

**Sustainability Assurance – Respondents’ Detailed Comments to EM Question 11**

Does ED-5000 appropriately address the notion of “double materiality” in a framework-neutral way, including how this differs from the practitioner’s consideration or determination of materiality? If not, what do you propose and why?

**11.2 Agree with comments****2. Preparer and Users of sustainability information****Corporate Reporting User’s Forum (CRUF)**

We think "double materiality" is defined appropriately in a framework-neutral way in A180 as the information needs of users to be considered in the assessment of "suitability of the criteria" (paragraph 72 (c) (i)).

We believe that materiality as defined in ED-5000 is consistent with those definitions of various sustainability disclosure standards, including single materiality as defined in the ISSB and double materiality as defined in the European CSRD/ESRS framework.

We would also like to point out that the materiality in ED-5000 is applicable to the ICMA Principles as well. A180 defines "financial materiality" and "impact materiality," respectively, which appears to correspond to the ICMA Principles’ with emphasis on environmental and social impacts created by sustainable finance and impact investments.

However, some CRUF participants do not agree with double materiality because they believe single materiality already includes double materiality. If, as IFRS defined for accounting and sustainability standards, information is material if its omission or misstatement in a financial report would impact a reasonable user’s decision making, this will cover both matters that impact the business of the preparer and that are impacted by the business of the preparer. We already live in a world of too much information, a lot of which is irrelevant, giving rise to the disclosure problem. Having the concept of double materiality when it is not needed will only exacerbate the disclosure problem. There is a need for preparers to decide their priorities in reporting and the IFRS definition of materiality is probably the most useful way to do this and, as a result, should be adopted by all corporate reporting rule-makers and standard setters.

**French Insurance Federation (France Assureurs)**

The ED appropriately addresses the notion of ‘double materiality’ in a framework-neutral way where it is relevant. This will be on a case-by-case basis since double materiality may not always be applicable to the sustainability information based on the disclosure framework used (for instance ISSB vs ESRS).

**MFIs’ Internal Audit ESG Working Group**

Detailed comments (if any): ED needs to clarify its definition and expand consideration of double materiality i.e., paragraph A180 of ED-5000 explains that the information needs of the intended users of sustainability information may relate to the impact of sustainability matters on the entity, or the impacts of the entity on sustainability matters. When the needs of the intended users relate to both the impacts on the entity and the entity’s impacts, this can be referred to as double materiality.

Different interpretations and applications of double materiality can arise based on different factors such as sector differences, geographic variances, stakeholder perspectives.

## The Investment Association

Perception of compatibility between sustainability disclosure standards and sustainability assurance standards (ISSA-5000)

The perception of incompatibility also extends to the concept of materiality, as the ISSA 5000 supports the assurance of both single and double materiality disclosures, which means that it considers both the impact of the entity's activities on its financial position and the impact of its activities on the environment, society, and other stakeholders. The ISSB, on the other hand, uses a single materiality approach, which means that it focuses only on the impact of the entity's activities on its financial position.

It's crucial for the IAASB to ensure that any definition proposed is interoperable with national laws and regulations, adaptable to sustainability information shared by any entity across industry and sector, and consistent with the applicable international reporting framework. This is increasingly important to ensure this standard is interoperable with a range of different regimes and framework-neutral, so that it can be used for assurance on sustainability information prepared using any framework criteria (ISSB, CSRD, ESRS, SEC etc), entity-developed criteria or a combination of both. For example, the European Sustainability Related Standards (ESRS) are currently being transposed into national laws by EU member states, so preparers and their investors will be seeking appropriate assurance.

As sustainability disclosures continue to evolve, the assurance standard must remain relevant and adaptable, taking into account the latest developments in sustainability practices and the changing needs of the users.

We recognise that the IAASB have worked with ISSB to develop the standard. It will be important for IAASB to clearly communicate the interoperability of the assurance standards with all reporting standards including ISSB to encourage all preparers to get their sustainability reporting appropriately assured.

## 4. Regulators and Audit Oversight Authorities

### Accounting and Auditing Board of Ethiopia

Overall response: Yes, with comments below

Detailed comments (if any): We propose the use of "double impact". Because "double materiality" is confusing with the practitioner's determination of materiality.

### European Securities and Markets Authority (ESMA)

Practitioner's consideration of the entity's "materiality process" (Q9) and differences between preparers' and practitioners' consideration to materiality (Q11)

The assessment of materiality – or double materiality in the CSRD context – is a fundamental aspect for the preparer of the sustainability information. As the (double) materiality determination by the preparer is a critical component to be scrutinised during the assurance engagement, ESMA considers that ED-5000 could be enhanced by incorporating further requirements for the practitioner to understand and scrutinise the process followed by the preparer to define and identify information to be reported following the (double) materiality perspective. In particular, it is crucial that ED-5000 better describes the practitioner's work to be performed on the process and associated internal controls put in place by the preparer in this area.

ED-5000 would also benefit from further clarifying that the concept of “materiality” in the context of the sustainability information to be reported by the preparer (“double materiality” in the CSRD context) is different from the concept of “materiality” in the context of an assurance engagement which is based on the notion of the absence of material misstatement in the sustainability information.

### **Securities and Exchange Commission Philippines**

The concept of double materiality is expected to serve multiple different users (e.g. financial materiality is of investors' interest, while impact materiality serves a wider range of interests such as society, consumers employees, and regulators, among others). We recommend providing more application guidance on the “double materiality” concept covering both financial and impact materiality to serve as the baseline. While we understand that materiality involves professional judgment, without robust guidance could lead to varying interpretations among practitioners, stakeholders, and regulators. In our observations at local jurisdiction, for financial statement audits, audit firms have their own detailed materiality guidance. Conceptually, some firms have similar guidance, while some firms vary. Further, the ‘magnitude and likelihood’ concept was not explicitly mentioned in the ED-5000.

## **5. National Auditing Standard Setters**

### **American Institute of Certified Public Accountants (AICPA)**

In principle, yes, we agree that the exposure draft has approached the concept of “double materiality” in a framework-neutral manner. The application material is clear in explaining the distinction between “double materiality” and the practitioner’s materiality considerations. However, as noted in our response to question 9, we have concerns regarding the sufficiency and location of the guidance. Specifically, paragraph A273 mixes the practitioner’s materiality considerations with the entity’s materiality process. Removing the last sentence in paragraph A273, which is repetitive of paragraph A157, would alleviate potential confusion. Likewise, the placement of paragraph A274 is confusing because paragraph A274 discusses the entity’s materiality process but is application guidance to the requirements for the practitioner’s materiality considerations. We suggest moving paragraph A274 to follow paragraph A180, and revising both paragraphs as follows to avoid duplication:

A180. The information needs of the intended users may relate to:

The impact effect of sustainability matters on the entity's financial performance, which may be referred to as financial materiality;

The impacts effects of the entity on sustainability matters, which may be referred to as impact materiality; or

Both impacts, effects, which may be described by the applicable criteria as “double materiality” in the context of identifying topics or aspects of topics to be included in the sustainability information (see paragraph A157).

A274A180A. When an entity uses applicable criteria that identify reporting topics that impact the entity's financial performance, the materiality considerations may be referred to as “financial materiality.” In this case, financial Materiality considerations that relate to what may be referred to as “financial materiality” may be set in the context of financial terms and the intended users are likely current and future providers of debt and equity. When an entity uses applicable criteria that identify reporting topics relevant to the impacts of the entity on the environment, society, economy or culture, the materiality considerations may be referred to as “impact materiality.” In this case, Materiality considerations that relate to what may be referred to as “impact

materiality” are considered according to the nature and magnitude of impacts, and may be relevant to a broader group of intended users (see also paragraph A180). When the applicable criteria refer to both financial impacts on the entity and the entity’s impacts on the environment, society, economy or culture, this may be referred to as “double materiality.”

Also, as explained in our response to question 9, we believe further guidance is needed overall on how the practitioner considers the entity’s process to identify reporting topics, which will likely necessitate further discussion of the concept of double materiality. This is also an area where collaboration with other stakeholders, such as professional bodies in Europe, would be useful to enable the development of additional non-authoritative guidance on this topic potentially for both practitioners and preparers given the requirements of certain reporting frameworks, including the CSRD.

#### **Auditing and Assurance Standards Board Canada (AASB)**

We agree that ED-5000 appropriately addresses the notion of “double materiality” in a framework-neutral way. However, we believe the standard should address how the practitioner considers the entity’s use of double materiality in their determination of materiality.

Concern: Practitioner’s consideration of double materiality

The current guidance in A180 and A274 is not clear on how double materiality would impact materiality for the engagement. The standard is missing an example of an assurance engagement where the preparer applies a double-materiality lens to the information reported, explaining how this lens would impact the practitioner’s determination of engagement materiality for a disclosure subject to assurance.

Suggest:

Adding a more robust example of double materiality that includes an explanation of how double materiality would impact materiality for the engagement.

Including aspects of the IAASB staff FAQ on materiality in application material around paragraph A274.

#### **Australian Auditing and Assurance Standards Board (AUASB)**

The AUASB considers that the concept of “double materiality” is appropriately explained and clearly distinguished from the practitioner’s consideration or determination of materiality. However, there may be inconsistencies in the definition of “double materiality” across reporting frameworks. Additionally, the concept of “double materiality” is GRI focused and its use is not framework neutral.

The AUASB suggests that the IAASB provide additional examples beyond double materiality to cover different frameworks.

#### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

We believe that ISSA 5000 should have conditional requirements for cases where the reporting framework requires application of double materiality. This will have an impact on the practitioner’s materiality considerations. Therefore, if the reporting framework requires application of double materiality, the practitioner should also consider impact materiality when

evaluating the completeness of the sustainability information reported, and

determining whether uncorrected misstatements are material.

To reinforce this, the application material in paragraph A170 could be elevated to the requirements section of the standard.

### Comite Brasileiro de Sustentabilidade (CBPS)

Although we agree with the ED-5000 in this respect, we believe that further detailed guidance is needed on what would be the minimum procedures necessary for the practitioner to evaluate the process of determining materiality by management.

### Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

Developments on double materiality are currently addressed in the application material; we note that the wording of financial and impact materiality is not aligned with the final version of ESRS.

We believe that paragraph A272 should be elevated as essential material in the requirement section as it is fundamental to materiality assessment in a sustainability assurance engagement.

In addition to the “preparer’s materiality” and the “practitioner’s materiality”, the scoping by the practitioner of the disclosures on which procedures will be performed (paragraph 94) is also an important step. This important step is not clearly explained in draft ISSA 5000.

In order to bring clarity to the sustainability Assurance practitioner we may suggest reorganizing paragraphs 91 to 94, through separating the first part of paragraph 94L and place it before paragraphs 91-93.

This would enable to:

- i. scope in disclosures
- ii. clarify that materiality may be done at disclosure or aggregation of disclosures sharing certain characteristics (§91)
- iii. perform risk procedures on disclosures where material misstatements, whether due to fraud or error, are likely to arise (§94)

Suggested addition paragraph and reordering may be articulated such as:

Addition suggested before current §91:

9X. The practitioner shall design and perform risk procedures sufficient to identify disclosures where material misstatements, whether due to fraud or error, are likely to arise.

No change for existing §91 to 93:

#### Materiality

For purposes of planning and performing the assurance engagement and evaluating whether the sustainability information is free from material misstatement, the practitioner shall: (Ref: Para. A270-A277, A282)

Consider materiality for qualitative disclosures; and (Ref: Para. A278)

Determine materiality for quantitative disclosures. (Ref: Para. A279-A281)

For quantitative disclosures, the practitioner shall determine performance materiality as applicable in the circumstances. (Ref: Para. A283-A285)

#### Documentation

The practitioner shall include in the engagement documentation:

The factors relevant to the practitioner's consideration of materiality for qualitative disclosures, and the determination of materiality for quantitative disclosures, in accordance with paragraph 91; and

When applicable, the basis for the practitioner's determination of performance materiality in accordance with paragraph 92.

Related 9X changes affecting existing 94L and 94R (in strikethrough content corresponding to 9X and in bold additions necessary for proper understanding of 94):

Risk Procedures

Designing and Performing Risk Procedures

Limited Assurance

Reasonable Assurance

94L. The practitioner shall design and perform risk procedures sufficient to identify disclosures where material misstatements, whether due to fraud or error, are likely to arise and thereby provide a basis for designing further procedures to focus on those disclosures identified in paragraph 9X. (Ref: Para. A286-A291)

94R. The practitioner shall design and perform risk procedures sufficient to: (Ref: Para. A286-A289, A291, A353R)

Identify and assess risks of material misstatement, whether due to fraud or error, at the assertion level for the disclosures identified in paragraph 9X; and

Design and perform further procedures.

#### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

We believe that the draft generally handles double materiality well, but further clarification may need to be included in the final standard to help improve the likelihood of adoption of ISSA 5000 in the EU.

To this effect, consideration could be given to providing a few conditional requirements on the process the entity uses to identify information to be reported (the "materiality process") and on "double materiality".

We have also provided a few detailed comments on the treatment of double materiality in the appendix to this template.

#### **New Zealand Auditing and Assurance Standards Board**

The NZAuASB agrees with the explanations included in para A180 of ED-5000 the standard. The concept of impacts and related terms (impact materiality, financial materiality, double materiality) is related to sustainability reporting (it is not commonly known in financial audits). We note that the term "double materiality" is not framework neutral. However, we consider that the clarifications in the proposed standard are useful for many assurance practitioners.

#### **Public Accountants and Auditors Board Zimbabwe (PAAB)**

Feedback 1: The notion on double materiality is clear though they may be need to include it under the definitions and clearly state out how it is scoped out of consideration when looking at the financial performance impact materiality as this may be a grey area and they maybe inclusion under the qualitative aspects relating to the financial performance impact.

Feedback 2: The notion of double materiality is explained well in the frequently asked questions document titled "Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner". Notwithstanding, application may be challenging particularly in situations where if the notion of double materiality is relevant to the engagement, the practitioner applies a double materiality "lens" (i.e., "looks both ways" at financial materiality and impact materiality) but considers or determines a single materiality for purposes of planning and performing procedures at the disclosure level and evaluating whether identified misstatements are material. The degree of subjectivity in respect of impact materiality remains and is as yet not clear cut in spite of the principles set forth. It will heavily rely on judgment and may lead to disagreements with management.

### **Royal Dutch Institute of Chartered Accountants**

We refer to our other comments on the entity's materiality process in response to Questions 2 and 8-10. Furthermore, since sustainability reporting is in large parts narrative information, with KPIs and other data to support the disclosures made, more attention is needed to qualitative aspects of assurance materiality. Whilst not entirely new, their importance is increasing and qualitative materiality has always posed challenges in implementation. This calls for enhanced guidance, and maybe further requirements. We urge the Board to be clearer on qualitative aspects of materiality.

## **7. Accounting Firms**

### **Altaf Noor Ali Chartered Accountants**

11.2 There may be a better term than 'double-materiality' to convey a simple concept. It may be called 'double-impact' or 'double-knock'. We reserve the term materiality for use of the practitioner. The use of term 'materiality process' is equally inappropriate.

11.3 We understand that the term 'framework-neutral' means: Independent and irrespective of the prevailing laws and regulations. If so, I think we will be chewing more than what we can digest.

11.4 We have mentioned earlier that the Board wants the Practitioner to take more responsibility than is warranted.

11.5 What is 'Double materiality'? It is made up of double-impacts on environment because of an entity. The impact on the entity (referred as 'financial impact') and entity's impact (referred as 'impact materiality').

(Its interesting to share that the term 'double-materiality' is used only twice in the whole ED whereas ten times in the EM).

11.6 Restrict the use of term materiality to the practitioner only.

### **BDO International Limited**

Although we agree with the method of how the notion of double materiality is addressed, we suggest aligning the terminology of 'financial materiality' with that of the ESRS and IFRS S1. Both standards (which we believe are highly likely to become the most used sets of standards in the market) do not refer to 'impact' regarding financial materiality, but about 'risks and opportunities'. We believe using the same terminology will prevent confusion on this matter. Further, as stated in our response to question 9 above, we suggest providing examples to illustrate the differences between financial materiality and impact materiality.

### Deloitte LLP

We encourage the IAASB to replace paragraph A180 and amend paragraph A274 with the suggested wording below to ensure that content aligns with, and is not inconsistent with, the definitions of financial materiality and impact materiality included in both the ISSB (IFRS S1) and the ESRS (ESRS 1) standards.

A180. Information needs may relate to:

Sustainability matters that are material to the primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. This may be referred to as financial materiality;

The entity's material impacts on the economy, the environment or people that is useful to an entity's stakeholders. This may be referred to as impact materiality; or

Both financial materiality (a) and impact materiality (b). (see paragraph A157).

A274. When an entity uses applicable criteria that identify reporting topics that are material to the primary users of general-purpose financial reports in making decisions related to providing resources to the entity that impact the entity's financial performance, the materiality considerations may be referred to as "financial materiality." In this case, financial materiality may be set in the context of financial terms and the primary intended users are likely current and

future providers of debt and equity. When an entity uses applicable criteria that identify reporting topics relevant to the entity's impacts of the entity on the environment, society, economy or

culture, the materiality considerations may be referred to as "impact materiality." In this case, materiality is considered according to the nature and magnitude of impacts and may be relevant to a broader group of intended users (see also paragraph A180). The applicable criteria may refer to both "financial materiality" and "impact materiality", which may be referred to as "double materiality". When the applicable criteria refer to both financial impacts on the entity and the entity's impacts on the environment, society, economy or culture, this may be referred to as "double materiality."

We also suggest the IAASB incorporate guidance from the recently released materiality FAQ ("Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner") into ED-5000, specifically the guidance for how a practitioner applies materiality in a sustainability assurance engagement when the notion of double materiality is relevant to the engagement.

### Ernst & Young Global Limited

We believe that double materiality is addressed in the ED-5000 application material in a framework neutral way, which is a relevant approach for an international standard. However, we do not believe that ED-5000 answers the question, "When the criteria include the "double-materiality" concept, does the practitioner also apply "double materiality" to perform the procedures on the engagement?". This question could be answered in a Q&A on materiality considerations in sustainability assurance. We noted that page 3 of the FAQ Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner provides some explanations (e.g., the concept of "double materiality lens") that are helpful, and we recommend that it be integrated as application material in ED-5000.

### KPMG International

We believe that ED-5000 appropriately addresses the notion of “double materiality”, and the application material at paragraphs A180 and A274 clearly explain this.

Consider more guidance to explore “double materiality” further

However, we note that the proposed standard does not explore “double materiality” further, and we recommend that the IAASB consider including more guidance in the application material with reference to the information needs of intended users in this area and how such information may affect their decision-making. We highlight that the evaluation of what is “material” to users (in particular, with respect to the “impact materiality” of the entity on sustainability matters) is likely to involve the exercise of significant professional judgement and professional skepticism by practitioners, in evaluating management’s “materiality process” and determining the sustainability information to report, as well as how to present this in a clear, understandable, and transparent way. Accordingly, we believe ED-5000 should give greater prominence to the factors to consider in making these evaluations, as they are likely to be of particular importance in sustainability assurance engagements given that the intended user population may be significantly broader, with a greater diversity in their information needs, and consequently less well-defined decision-making parameters. We therefore also recommend that the application material addressing double materiality cross-refer to “materiality” considerations more broadly. Please see our responses to Questions 9 and 12 for further information.

We also highlight that requirements and guidance in this area are cross-referenced to the application material that refers to the entity’s process to identify topics and aspects of topics to be reported. However, whilst we consider this linkage to be important, we believe the concept of double materiality also applies to the entity’s process to determine information to include in the sustainability information at the disclosure level. Please refer to our comments in our response to Question 9, in which we recommend that management’s “materiality process” be described as a two-step process.

### MHA

As noted in our response to question 9 above, we encourage the IAASB to replace the term “double materiality” with the interoperability concept to ensure the final standard is framework-agnostic.

### MNP LLP

While we believe that ED-5000 appropriately addresses the notion of “double materiality” in a framework-neutral way, we don’t believe that ED-5000 is clear in how the entity’s use of double materiality can impact the practitioner’s assessment of materiality for the assurance engagement. We recommend additional application guidance on this topic. As well, the context notes of the IAASB FAQ on materiality note that if the notion of double materiality is relevant to the engagement, the practitioner applies a double materiality “lens” when they consider or determine the materiality for the assurance engagement. We recommend that aspects of this FAQ be included in the standards’ application guidance.

### PKF International Limited

We are generally in agreement that the notion of “double materiality is appropriately addressed in ED-5000. However, we have the following observations on certain aspects of the manner in which the concept of “double materiality” is explained:

The following excerpt from para A274 contains wording which is potentially confusing:

“...materiality is considered according to the nature and magnitude of impacts...”

In its reference here to “materiality” it is unclear whether the standard means the entity’s process of determining materiality or the practitioner’s materiality process. We assume the intent here is that “materiality” refers to the entity’s materiality process and we recommend the wording in para A274 is updated to clarify this point.

Cross-referencing is used within the guidance, which requires a reader to jump between a variety of paragraphs spread throughout the application guidance. This can be confusing and makes it more difficult to obtain a cohesive and clear understanding on the subject.

To make the guidance material on this matter more user-friendly and easier to digest, we recommend that the relevant guidance is consolidated and presented in a tabular format to visually demonstrate the distinction between the meaning of the practitioner’s materiality compared to the entity’s “double materiality”.

Please note that we have also provided comments in Q13 regarding the entity’s “materiality process”, a process in which the concept of double materiality is considered by the entity’s management. In our comments on Q13 we encourage the IAASB to consider introducing a requirement into ED-5000 for the practitioner’s risk procedures to include obtaining an understanding of the entity’s “materiality process”.

#### **PricewaterhouseCoopers International Limited**

In principle, yes, we agree that the exposure draft has approached the concept of “double materiality” in a framework-neutral manner. The application material is clear in explaining the distinction between “double materiality” and the practitioner’s materiality considerations, however, please see our responses to questions 8 and 9 regarding the sufficiency and location of guidance. As explained in our response to question 9, we believe further guidance is needed on the entity’s process to identify reporting topics, which will likely necessitate further discussion of the concept of double materiality. This is also an area where collaboration with other stakeholders, such as professional bodies in Europe, would be useful to enable the development of additional non-authoritative guidance on this topic given the requirements of certain reporting frameworks, including the CSRD.

#### **RSM International**

We suggest that the IAASB clarify paragraph A180(c) of ED-5000 as follows to make it expressly clear to which ‘both impacts’ are being referred (bold, struck text indicates the removed language; bold, underlined text indicates the added language):

Both impacts (a) and (b), which may be described by the applicable criteria as “double materiality” in the context of identifying topics or aspects of topics to be included in the sustainability information (see paragraph A157).

### **9. Public Sector Organizations**

#### **First Nations Financial Management Board**

While the applicability of dual materiality will be dependent upon the applicable framework, there is a risk that entities will attempt to limit the scope of expected users of the sustainability information to focus on financial materiality as opposed to impact materiality. Limiting the scope of potential users may serve to avoid the lens of double materiality.

Assurance engagement reports on sustainability may then be offered to support claims that extend beyond the original intended audience.

## Files\10. Member Bodies and Other Professional Organizations

### Accountancy Europe

We believe that ISSA 5000 should have conditional requirements for cases where the reporting framework requires application of double materiality. This will have an impact on the practitioner's materiality considerations especially when evaluating the completeness of the material sustainability information reported in accordance with the applicable reporting framework and determining whether uncorrected misstatements are material, individually or in the aggregate.

### ASSIREVI – Association of the Italian audit firms

We agree with the distinction made between the preparer's double materiality (as set out in paragraphs A180 and A274) and the practitioner's determination of materiality by the practitioner, and how this distinction is presented in the standard.

Specifically, ED-5000.A275 clarifies that "Management's materiality process differs from materiality considered or determined by the practitioner". In addition, ED-5000 establishes that qualitative factors considered by the entity and the practitioner may overlap but need not be identical. We recommend that the IAASB include additional guidance in ED-5000 as to how the two concepts of materiality interface and may overlap (a topic identified as material based on the entity's materiality analysis affects the practitioner's consideration of materiality).

Turning to quantitative materiality, ED-5000 states that the practitioner and the entity will not necessarily arrive at the same materiality threshold. Once again, we urge the IAASB to include guidelines and examples or explanations about the reasons for different materiality levels in ED-5000.

A useful point of reference for additional guidelines, examples or explanations is the document "FREQUENTLY ASKED QUESTIONS - Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner" published by the IAASB in October 2023.

### Belgian Institute of Registered Auditors

Whereas the practitioner is familiar with the materiality principles relating to the "impact on the entity", it seems much more complicated to establish (or consider) materiality relating to the "impacts of the entity on sustainability matters". There is probably a tendency towards minimization in the latter case and therefore a greater risk of greenwashing.

More guidance (for example from ISA 540) should be incorporated.

General comments:

The readers (stakeholders) are various and their interest is so large while the standard is theoretical and in function of who reads the report, the interpretation of what is material is different.

Template reports (including non-standard reports) should be provided.

### Center for Audit Quality

ED-5000 appropriately addresses the notion of "double materiality" in a framework-neutral way. The breakdown of the components of double materiality, provided in the application guidance in para. A180 (a) and (b), are helpful and should be retained. We believe it is important that ED-5000 remain framework neutral in order to be globally operable and adaptable to the different conditions prevalent in different jurisdictions.

Regarding whether ED-5000 appropriately addresses how “double materiality” differs from the practitioner’s consideration or determination of materiality, we believe that revisions to para A274 are necessary. Para A274 mixes the concept of double materiality with the assurance notion of materiality. We recommend moving away from that terminology in para A274 and instead focusing on the intended users and their information needs – i.e., that when the information being presented has been determined based on the “double materiality” concept, there are likely multiple user groups with different information needs that could impact how the assurance practitioner thinks about materiality for assurance purposes.

#### **Chamber of Financial Auditors of Romania (CAFR)**

We believe ED-5000 adequately covers the concept of "double materiality," and the recent FAQs provided further insight into this concept. However, we recommend that the IAASB contemplate the inclusion of a few overarching requirements or the development of distinct guidance, which could eventually be integrated into an ISSA. These requirements or guidance should be contingent upon the reporting framework being founded on the principles of double materiality.

#### **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

We support the need to explain the concept of double materiality for the assurance practitioner to consider. According to ACCA’s thought leadership report titled Sustainability Assurance – rising to the challenge sustainability assurance practitioners commended the IAASB for considering double materiality as part of its priority areas in developing ED-5000 with some of them noting that while it might not be a concept that is required by all sustainability reporting frameworks, it is still very important for the mindset of the sustainability assurance practitioner when conducting sustainability assurance engagements.

The consideration of materiality in sustainability assurance is complex due the multiple meanings that the term may be taken to mean. The assurance practitioner must consider a wide spectrum of users, the entity’s ‘materiality process’, the concept of ‘double materiality’ and then also determine materiality in relation to both the quantitative and qualitative sustainability information being reported. We believe that materiality is an area where there will be a need for additional guidance, examples and perhaps an additional standard in the future to assist practitioners. Education will also be needed for preparers and other users about how materiality is addressed by the assurance practitioner. We note the clarity in the FAQs in that the reporting framework may require the entity to apply the concept of “double materiality,” which recognises that stakeholders may be focused on financial materiality or impact materiality or both when identifying the sustainability matters to be disclosed. This could be a starting point for the development of additional guidance.

#### **Chartered Accountants Ireland**

ED-5000 appropriately addresses the notion of "double materiality" in a framework-neutral way. It is appropriate that the standard explains that the "double materiality" assessment is different from the practitioner's consideration or determination of materiality. However, we believe it would be helpful if the standard also included an acknowledgement that an entity having carried out a "double materiality" assessment may also set their own materiality thresholds for determining whether material sustainability information is materially misstated.

Also, we believe that paragraph A278 provides a helpful list of qualitative materiality considerations however, in relation to bullet two of that paragraph we believe the words "such as when a report includes

numerous performance indicators" should be removed as we believe performance indicators will be quantitative.

#### **Consejo General de Economistas de España**

While the ED-5000 appropriately addresses the notion of “double materiality”, we think the IAASB might develop guidance for value chain reporting.

#### **Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)**

While ED-5000 appropriately presents the concept of 'double materiality' in a framework-neutral manner, it's important to acknowledge the inherent complexity of this notion. Double materiality involves considering materiality from both the perspective of the reporting entity and the perspective of the stakeholders, which can vary widely across different entities and industries.

Given this complexity, a general definition in the standard is essential to maintain flexibility. However, it's crucial to recognize that such a general approach may lead to a diversity of interpretations and implementations among practitioners and entities, potentially hindering comparability.

To address this challenge, the IAASB could consider complementing the ED-5000 with an appendix, akin to the illustrative examples found in some IFRS accounting standards. These illustrative cases would provide practical guidance and real-world scenarios to assist practitioners in navigating the intricate landscape of 'double materiality' and help promote consistency in its application across various firms. This addition could serve as a valuable tool for practitioners seeking clarity on this concept.

#### **CPA Australia**

Paragraph A180 of ED-5000 describes “double materiality” as both financial materiality and impact materiality. However, “double materiality” is a term used in specific frameworks such as the Global Reporting Initiative (GRI) framework. Given, that ISSA 5000 is a framework-neutral standard, we recommend the IAASB uses a broader term (e.g., “multiple materiality”). The term “double materiality” could be included as an example in the standard.

#### **European Federation of Accountants and Auditors for SMEs (EFEAA)**

While we think ED-5000 appropriately addresses the notion of “double materiality”, and the recently issued FAQs Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner makes some additional mention of double materiality, we urge the IAASB to consider either including a few high-level requirements or developing separate guidance that might one day be replaced by an ISSA. Any requirements might be conditional, conditional on the reporting framework being based on double materiality. The IAASB might wish to emulate EFRAG which is developing guidance for value chain reporting.

#### **Institute of Chartered Accountants of Sri Lanka**

We do not believe that ED-5000 answers the question, “When the criteria include the “double-materiality” concept, does the practitioner also apply “double materiality” to perform the procedures on the engagement?”. This question could be answered in a Q&A on materiality considerations in sustainability assurance.

Additional explanatory material such as application guidance would be useful in relation to double materiality since it is not applicable for all the engagements.

### **Instituto de Auditoria Independente do Brasil - Ibracon**

Although we agree with the method of how the notion of double materiality is addressed, we suggest aligning the terminology of 'financial materiality' with that of the ESRS and IFRS S1. Both standards do not refer to 'impact' regarding financial materiality, but 'risks and opportunities'. We believe using the same terminology will prevent confusion on this matter and providing examples to illustrate the differences between financial materiality and impact materiality.

### **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

Although the concept of double materiality is mentioned, it is not sufficiently developed in the ED. It would be necessary to create additional guidance to clarify this concept with reference to the information needs of intended users in this area and how such information may affect their decision-making.

The determination of what is "material" to users with respect to the "impact materiality" of the entity on sustainability matters, is likely to involve the exercise of significant professional judgement and professional skepticism by practitioners in evaluating management's "materiality process" and determining the sustainability information to report, as well as how to present this in a clear, understandable, and transparent way. The standard should give greater prominence to these considerations as they are likely to be of particular importance in sustainability assurance engagements given that the intended user population may be significantly broader, with a greater diversity in their information needs and in respect of which their decision-making parameters may be less well defined.

### **Instituto Mexicano de Contadores Publicos (IMCP)**

We concur with the way that double materiality has been explained in the EM and included in the AM of the proposed standard. We also understand that for the assurance team, it would be important and relevant to gain an understanding of such process because it could influence and assist how the practitioner's materiality is considered and/or determined, as applicable. More details about double materiality may be considered as part of implementation and educational materials.

### **International Federation of Accountants (IFAC)**

We believe that ED-5000 appropriately addresses the concept of the entity's materiality process including differentiating between a single materiality and double materiality approach applied by a reporting entity for assessing what sustainability-related information it should disclose.

IFAC supports a "building blocks" approach to reporting on sustainability information—to deliver a harmonized, global system for consistent, comparable, and assurable sustainability-related information that meets the needs of investors and other stakeholders. This approach, which has also been supported by the IFRS Foundation, IOSCO, GRI, and others, balances two complimentary perspectives or information needs:

"Outside-in" disclosures addressing how ESG factors can impact company performance and value creation.

"Inside-out" disclosures addressing multi-stakeholder needs—societal impacts on people, economy or environment—not already captured by the prior perspective.

With respect to "double materiality," we stated in our August 2022 letter to EFRAG that the "intention of 'double materiality' can be adapted to coexist" with the building block approach. We encouraged EFRAG to articulate this compatibility in the final drafting of the European Sustainability Reporting Standards, which have since been finalized—still referring to "double materiality."

We believe that ED-5000 appropriately defines the entity's materiality process to encompass a range of sustainability reporting approaches. This broad definition allows the use of ISSA 5000 for engagements of sustainability reports that use either single, double materiality or some other approach. This will enable all jurisdictions to apply the ISSA 5000 standard as sustainability reporting practices evolve.

#### **Malaysian Institute of Certified Public Accountants**

The double materiality is currently applied by preparers for the preparation of sustainability information. In view of the introduction of double materiality for practitioners, it would be helpful if the IAASB can explicitly explain this in the ISSA 5000 or via frequently asked questions that both practitioners and preparers will have their own materiality.

It would also be helpful if the IAASB can provide the basis of conclusion for the two new assertions i.e. responsibility and consistency, as it would help practitioners to design and implement the relevant procedures to achieve the intended objectives.

#### **New York State Society of Certified Public Accountants (NYSSCPA)**

We are satisfied with the description of the concept of "double materiality" and how it is relevant to the client's process for determining materiality, as opposed to the practitioner's. We still believe the proposal needs to treat the term materiality with more care. The word materiality should be reserved for use only for the items the explanatory memorandum describes as "impact of the underlying subject matter on the entity (which may be referred to as financial materiality)." This would keep the word's use consistent with both the ISSB's definition of materiality and the United States Capital Market's meaning. Practitioners should advise clients that other items reported, because of interest from stakeholders about the client's impacts on the underlying subject matter, which do not qualify for financial materiality, should be described using a different term than material, i.e., general interest items. We suggest this to avoid confusion by readers of these reports as to why an item labelled as material in a sustainability report was not also reported in the financial statements, where material items are required.

#### **Nordic Federation of Public Accountants (NRF)**

In our view, ED-5000 does not sufficiently address "double materiality". However, the FAQ issued by IAASB regarding "The Application of Materiality by the Entity and the Assurance Practitioner" appropriately define both "materiality" and "double materiality" and is also very helpful guidance. To reinforce both terms and in particular how they differ we would prefer defining both terms in paragraph 17 in the standard.

See also our response to Q9.

#### **Saudi Organization for Chartered and Professional Accountants (SOCPA)**

SOCPA believes that ED-5000 appropriately addresses the notion of "double materiality". However, we believe that introducing more specific examples could clarify better how such notion could be differentiated and determined.

#### **World Federation of Exchanges**

The WFE is in favour of allowing the decision of using double or single materiality to stay with the professional judgment of the practitioner as long as the practitioner is able to clearly report the rationale of their decision to the users of the sustainability information.

Transparency around the practitioner's materiality determination process as well as details of the type of materiality used would be very useful for the users of sustainability information.

## 11. Academics

### Deakin University

ED-5000 appropriately differentiates preparer and practitioner materiality. Refer to our answer to Question 9 which stresses not only the importance of preparers having a materiality process but also the importance of disclosing that process such that the process description is subject to assurance under ED-5000. This will include a description of sustainability risks and opportunities considered but judged to be not financially material at the reporting date.

We question the inclusion of the term 'double materiality' in a framework-agnostic assurance standard given that 'double materiality' is framework-specific.

We are also concerned by the use of the term 'impacts' in the definition of sustainability matters in the proposed ISSA 5000. That term is associated with GRI Standards and not IFRS Sustainability Disclosure Standards, the CSRD, ESRS and the Integrated Reporting Framework.

The use of 'impacts' on a stand-alone basis detracts from the aim that ISSA 5000 should be framework-agnostic. The terms, 'resources and relationships', 'activities' and 'outcomes' should be added so that ISSA 5000 becomes framework-inclusive and framework-agnostic.

## 12. Individuals and Others

### World Wide Fund for Nature

The notion of double-materiality is appropriately described in section A180 of ED-5000, with a clear separation of financial and impact materiality.

However, while it may be clear for experienced practitioners that the entity-level materiality assessment differs from their own consideration or determination of materiality, this may not be obvious for more inexperienced practitioners or for information users. In this sense, it is important to further clarify that :

Double-materiality, as described at the entity-level, is the concept by which different issues are evaluated to determine whether disclosures should be produced for these;

Materiality as an assurance concept that is used to determine plan and perform assurance work, entails : which topics should be audited, what the level of verification should be for each given information, and at what point a deviation becomes likely to cause material misstatements.

A short paragraph clearly separating both notions and published in one place of the guidance would help to better explain this nuance.

Clear guidance should be issued to describe the way in which entity-level materiality analysis should be used by assurance providers to inform their own materiality analysis.

## 11.3 Neither agree or disagree

### 4. Regulators and Audit Oversight Authorities

#### Irish Auditing and Accounting Supervisory Authority (IAASA)

We welcome the IAASB's attempt to address this challenging area through references to impact materiality and the inclusion of some application material. Further material would be helpful, including consideration as to whether the application of double materiality to reporting by the entity impacts the work required to be performed by the assurance provider and whether the assurance provider should be required to consider double materiality when identifying potential misstatements, regardless of the entity's materiality process

### 5. National Auditing Standard Setters

#### Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)

Please see our comments on Question 9.

### 7. Accounting Firms

#### Crowe Global

The content in ED-5000 on “double materiality” will require supplementing by implementation guidance. New concepts are being applied, meaning that implementation support is needed not only for practitioners, but also for the preparers they are reporting on, oversight bodies monitoring the assurance work and reporting, and stakeholders using the reports. Without implementation guidance there is the risk of inconsistent application.

#### Mo Chartered Accountants (Zimbabwe)

The notion of double materiality is explained well in the frequently asked questions document titled “Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance Practitioner”. Notwithstanding, application may be challenging particularly in situations where if the notion of double materiality is relevant to the engagement, the practitioner applies a double materiality “lens” (i.e., “looks both ways” at financial materiality and impact materiality) but considers or determines a single materiality for purposes of planning and performing procedures at the disclosure level and evaluating whether identified misstatements are material. The degree of subjectivity in respect of impact materiality remains and is as yet not clear cut in spite of the principles set forth. It will heavily rely on judgment and may lead to disagreements with management.

### Files\9. Public Sector Organizations

#### Office of the Auditor General (New Zealand)

The concept of double materiality (financial materiality and impact materiality) is clearly described in the standard with an example. The information is scattered between A157, A180 and A274.

We agree with the statement that the entity's ‘process to identify reporting topics’, ‘materiality assessment’, or ‘materiality process’ is not the same as the concept of audit materiality. The following statement should be given more prominence to avoid confusion “For the purposes of this ISSA, materiality refers only to a

threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement”.

As mentioned in our response to question 8, how the entity’s materiality assessment has to be understood and could be used by the practitioner should be described.

Consideration / determination of materiality is based on the auditor’s judgement of the common information needs of users and which misstatements would be significant enough to change user decision-making or understanding. The understanding of how the entity considered impact materiality when deciding which topics to report on would assist the practitioner with this consideration / determination. This understanding would be obtained when evaluating the ‘relevance’ criterion in paragraph A179 but this link does not come through clearly.

An understanding of the entity’s consideration of impact materiality would also assist the auditor to evaluate whether a misstatement in narrative disclosures is qualitatively material e.g.:

The number of persons or entities affected by, and the severity of the effect of, the sustainability matter.

Whether a potential misstatement would be significant based on the practitioner’s understanding of known previous communications to the intended users, on matters relevant to the information needs of those users.

Significance is defined in the IAASB’s glossary of terms and should be included in paragraph 17 as this is a stand alone document.

“Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner’s report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.”

## 10. Member Bodies and Other Professional Organizations

### Institute of Internal Auditors

The IIA suggests adding “double materiality” to the “Definitions” section. It is hard to determine at a high-level how entities will be impacted with sustainability matters, so being as specific here as possible would be helpful.

## 11. Academics

### University of Southampton

We appreciate IAASB’s address the ‘double materiality’ issues in a framework neutral way, the explanation provided in Paragraph A180 of ED 5000 and in Section 1-F seems to be inadequate and superficial. For example, the statement about ‘Therefore, the concept of double materiality is not always relevant to every engagement’ (Para 59, Section 1\_F) does not seem to suggest the IAASB’s sincere effort to accommodate legitimate concerns of different stakeholders into sustainability assurance standard setting process. We

believe that the proposed sustainability assurance standards incorporate a careful assessment of financial and non-financial issues of materiality from multiple perspectives, not just from the perspective of investors and market participants.

In this case, we will strongly recommend the IAASB to reflect and fully embrace the concept of 'dual materiality' or 'double materiality' for sustainability accounting and reporting and require the practitioners to assess and comments on dual aspects of materiality. That is, concept of 'dual or double materiality' must form the cornerstone or centerpiece of any sustainability assurance standards that will be developed by the IAASB. To be clear, the concept of 'dual or double materiality' implies that there must be an explicit imperative, objective and effort to develop sustainability assurance standards that clearly require corporations to show how their information can be important both for their implications about a firms' (i) financial value, and (ii) impact on the world at large, particularly with regard to climate change and other environmental impacts. We note further that this relationship is interdependent – corporate activities impact on the environment and communities that they operate and vice-versa. Therefore, at the core of the concept of 'dual or double materiality' is the need for corporations to actively work on achieving long-term sustainable mutually beneficial co-existence. This suggestion is not only driven by the recent emergence and coining by other bodies and researchers, such as the European Union, but also underpinned by our early seminal research that far outdates its emergence. For example, Ntim et al. (2012) provided early strong evidence that firms that focus on 'double materiality' (both shareholder and stakeholder issues) receive additional valuation by the market over and above their competitors who do not. Our subsequent studies (e.g., Elmagrhi et al., 2019; Haque and Ntim, 2018, 2020; Nguyen et al., 2021; Ntim and Soobaroyen, 2013) have provided further robust evidence to support this conclusion.

Please note that reference list is at the end of this document.

## 11.4 Disagree with comments

### 2. Preparer and Users of sustainability information

#### Ceres, Inc.

We suggest that the standard provide additional guidance in this area since some standard-setters will be requiring sustainability "impact" disclosures, or double materiality. It may be helpful for the IAASB to add language similar to the ISSB S1 General Requirements for Disclosure of Sustainability-related Financial Information standard paragraph 2, which states: "Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment throughout the entity's value chain. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity."

#### Philip Morris International INC.

The relevant content is enhanced within the FAQ on Materiality document that has been issued by IAASB which clarifies the relationship between entity's materiality assessment and practitioner's materiality within the sustainability context. Incorporation of the FAQ into the actual standard would make the standard itself a single source of truth when it comes to sustainability assurance.

## 4. Regulators and Audit Oversight Authorities

### Committee of European Audit Oversight Bodies (CEAOB)

The interrelations between the notions of “double materiality”, “materiality of a misstatement”, “performance materiality” for the engagement, for instance, are not sufficiently explained in the requirements. Provisions are set out in the application material, but the requirements need to be clarified in ED 5000 (e.g. par 91), to define the work and expectations vis à vis the practitioners.

### Independent Regulatory Board for Auditors (IRBA)

The IRBA suggests that the IAASB reconsider the reference to “double materiality” in ED-5000, as the IAASB's standards are framework neutral, and the usage of such a term suggests an endorsement of the double materiality concept.

## 6. Global Standard Setter

### Social Value International

‘Double materiality’ is understood in different ways and the ED refers to only one of these in Para A180 as “When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality”. Another approach is to consider those of the entities impacts that are financially material and those that are not. There are situations where companies impact or produce externalities that have no financial rebound effect – at least in the foreseeable future. For example, a company may release treated water into a local river and do so within allowable limits of current regulations and for which there are no specific stakeholder concerns. However, from a biodiversity perspective the effluent may alter the acidity levels of the water resulting in harm to local species and allow invasive fish species to thrive. These two approaches could be presented in a table. Even where an issue is material to investors and to people experiencing that issue, for example the risk of financial returns compared to the loss of wellbeing from rising sea levels causing the loss of people's home, the relative importance of these to different users would be different. This would lead to both different assessments of the risk of material misstatement and to different decisions by users.

More generally there will be a set of material information for every set of generalised users making decisions with a shared purpose.

We recommend the discussion of double materiality recognizes different interpretations and the implications of these for the intended users and their purpose for relying on the information that has been reported.

## 7. Accounting Firms

### Baker Tilly International

The concept of double materiality which includes “impact materiality” is receiving increasing stakeholder attention including in European Sustainability Reporting Standards (ESRS). ED ISSA 5000 does not address double materiality to an appropriate extent and this is unfortunate when the European Union is currently the biggest market to be requiring assurance on published ESG information. More clarification is needed than that currently provided in paragraphs A180 and A274.

### European Contact Group (ECG)

As mentioned above in the reply to Q7 and Q9, clarification in the requirements-section of the work effort and procedures to be performed by the practitioner on an entity's materiality assessment process carried out under the double materiality approach would be very helpful.

### Grant Thornton International

We do not believe the notion of “double materiality” and the practitioner’s consideration or determination of materiality in the assurance engagement are addressed appropriately in ED-5000, as evidenced by the IAASB October 2023 ISSA 5000 FAQ on Materiality, released during the ISSA 5000 comment period. Both the concept of double materiality and materiality in the context of the assurance engagement were identified as priority areas for the IAASB to provide more specificity in the requirements and application material. We believe the requirements and application material should be revised and clarified as noted below before ISSA 5000 is finalized to reduce the need for nonauthoritative guidance and other educational material.

#### Double materiality

We do not believe it is appropriate to bury the description of “double materiality” and its relationship to management’s “materiality process” and materiality within the context of the assurance engagement within the application material. The concept of “double materiality” is not clearly defined in the standard. We propose the IAASB:

Add the formal definition of “double materiality” within ED-5000, paragraph 17 where other terms relevant to the standard are defined.

Add the response to Question 3 in the IAASB October 2023 ISSA 5000 FAQ on Materiality as new application material for the definition of “double materiality” added to ED-5000, paragraph 17.

#### Materiality in the context of the assurance engagement

Although materiality is defined consistently within the financial reporting space, the same cannot be said for the definition of materiality within the sustainability space. We propose the IAASB:

Add formal definitions of materiality (within the context of the assurance engagement) and performance materiality within ED-5000, paragraph 17 where other terms relevant to the standard are defined.

Revise the guidance in A271 to include the full response to Question 1 in the IAASB October 2023 ISSA 5000 FAQ on Materiality. Add a reference to A271 to the new definition of materiality added to ED-5000, paragraph 17.

Add the response to Question 6 in the IAASB October 2023 ISSA 5000 FAQ on Materiality as new application material for the practitioner’s requirement to consider or determine materiality in ED-5000, paragraph 91.

See Question 12 for further considerations related to materiality in the context of the assurance engagement.

### HLB International

ISSA 5000 does not sufficiently address double materiality, an area where assurance providers can benefit from as much guidance as possible.

## Mazars

The materiality process is key to determining what is disclosed in the sustainability report and is important under both ISSB and ESRS standards. ED-5000 isn't sufficiently clear as to the assurance practitioner's role in evaluating the entity's materiality process. Guidance on how to undertake the assessment of management's process and clarity on whether the practitioner's role relates to the process, the outcome from the process or both, would be helpful including the consequences if the practitioner doesn't agree on the material topics identified by the preparer. Although we note the release of recent non-authoritative guidance, more details about the practical application, including examples, is required particularly in relation to any consideration of the outcomes from management's process.

We note that the CSRD includes a requirement for practitioners to report on the materiality assessment process. As the materiality assessment process is such a fundamental part of the entity's process under any sustainability reporting standards, we suggest that a requirement to evaluate the entity's materiality assessment process is added as a requirement to ED-5000. The requirement should refer to evaluation of the materiality process as set out in the applicable criteria such that the practitioner's response would be focused on whether the entity had met the requirements of the relevant reporting standards, focusing on financial or impact materiality, or both (i.e. double materiality) without the need for a specific reference to double materiality in the framework-agnostic standard.

Introducing such a requirement may impact the procedures required in both the risk procedures and responding to risks phases of the engagement, such as:

Risks procedures: obtaining an understanding the materiality assessment process (LA/RA) plus evaluation of design and implementation (RA only?)

Responding to risks: challenging the outcome of the materiality process (both LA and RA) including the outcome from different steps in the process (e.g. assessing the list of stakeholders identified by the entity) as well as the identification of material topics.

A clearer distinction between the entity's materiality assessment and the practitioner's materiality, which are used in different ways despite the similarity in terminology, would be helpful. We note that neither term is currently included in the definitions (ED-5000.17) and suggest that the IAASB may wish to include definitions of both terms to clarify the purpose of each, and the differences between them.

## 8. Assurance Practitioner or Firm - Other Profession

### SGS

Refer to question 9.

The current description of "double materiality" in ED -5000 seems try to be framework-neutral but at the other side looks confusing. Paragraph 59 first mentioned ESRS, whose "double materiality" consists of "impact materiality" and "financial materiality". Then said, "When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality", which is closer to the GRI definition of "materiality".

We recommend the assurance standard to just address the entity's "materiality" process and leave the entity to decide which "double materiality" they prefer to use to meet up the needs of its intended users. The assurance provider's responsibility is to evaluate the entity's "materiality process" as mentioned above.

## TIC Council

Refer to question 9.

The current description of “double materiality” in ED -5000 seems try to be framework-neutral but at the other side looks confusing. Paragraph 59 first mentioned ESRS, whose “double materiality” consists of “impact materiality” and “financial materiality”. Then said “When the needs of the intended users relate to both the impacts on the entity and the entity’s impacts, this can be referred to as double materiality”, which is more close to the GRI definition of “materiality”.

We recommend the assurance standard to just address the entity’s “materiality” process and leave the entity to decide which “double materiality” they prefer to use to meet up the needs of its intended users. The assurance provider’s responsibility is to evaluate the entity’s “materiality process” as mentioned above.

## 9. Public Sector Organizations

### Government Accountability Office - US

We believe paragraphs 59-60 and 68 do not sufficiently address the notion of ‘double materiality’ in a framework-neutral way. We believe more comprehensive language to establish specific criteria that would allow the practitioner report reliable information that meet the needs of the intended users.

As currently drafted, paragraph 68 weighs heavily on the practitioner’s professional judgement and perception of informational needs. This could lead to significant inconsistencies in criteria used for sustainability testing. For example, qualitative factors such as time frames, complexity, or sensitivity of the work, the magnitude of the matter in relation to the subject matter, the nature and effect of the matter, the needs and interests of an objective third party with knowledge of the relevant information could be appropriately applied to the notion of “double materiality” (GAO-21-368G e/p.166).

Creating a framework that contains more specific detail related to materiality (i.e., qualitative and quantitative disclosures) will allow for a more consistent implementation of applicable criteria by accountant and non-accountant practitioners to evaluate appropriate and sufficient sustainability matters as it related to the notion of “double materiality” (Explanatory Memorandum Section 1-F, paras. 66-69).

### Office of the Auditor General of Alberta

ED-5000 mischaracterizes “double materiality,” and is actually supporting single materiality, not double materiality. Double materiality is a “both and” concept, not an “either or” concept. ISSA 5000 should be clear that sustainability matters in a double materiality sense shall involve both the most significant impacts on the entity and on the economy environment or people, not either financial impacts on entity or external impacts on others. The definition of sustainability matters in paragraph 17 vv (i) should be amended to be “...impacts of an entity’s activities, products and services on the environment, society, economy, culture, and impacts on the entity.”

A180 should be amended to clarify that impacts on the entity are not limited to financial impacts but may also involve operational or governance impacts. For example, the entity may diversify and be more inclusive in its senior management. At the same pay, this has no financial impact, but may be an important “social” sustainability information. The first bullet in A180 should say “...which may be referred to as operational materiality, internal materiality or other terms, and is not limited to only financial impacts.” A180 (a) should also be plural i.e. “impacts” to be parallel with (b).

Paragraph A274 should also be updated to clarify that impacts on the entity are not limited to financial impacts. Sustainability reporting is neither financial reporting nor generic management discussion and analysis reporting. Paragraph A417 (f) example should be amended to be more sustainability focused, because the material impacts are on the small community and they should not be filtered, as the example suggests, through whether there are material impacts on the entity or “others” (perhaps meaning shareholders) via lawsuits. What matters from a sustainability perspective is the impact on the community, including health, social and financial (i.e. they may have health care costs, contamination remediation costs, or loss in property value when they need to move). ISSA 5000 should not be able to be used in such a way that would condone reducing polluting a community to only being reported if there was a material lawsuit to the entity; otherwise, ISSA 5000 may be used to condone redefining sustainability reporting as a form of financial reporting.

It is unclear what “framework-neutrality” means. It can't be “anything is acceptable” otherwise suitability of criteria would not be necessary. Fundamentally a sustainability assurance standard should be tied to sustainability. ISSA 5000 should be framework neutral among sustainability frameworks that require both impacts on the entity and impacts on people and the environment to be considered and should exclude other frameworks. To reinforce, while IAASB is not a sustainability framework standard setter, what is in ED-5000 constrains what is acceptable and not acceptable as sustainability matters subject to assurance. ED-5000 allows criteria that may ignore all external impacts and only focus on financial impacts on the entity, which should not be acceptable criteria.

To compare with the ISAs, for example, it would not be an acceptable framework if a financial reporting framework treated debt as revenue, even though cash increases. The entity may still report cash increases due to debt issuances as revenue, but ISAs would likely prevent any assurance to be provided on such a report, which consequently could prevent such reporting in the first place, or signal to users that such information has no assurance on it and therefore should not be relied upon. This does not mean that ISA 210 is a reporting framework, but it does mean that ISA 210 places constraints on what the practitioner can be associated with and provide assurance on.

IAASB has an important global role to ensure that sustainability is not redefined as financial impact only, or if so, ensure that no assurance may be provided on such sustainability information.

## 10. Member Bodies and Other Professional Organizations

### Colegio de Contadores Públicos de Costa Rica

Establishing two materialities is a complex issue that can mislead auditors. Applying materiality at a financial level is already complex, the application in sustainability either quantitatively and qualitatively depends on many factors that have a wide variety of underlying fundamentals. (meaning source of information, calculations, units of measure among some of them) We believe that including two materialities may lead to a wide variety of definitions and calculations that may reduce comparability and accountability of the work of the practitioner.

We suggest the use of only one materiality measurement supported with detailed guidelines of what is acceptable and what is not acceptable as a materiality.

### CPA Ireland

Double materiality is referenced twice within ISSA 5000, in each instance this is only within the application and other explanatory material section of the standard. An example is provided at A274 to demonstrate double materiality, however this should be expanded further to provide greater context i.e. to the financial and impact materiality. This concept should be detailed within the requirements section of the standard.

### European Commission Platform on Sustainable (PSF)

As stated in our responses to questions 9 and 10, the Platform believes that guidance on impact materiality ought to respond to science and evidence. Given that the ESRS as the only standards to date that require impact materiality (as part of the double materiality), the Platform strongly believes it is the responsibility of the European Commission to develop such guidance that is, in turn, fitted for the European standards, e.g. ESRS and taxonomy.

The Platform perceives financial materiality as the primary shared element between the ISSA 5000 and Europe's ESRS. The ISSA 5000 could potentially offer additional guidance to practitioners on the assurance of financial materiality. This guidance should complement detail guidance on financial materiality to be provided to preparers by the different standard setters, notably ISSB in conjunction with EFRAG among others.

### European Group of International Accounting Networks and Associations (EGIAN)

European Sustainability Reporting Standards (ESRS) incorporate double materiality but ED ISSA 5000 does not address it sufficiently; ISSA 5000 should also address impact materiality.

### Institute of Chartered Accountants in England and Wales (ICAEW)

We do not believe that reporting materiality is a subject for an assurance standard to address since assurance standards should not drive reporting requirements. If the proposed standard frames its requirements and application guidance in terms of 'materiality as defined in the applicable criteria relating to the engagement' this would cover double materiality where applicable.

In our view the process for materiality is somewhat unclear in the proposed standard. We believe that a straightforward statement – possibly in flowchart form – would be helpful, for example:

Preparers determine what is material

Practitioners consider whether they agree (this is not sufficiently clear in the standard)

Practitioners consider / determine materiality for individual disclosures or topic

Practitioners determine performance materiality where aggregation is required

We note that financial materiality in IFRS S1 / ESRS does not refer to the 'impact' but rather 'risks and opportunities' and we suggest that the IAASB considers aligning the definitions in ISSA 5000 with IFRS S1/ESRS. This could be particularly relevant for public sector entities depending on the scope of reporting set. For public sector bodies, the impact of their policy setting role is often much greater than the impact of, for example, entity specific emissions and any financial impacts. If a broader policy impact measure is considered, and given materiality to users, it will introduce a much broader and more complex assurance scope.

### **Institute of Chartered Accountants of Scotland (ICAS)**

ED-5000 is intended to be designed to be framework neutral with respect to reporting, which we applaud. However, we are not convinced that the proposed standard adequately deals with scenarios where an entity will be reporting under a double materiality lens. Given that reporting entities in the EU and others from outwith which are in scope will have to comply with a double materiality approach we believe this highlights the need for the proposed assurance standard to comprehensively deal with assurance engagements in relation to where this has been applied. We believe that the optimum approach to deal with this will be to include conditional requirements in relation to where an entity has applied a double materiality approach. Such requirements and related application material will need to reflect the more holistic approach that has been adopted by preparers and include matters to be considered by the assurer both in terms of completeness and in assessing the materiality of misstatements identified.

In this regard the finalised version of ED-5000 should recognise the importance of entities sequencing their materiality assessment requiring assessment of the organisation's most significant impacts to precede the assessment of the risks, opportunities and their impact on financial consequences as per the Global Reporting Initiative and European Sustainability Reporting Standards. Both perspectives are important in their own right, but so too is completeness, and significant impacts give rise to actual or potential risks and opportunities. They also affect dependencies. In related guidance the IAASB could consider referring to applicable guidance such as that provided by GRI Standards, GRI 3: Material Topics 2021 on determining material topics (as defined in GRI 3). It is particularly important that the process of determining material sustainability and sustainability related matters is included in the scope of assurance engagements.

### **Korean Institute of Certified Public Accountants (KICPA)**

The KICPA believes that it is appropriate to consider 'double materiality' from the 'relevance' perspective of the applicable criteria. However, it is challenging to understand from this ED the impact of the materiality applied by the entity (including, the materiality principles of the applicable criteria), including double materiality, on the practitioner's materiality and how the practitioner should consider the materiality applied by the entity.

This challenge doesn't seem to be addressed by FAQ. Rather it is compounded by the answer in FAQ which said the practitioner should apply a double materiality "lens" to determine materiality but consider or determine a 'single' materiality for purposes of performing assurance engagements and assessing misstatements. In particular, it said that the lesser of financial or impact materiality would be used for quantitative disclosure.

In considering or determining the materiality, the practitioner should consider the entity's perspective used in performing the materiality process, even when the entity's 'materiality process' and the practitioner's materiality serve different purposes. Guidance should be provided (in the standard, instead of FAQ) to describe specifically how it should be done. If an entity applies the double materiality, the practitioner also should consider and determine materiality from those two perspectives. We suggest that specific and diverse examples should be provided to enhance the practitioner's understanding, along with such guidance.

### **Pan African Federation of Accountants**

Stakeholders have expressed views that ED-5000 should not reference "double materiality", because IAASB standards are framework neutral.

## South African Institute of Chartered Accountants (SAICA)

SAICA is of the opinion that the IAASB's standards are intended to be framework-neutral, therefore should not reference the "double materiality" concept. The mere nature of including the concept of double materiality already points to a specific framework.

## 11. Academics

### Accounting and Finance Association of Australia and New Zealand

We recommend that the term "double materiality" should be used as little as possible because it is confusing.

We also note that the ED and the Explanatory Memorandum use two different definitions of double materiality which are not consistent with each other. We recommend the concept as used in the Application and Other Explanatory Material, whereby double materiality means financial impacts on the entity and the entity's impacts on the environment society and culture as used in the ED.

The documents do not use the term consistently. Double materiality is used in the Explanatory Memorandum in a different way from the ED:

EM 59: "When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality."

A274: "When the applicable criteria refer to both financial impacts on the entity and the entity's impacts on the environment, society, economy or culture, this may be referred to as "double materiality."

The EM appears to be referring to impacts on the entity in general terms, which might not be financial. The ED is using the term only for financial impacts on the entity. Täger (2021) refers to these two alternative meanings as the strong and weak concepts of double materiality.

## 12. Individuals and Others

### Capitals Coalition

'Double materiality' is understood in different ways and the ED refers to only one of these in Para A180 as "When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality". Another approach is to consider those of the entities impacts that are financially material and those that are not. There are situations where companies impact or produce externalities that have no financial rebound effect – at least in the foreseeable future. For example, a company may release treated water into a local river and do so within allowable limits of current regulations and for which there are no specific stakeholder concerns. However, from a biodiversity perspective the effluent may alter the acidity levels of the water resulting in harm to local species and allow invasive fish species to thrive. These two approaches could be presented in a table. Even where an issue is material to investors and to people experiencing that issue, for example the risk of financial returns compared to the loss of wellbeing from rising sea levels causing the loss of people's home, the relative importance of these to different users would be different. This would lead to both different assessments of the risk of material misstatement and to different decisions by users.

More generally there will be a set of material information for every set of generalised users making decisions with a shared purpose.

We recommend the discussion of double materiality recognizes different interpretations and the implications of these for the intended users and their purpose for relying on the information that has been reported.

### **International Accreditation Forum (IAF)**

'Double materiality' is understood in different ways and the ED refers to only one of these in Para A180 as "When the needs of the intended users relate to both the impacts on the entity and the entity's impacts, this can be referred to as double materiality".

ED-5000 does not specify

the time horizon to estimate the impacts (short, medium and long term)

the impacts that are financially material and those that are not.

For example, a company may release treated water into a local river and do so within allowable limits of current regulations and for which there are no specific stakeholder concerns. However, from a biodiversity perspective the effluent may alter the acidity levels of the water resulting in harm to local species and allow invasive fish species to thrive. These two approaches could be presented in a table. Even where an issue is material to investors and to people experiencing that issue, for example the risk of financial returns compared to the loss of wellbeing from rising sea levels causing the loss of people's home, the relative importance of these to different users would be different. This would lead to both different assessments of the risk of material misstatement and to different decisions by users.

The focus given is low in this case and don't clarify the methodology expected.

The recommendation is to clarify also when it is acceptable to validate information with longer time horizon also clarifying some exclusion in the "statement".

The value chain information should be considered as part of another reporting. The topic is complex and addressed a proper verification is required.

A specific time and effort need to be spent specifically for the topic (unless the company can prove they have already a strong system in place for supply chain monitoring and the same is verified by a third party with a specific opinion).

### **Japan Accreditation Board (JAB)**

ED-5000 has a room for improvement to define the framework requirements to evaluate the double materiality, as to provide the consistent assurance among various practitioners and accredited assurance bodies.

ED-5000 does not specify

the time horizon to estimate the impacts (short, medium and long term)

the impacts that are financially material and those that are not.

It is necessary to have requirements for entity's materiality process how to carry out assurance activities regarding double materiality. Otherwise, this framework may cause variation in assurance among various practitioners and accredited assurance bodies.