finance Function in the Climate Transition: Driving Value and Sustainability](#) (ACCA, IFAC, PwC 2023). Chapter 2 of this report explores building robust emissions transition plans.

⁵ We recommend reading [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) (IFRS 2023a) to understand the concept of 'sustainability-related risks and opportunities that could reasonably be expected to affect the organisation's prospects'.

⁶ You can find further details on qualitative assessments and product life cycle assessments that would be helpful in identifying SRROs within the organisation and in the value chain in this report, [Professional Accountants Changing Business for the Planet: A Guide to Natural Capital Management for Performance Managers](#) (ACCA 2020).

Leveraging the knowledge and expertise of people across different functions

When identifying SRROs, involve staff who are closer to the daily business activities, from operations to management, such as customer-facing staff, those on the shop or production floors, and those managing production processes, suppliers and deliveries. These staff interact with the value chain daily and they probably know their parts of the value chain better than anybody else.

Encourage collaboration among such staff to identify 'what could go wrong' in the value chain, and thus the risks, as well as opportunities. Such collaboration will support a better appreciation of the dependencies of, and impacts on, the work of others within the organisation.

Training in risk and opportunity assessment and an implementation plan will support this collaboration. Section 7.3.1 of the [Guide](#) provides more guidance.



Video resource: Watch this video for a case study on identifying sustainability-related risks and opportunities and material information to be disclosed by a conglomerate (Saw and Illangasekera n.d.).



EXAMPLE D: Identifying SRROs through qualitative assessment: climate change

After being briefed by the head of sustainability about Location D's climate-risk assessment, the chief financial officer (CFO) of Company D suspected the property, plant and equipment (PPE) at Location D could be at risk. The plant in Location D produces a key component for the company's products. Climate change will bring higher rainfall to Location D, increasing the likelihood of flooding of some of its areas. Company D's plant is located in one of the affected areas. Flooding would severely damage some of the plant's equipment, disrupt operations and endanger the lives of employees.


The CFO initiated an impairment assessment of the PPE, as well as investigating the company's value chain in that location, to identify and quantify the effects of climate risk on Company D's financial performance and position. The results of this assessment will inform the company's disaster recovery and business continuity plan, and its business strategy for the medium to long term. The company also plans to cooperate with the local authorities on improving the location's flood management system. To minimise the potential disruption in the short to medium term, data from the local meteorological department will be used in the plant's production, procurement and labour planning.



EXAMPLE E: Identifying SRROs in the value chain through qualitative assessment

Company E sources materials from various suppliers in five jurisdictions. The laws in Company E's home jurisdiction prohibit modern slavery.⁷ The CFO, head of operations and head of sustainability implemented a robust due diligence process to assess suppliers' compliance with the company's code of ethical business conduct, including by inspecting the working conditions at the manufacturing facilities of key suppliers, interviewing the suppliers' workers to understand their working conditions, and engaging external experts to assess compliance with labour standards. The company also collaborated with human rights groups to understand labour and human rights issues, to improve due diligence practices and working conditions. The procurement team has been tasked with notifying the head of operations about any potential risk of modern slavery in the supply chain, for further action. These efforts are enabling Company E to identify and manage the risk of modern slavery in its supply chains.

⁷ Modern slavery refers to various forms of exploitation, including forced labour, servitude, slavery and slavery-like practices, and human trafficking. The exploitation is often associated with the use of force, threats, violence, coercion, deception, and/or abuse of power. Jurisdictions may have laws that are designed to combat modern slavery, such as the [Modern Slavery Act 2015](#) in the UK (UK Government 2015).



Step 2: Assessing whether SRROs could reasonably be expected to affect the organisation's prospects

The potential effects of an SRRO are often more easily understood when they are quantified. The assessment of SRROs requires all organisations to be forward-looking and to take long-term views to assess the tangible outcomes of their current or potential actions in managing their SRROs.

An organisation may have already collected some of the data required for this step when performing the quantitative assessment in Step 1. The data may be finance-, sales- or operations-related data. Depending on the risk or opportunity being assessed, to complete this process the organisation needs to supplement the assessment model with more data from within the organisation or its value chain. Estimating the potential effects of an SRRO and gathering the necessary data to produce the related analysis could become an iterative process that would involve several functions in collecting and analysing a comprehensive set of data. Chapter 5 of the [Guide](#) explains the process for collecting the necessary data.

By embedding connectivity into its risk-management process, an organisation is also able to assess the effects of an SRRO on its brand, revenue and trade-offs from generating certain revenue, costs to the business, credit risk, recoverability of assets, and people's time.⁸



EXAMPLE F: Connecting the data produced by different functional teams to identify SRROs

Company F, an SME in the agriculture sector, needs to perform a climate-related scenario analysis to identify its climate-related risks in the short, medium and long term, and to identify potential mitigations. The company's owner-manager engaged an SMP to work together with its finance, farm operations, engineering and sales functions to complete the task.

The SMP works together with the various functions to identify the ways in which the SME's financial performance could be affected by climate, such as the impact of changes in rainfall, sunshine and temperature on:

- the expected total quantity produced by the farms, and so the yield
- the quantity and associated costs of fertiliser
- the irrigation and flood-prevention system, and
- the expected effects on the demand for and prices of the farm's agriculture produce, and hence the effects on revenue.

The SMP connects the various functions and explains both the sustainability-related and financial data that each function needs to supply, setting out the dependencies of each function for completing the task. The SMP transforms the data supplied by the respective functions into usable inputs for the climate-related scenario analysis to produce information for internal decision-making.

Assessing the potential effects of SRROs could become an iterative process involving several functions and various data. Collaborate with other functions to better appreciate your dependencies and impacts on related resources and relationships, thereby minimising blind spots.



Video resource: Watch this video for insights on using technology to collect, analyse and use data to create and communicate sustainability-related information (Saw and Cheng n.d.).

⁸ This article, '[Making Information Connections for Sustainable Value Creation](#)' (Machado n.d.), further explores the importance of connectivity and examples of applying the various aspects of connectivity in practice.

Just as cross-functional teams would be most effective in identifying SRROs, a cross-functional team is also important in assessing the potential effects of an SRRO on the organisation's future cash flows, access to finance or cost of capital. Organisations should avoid having one function working in a silo when assessing the potential effects of an SRRO. Collaboration among functions enables a better appreciation of the organisation's dependencies on related resources and relationships, and the organisation's impacts on them, thereby minimising blind spots.

For example, the finance function is needed to assess the financial effects of an SRRO, while other functions may assess other effects on the operation, on employees' well-being, on society, and on environmental pollution or preservation, to name a few. Importantly, this process also identifies the kind of information that explains the SRRO, the current situation, the approach and progress towards managing the SRRO, which may influence users' decisions in allocating resources.

Estimating the financial or other effects introduced by an SRRO in the short, medium or long term requires the use of another set of assumptions and skills. An organisation should know by now whether it has the skills to perform the quantitative assessment. Organisations that need to perform this assessment frequently may see the benefit of acquiring these skills or upskilling existing staff. Conversely, organisations that perform this assessment infrequently may consider engaging the services of external consultants to assess whether any SRROs could reasonably be expected to affect the organisation's future cash flows, access to finance or cost of capital. Section 7.3.6 of the [Guide](#) provides guidance on when to acquire or outsource the skills to perform a procedure.



EXAMPLE G: Using cross-functional teams to assess the multifaceted effects of a climate-related risk

Company G uses a lot of water in its production activities. The availability of water in Location G significantly affects its ability to continue operating. The local authority responsible for water in Location G expects water scarcity in the future. Company G has observed that it is using water from the same source as the local community and other businesses. This scenario also influences the local community's perception of the company, and this affects Company G's social licence to operate.

The company currently measures its water use and the amount of water it reuses in its activities and benchmarks the data against the local authority's periodic report on water consumption and quality. Company G has brought together its product design, engineering, marketing and production functions to:

- improve the water efficiency in its production activities, so that it can reduce its future use of water from the source
- improve the recycling of water and reduce the amount of wastewater discharge
- treat wastewater before discharge to avoid polluting natural water sources, and
- assess the feasibility of rainwater harvesting (an alternative water source).

The company quantifies the potential water savings, the investments into new equipment and processes to realise the expected water savings and the effects on its future financial performance, financial positions and cashflows.



EXAMPLE H: Using cross-functional teams to identify and assess the potential effects of SRROs

The sustainability team of Company H has identified climate-related physical risks in several locations where the company operates. The operation teams in those locations, who were not consulted during the assessment, have challenged the findings. In addition, the sustainability team did not have the expertise to assess the financial effects on the company's assets in the affected locations and its future financial performance.

Thereafter, a cross-functional team comprising experts from the sustainability, operation and finance teams was formed to revise the assessment model and forecast potential outcomes from various scenarios. The new model verified the physical risks that were identified initially and produced information for internal decision-making and for disclosure.

The need to outsource specialised tasks, in particular among lesser-resourced organisations such as SMEs, presents an opportunity for SMPs to fill the gap and broaden their service offerings beyond conventional accounting, tax or audit and assurance services.⁹ Example C demonstrates one possibility. There are many routes SMPs can take.¹⁰ SMPs would need to upskill and demonstrate that they can credibly undertake the task.

In Example G, the local community is an important stakeholder in the organisation's business. Therefore, engagements with representatives of the local community could help validate the water-related or other risks that the organisation has identified. Engaging with stakeholders who possess a good understanding of the relevant sustainability topics and the organisation's business would support the organisation in validating its SRROs and in determining the kind of information that would be useful to the identified stakeholders. An organisation may use a combination of surveys and interviews or workshops to engage with stakeholders, allowing the organisation to understand the context, look deeper into the issues around the SRRO, and take expert views into consideration.¹¹ Box 3.5 in the [Guide](#) provides further guidance on validating SRROs with stakeholders.

At this point, it's important to take a step back to assess whether the organisation has identified and prioritised the SRROs that could reasonably be expected to affect its prospects.



EXAMPLE I: Quantifying the potential effects of a climate-related transition risk

Company B (from Example B) engaged the support of experts to quantify the effects of CBAM on a group of borrowers in the short, medium and long term, and their ability to repay Company B for the amounts owed. The result of this quantitative assessment enabled the company to identify a significant shift in the credit risk of the group of borrowers which altered its exposure to climate-related transition risk in its value chain.

This exercise enabled Company B to take active steps to manage the risk and the potential financial effects arising from this risk.



Video resource: Watch this video for insights on enabling your people to engage with sustainability (Machado et al. n.d.).

⁹ 'Accountants and SMEs Creating a Sustainable World: Stories' (Zaronina-Kirillova 2021) offers a collection of stories from a broad range of small businesses, including SMPs, that have been through sustainable transformation themselves. They see sustainability action as an opportunity and explain its practical benefits.

¹⁰ 'Accountants at the Heart of SME Growth and Resilience' (ACCA 2024) offers real-world examples and a practical toolkit to support accountants in nurturing SMEs' growth and resilience.

¹¹ EFRAG has conducted a study of the practices among 28 organisations in implementing European Sustainability Reporting Standards (ESRS) for the 2024 reporting year and found that more than 65% of these organisations use two or more methods to obtain insights from internal experts and affected stakeholders. Using a survey alone is not preferred because it often results in inconclusive output or insufficient expertise among stakeholders. The findings are given in [State of Play as of Q2 2024: Implementation of ESRS: Initial Practices from Selected Companies](#) (EFRAG 2024a).

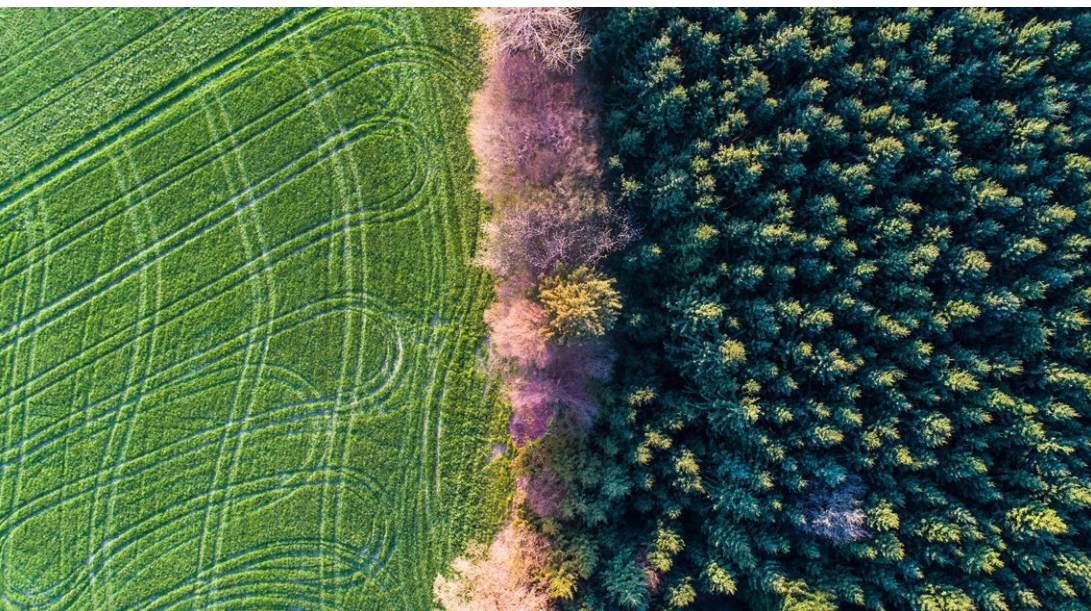
Step 3:
Determining
material
information for
disclosure



A sustainability reporting framework or standard would typically specify the types of information to be provided about an SRRO and the granularity of such information, as well as specifying the principles for determining whether a piece of information will be material.

Organisations need to be mindful of the information needs of the stakeholders for whom the information is created. Information about an SRRO would be decision useful if it helps users of that information to understand the SRRO, the current and future effects of the SRRO on the organisation, and the business case for initiatives to manage that SRRO better. In the context of climate-related risks or opportunities, the business case may include the relevant levers, such as the jurisdiction's policies, available incentives, or customers' preferences, that are connected to the organisation's plans for achieving its net zero commitment.

Meanwhile, an organisation's strategy for managing an SRRO may produce conflicting outcomes owing to trade-offs between priorities and the allocation of finite resources among these priorities. These include generating short-term profits, retaining employees and customers, and creating and preserving value in the long-term (including managing the risk of climate change), to name a few. This requires the organisation to think holistically and be pragmatic about the information it needs to disclose about its SRROs and the strategies for managing them.



EXAMPLE J: Providing the context of an organisation's conflicting outcomes in response to managing an SRRO

Company J's GHG emissions are concentrated in three manufacturing facilities. The company's initiatives to reduce its Scope 1 and Scope 2 GHG emissions in those facilities include reducing energy consumption at its facilities through acquiring new energy-efficient equipment and investing in solar farms, which will supply 30% of the energy that the company consumes.

The company engaged an external expert to conduct a whole-life carbon assessment (WLCA) for the solar farm project. The WLCA enabled the company to gain valuable insights into:

- GHG emissions throughout the project's entire life cycle, as well as the GHG emissions associated with the project's materials, construction, operation and decommissioning phases.
- areas where GHG emissions could be reduced, such as through the selection of low-carbon materials or energy-efficient design.

The new energy-efficient equipment requires fewer people to operate. Company J intends to train the employees who will be operating the new equipment. The remaining employees will be assigned to other functions and will be trained to perform those functions, to minimise redundancy.

Company J strives to provide comfortable and safe working conditions for its employees and contractors who work on site. The human resources team gathers and monitors data on both employees' satisfaction and work-related accidents or injuries.

The following information is expected to be material:

- the financial effects of acquiring new energy-efficient equipment and the company's investments in solar farms
- the baseline GHG emissions
- potential reduction in GHG emissions
- the training of employees in relation to new equipment and reskilling of employees who would otherwise become redundant
- employees' satisfaction, and
- the connection between the above information and the company's climate risks and GHG emissions-reduction strategy.

Primary users and *other users* may want to understand the organisation's risk appetite while achieving its objectives, through the organisation's approach to implementing its business model and strategy. Some investors may prefer investing in organisations that are risk-averse while others prefer risk-taking approaches. Understanding *'why'* users need this information and *'how'* they will use it will enable the organisation to determine whether a piece of information is material.

The following questions may be used to complement guidance in the applicable sustainability reporting framework or standard to identify information to be disclosed about an SRRO, and to determine the nature and extent of information to be provided to users of information.¹²

- **Who is the target audience** to whom the information is to be conveyed?
- **What information** interests them?
- **Why** do they need this information, and **how will they use it?**
- **What specific data** is needed to produce this information?

Thereafter, the *materiality* principle in the applicable reporting framework or standard can be used to determine whether a piece of information is material for the primary and other users. Organisations applying the IFRS Sustainability Disclosure Standards to provide sustainability-related information should refer to guidance in the standards, as well as the educational material on identifying sustainability-related risks and opportunities and the disclosure of material information issued by the IFRS Foundation.¹³ Meanwhile, organisations that apply the European Sustainability Reporting Standards (ESRS) when providing sustainability-related information should be guided by the standards and the implementation guidance for *double materiality* assessment issued by EFRAG.

Organisations undoubtedly face difficulties when assessing the materiality of sustainability-related information to be disclosed. As observed in Examples J and K, determining whether a piece of information is material requires significant judgement: perhaps more judgement than an organisation would use when determining the material information to be disclosed in the financial statements. For example, it's more challenging to establish a quantitative threshold. One study observed that organisations have resorted to different practices when performing double materiality assessments, including defining a quantitative threshold based on the scores obtained from stakeholder engagement, or negotiating a balance between different perspectives.¹⁴ Therefore, organisations should also assess whether the nature of an SRRO and the expected effects, as well as the likelihood of those effects occurring, will influence the decisions of users. Step 3 in Section 3.2 of the [Guide](#) sets out a list of factors to help organisations determine whether a piece of information is material.



EXAMPLE K: Determining information for disclosure

Company K (a lender) observed that a specific climate-related physical risk may affect businesses in Location D. Many businesses of varying sizes and industries operate in Location D, including a significant number of Company K's customers. Company K plans to modify its methodology to assess the credit risk of existing and potential customers (borrowers) in Location D, taking into account the possibility that the physical risk will materialise. The company analyses the potential effects of this change in methodology on its future financial performance and cashflows arising from future lending, with the aim of reducing its exposure to the physical risk. Information about the physical risk, the new credit-risk-assessment methodology, and the potential financial effects are expected to be material to the company's investors and other providers of capital.

¹² Explore the characteristics and qualities that influence corporate reporting for general purposes in the [Principles of Good Corporate Reporting](#) (Chow 2024).

¹³ See 'Resources from standard setters' for examples.

¹⁴ Different concepts of materiality have emerged in sustainability reporting. You can explore the implications of these for the content of both sustainability and financial reporting and their connectivity in [Materiality assessments in corporate sustainability and financial reporting: Connectivity, practices, processes, and challenges](#) (Michelon et al. 2024).

At some point, take a step back to assess whether a piece of information, either on its own or in combination with other information, would really influence the decision of primary users or other users.

➔ EXAMPLE L: Providing information that could influence users' decisions

Company G (from Example G) requires additional investments in new plant and equipment to meet its water efficiency targets. Information about the investments, the expected financing for the investments, and the company's approach and progress towards meeting the targets, are expected to be material to users who provide capital to the company.

Organisations applying the IFRS Sustainability Disclosure Standards should prioritise providing information that fulfils the needs of primary users. This ensures the disclosures are not obscured by excessive information that these users do not need. Information overload can be counterproductive, and more does not mean better. Creating information for different types of users in phases would be more pragmatic for organisations that have just begun their journey to creating and communicating sustainability-related information, and for lesser-resourced organisations. This approach also takes into consideration the time for implementing the processes to create sustainability-related information. The timeline will be heavily influenced by the legislation or mandatory reporting requirements in the jurisdictions where the organisation operates and with which it needs to comply.¹⁵

Resources from standard setters

The IFRS Foundation provides guidance on identifying and disclosing material information about SRROs that could reasonably be expected to affect an organisation's prospects using some of the requirements in the IFRS Sustainability Disclosure Standards: see [Sustainability-related Risks and Opportunities and the Disclosure of Material Information](#) (IFRS 2024). Another piece of educational material, [Nature and Social Aspects of Climate-related Risks and Opportunities](#) (IFRS 2023b), offers three examples to illustrate how organisations may apply requirements in *IFRS S2* and *IFRS S1* to provide material information about the nature and social aspects of their climate-related risks and opportunities.

Implementation guidance in [EFRAG IG 1: Materiality Assessment](#) supports the application of double materiality assessment as required by the ESRS (EFRAG 2024b).

¹⁵ The legislation or mandatory reporting requirements should be identified while performing Step 2 of the sustainability reporting cycle. If this has not been done, see Chapter 2 'Establishing the reporting landscape' of the [Guide](#).



Conclusion

It is imperative that organisations use a holistic approach in creating and communicating material information about their SRROs. The entire process of providing good-quality sustainability-related information requires time and resources. We encourage all organisations to:

- allocate resources to start identifying SRROs arising from the resources and relationships (or capitals) in the value chains on which they depend and those that their activities would affect
- provide the most relevant sustainability-related information they can and continue to improve the reporting process over future reporting cycles
- use knowledge and expertise gained in determining material information in one reporting cycle to improve the communication of material information in the following cycle.

Finally, we encourage everyone to work collaboratively with peers in the same industry, or within the same value chain to:

- further refine the approach to identifying SRROs
- manage the risks or realise identified opportunities, and
- measure the relevant metrics and provide better information to support decision-making.



Glossary

Terms defined in the Glossary are in *italics* the first time they appear in this article.

Term	Description	Source
Double materiality	<p>Double materiality, in the context of ESRS, has two dimensions: impact materiality and financial materiality. A sustainability matter is material when it meets the criteria for impact materiality or financial materiality, or both. Impact materiality and financial materiality assessments are interrelated and the interdependencies between these two dimensions should be considered.</p> <p>ESRS requires an organisation to assess the materiality of sustainability matters by applying the double materiality principle.</p>	ESRS 1, paragraphs 21, 28 and 37
Greenhouse gas (GHG) emissions	<p>These comprise the seven greenhouse gases (GHGs) listed in the Kyoto Protocol: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF₃), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆).</p> <p>They are categorised according to the source of emissions.</p> <ul style="list-style-type: none"> ■ Scope 1 greenhouse gas emissions. Direct GHG emissions that occur from sources that are owned or controlled by an organisation. ■ Scope 2 greenhouse gas emissions. Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by the organisation. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an organisation's boundary. Scope 2 GHG emissions physically occur at the facility where electricity is generated. ■ Scope 3 greenhouse gas emissions. Indirect GHG emissions (not included in Scope 2 GHG emissions) that occur in the value chain of an organisation, including both upstream and downstream emissions. Scope 3 GHG emissions include the Scope 3 categories in the Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Greenhouse Gas Protocol 2011). <p>The term 'indirect GHG emissions' refers to emissions that are a consequence of the activities of an organisation, but occur at sources owned or controlled by another organisation.</p>	
IFRS S1	IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> (IFRS 2023a).	
IFRS S2	IFRS S2 <i>Climate-related Disclosures</i> (IFRS 2023c).	
Materiality	<p>In the context of this article, materiality (or material information) is determined on the basis of the applicable sustainability reporting framework or standard.</p> <p>For an organisation that applies the IFRS Sustainability Disclosure Standards, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity.</p>	Adapted from IFRS S1, Appendix A

Term	Description	Source
Other users of general-purpose corporate reports ('other users')	<p>These are users of corporate reports other than primary users of general-purpose financial reports (q.v.). For example:</p> <ul style="list-style-type: none"> ■ individuals from within the organisation (internal stakeholders), such as those in risk management, finance, human resources, technology, and operational functions, including the supply chain management functions ■ individuals external to the organisation (external stakeholders), such as key suppliers and customers in the value chain, and regulators. 	Adapted from Sustainability reporting – The Guide to Preparation (Machado, et al. 2023)
Primary users of general-purpose financial reports (primary users)	They are existing and potential investors, lenders and other creditors of an organisation.	Adapted from IFRS S1, Appendix A (IFRS 2023a)
SME	An organisation may identify whether it is a small or medium-sized enterprise (SME) by using the size criteria of the jurisdiction in which it is based. SMEs tend not to have public accountability and may publish general-purpose financial reports for external stakeholders. These organisations tend to have simpler organisational structures and have fewer resources than larger ones and are therefore less able to meet the full requirements of reporting standards.	
SMP	Small and medium-sized practices.	
Value chain	<p>The full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates.</p> <p>A value chain encompasses the interactions, resources and relationships an entity uses and depends on to create its products or services from conception to delivery, consumption and end-of-life, including interactions, resources and relationships in the entity's operations, such as human resources; those along its supply, marketing and distribution channels, such as materials and service sourcing, and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.</p>	IFRS S1, Appendix A

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