

## **Sustainability Assurance – Materiality**

This Agenda Item includes the analysis of comments received on questions 9, 11 and 12 in the Explanatory Memorandum to ED-5000, and the related SATF views and recommendations.

### **Background**

#### *The Entity's "Materiality Process"*

1. In developing ED-5000, the IAASB recognized that understanding the entity's materiality process is critical under certain frameworks or entity-developed criteria. However, as ED-5000 is an overarching standard that will be applicable to all sustainability assurance engagements, the IAASB concluded that the entity's materiality process could be addressed in the application material.
2. The IAASB limited the application material in ED-5000, with respect to the entity's materiality process, to acknowledge that such a process may be established by management or be required by the framework (paragraph A157) and distinguished it from the practitioner's materiality (paragraphs A157 and A275).

#### *The Notion of "Double Materiality"*

3. In developing ED-5000 the IAASB was aware that some reporting frameworks require "double materiality" to be applied in preparing the sustainability information (e.g., European Sustainability Reporting Standards (ESRS)). In evaluating whether the criteria are suitable, ED-5000 required the practitioner to evaluate, among other characteristics, the relevance of the criteria that will result in sustainability information that assists decision-making by the intended users.
4. Paragraph A180 of ED-5000 explained the notion of double materiality that relates to the information needs of the intended users of sustainability information and, when applicable, to the practitioner's evaluation of the relevance of the criteria. The Board noted that the applicable criteria will not always include both perspectives (i.e., financial materiality and impact materiality) that are inherent in the notion of double materiality, and so it is not always relevant to every engagement.

#### *Practitioner's Approach to Materiality*

5. The IAASB proposed a "bifurcated" approach to materiality for purposes of planning and performing the engagement, based on feedback that it is impracticable for practitioners to determine materiality for qualitative disclosures and to determine materiality for sustainability information as a whole, given the nature of the disclosures, i.e., qualitative and quantitative disclosures about a number of different topics and aspects of topics.
6. In addition, the IAASB concluded that it would be appropriate to include, for quantitative disclosures, a requirement in ED-5000 (paragraph 92) to determine performance materiality as applicable in the circumstances to reduce aggregation risk to an appropriately low level. However, for qualitative disclosures, the IAASB added application material in ED-5000 (paragraph A285) from the *Non-Authoritative Guidance on Sustainability and Other Extended External Reporting Assurance Engagements* (EER Guidance) to give consideration to the concept of aggregation risk.

## What We Asked

7. Question 9 asked respondents:

*Does ED-5000 appropriately address the practitioner's consideration of the entity's "materiality process" to identify topics and aspects of topics to be reported? If not, what approach do you suggest and why?*

119 of 143 respondents provided a response to question 9, including three MG members. See **Agenda Item 3-I.9** for further details on the overall responses and **Agenda Item 3-J.9** for comments received.

8. Question 11 asked respondents:

*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?*

112 of 143 respondents provided a response to question 11. None of the MG members responded. See **Agenda Item 3-I.10** for further details on the overall responses and **Agenda Item 3-J.10** for comments received.

9. Question 12 asked respondents:

*Do you agree with the approach in ED-5000 for the practitioner to consider materiality for qualitative disclosures and determine materiality (including performance materiality) for quantitative disclosures? If not, what do you propose and why?*

119 of 143 respondents provided a response to question 12, including all four MG members. See **Agenda Item 3-I.11** for further details on the overall responses and **Agenda Item 3-J.11** for comments received.

## What We Heard

### Highlights

#### *The Entity's "Materiality Process"*

- ED-5000 did not clearly address the entity's materiality process or specify the practitioner's work effort with respect to that process.
- The terminology used is unclear, inconsistent and potentially confusing and does not sufficiently delineate between the entity's materiality process and the practitioner's consideration of materiality, nor highlights the common concept underpinning both of these matters.
- ED-5000 did not address how the practitioner should build on the preliminary knowledge of the entity's materiality process during the engagement or respond to misstatements identified.

#### *The Notion of "Double Materiality"*

- Broad support for addressing double materiality in ED-5000.

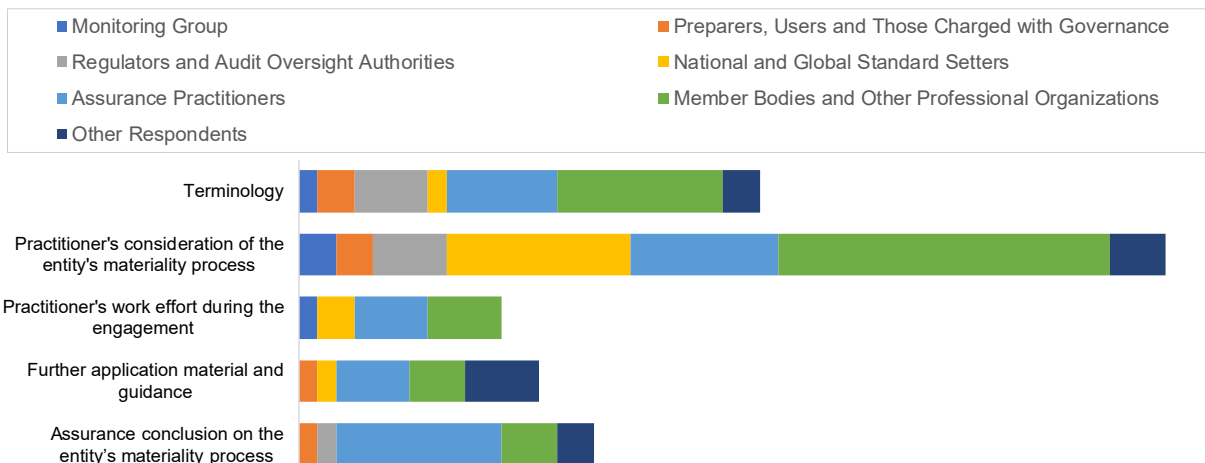
- Suggestions about the need for better alignment of the double materiality notion with leading reporting frameworks.
- Calls for a conditional requirement to address the practitioner's considerations of double materiality.
- Calls for streamlining existing guidance and supplementing with additional guidance.

#### *Practitioner's Approach to Materiality*

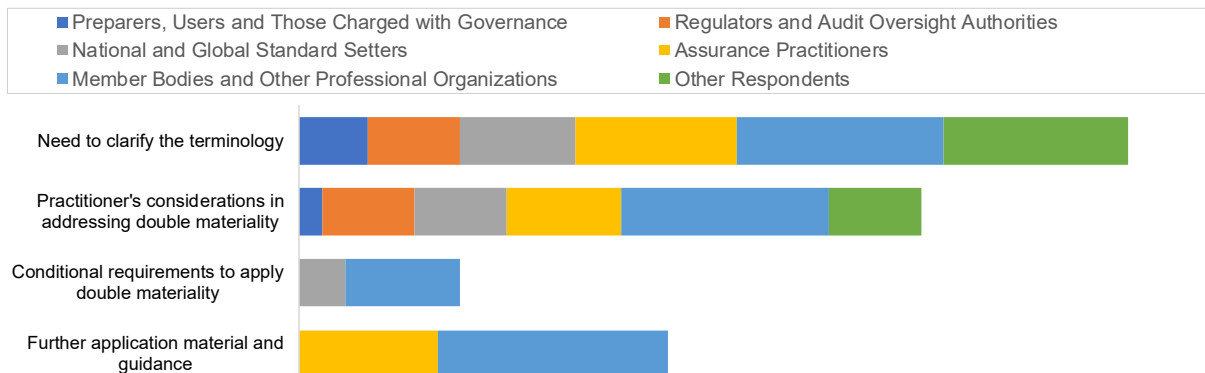
- Support for the bifurcated approach to consider or determine materiality.
- Further clarity needed regarding the distinction between the approaches and the work effort.
- Further clarity needed with respect to performance materiality.
- Calls for guidance on a number of matters, including how to consider/ determine materiality, accumulation or aggregation of misstatements, consideration of intended users and materiality for groups.

10. The charts below show a breakdown of the comments on questions 9, 11 and 12 by theme and stakeholder group.

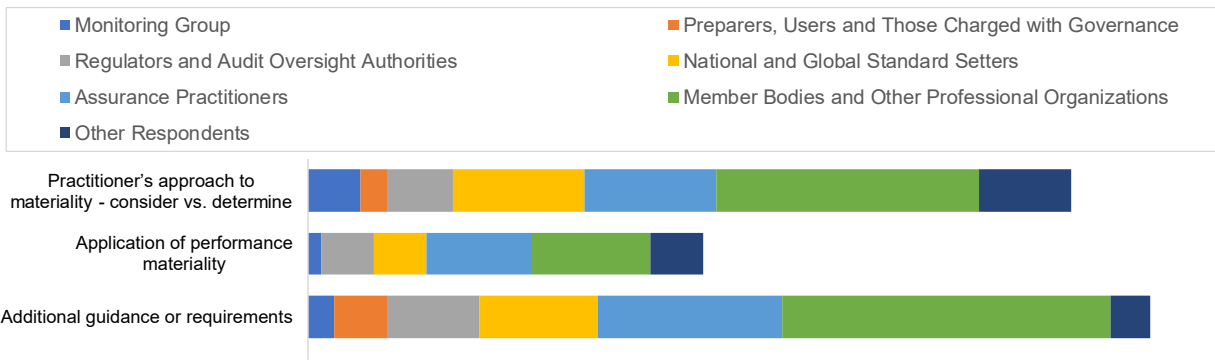
#### **The Entity's "Materiality Process"**



#### **Notion of "Double Materiality"**



### Practitioner's Approach to Materiality



### Monitoring Group Comments

11. Three MG members agreed with the way ED-5000 addressed the practitioner's consideration of the entity's materiality process. The MG members that responded made the following suggestions:
  - (a) The "importance of the materiality assessment of the preparer in the sustainability information should be emphasized."
  - (b) The practitioner should be required to consider whether the entity's materiality process is appropriate in obtaining a preliminary knowledge of the sustainability information expected to be reported, rather than only addressing it in the application material. Also, provide clearer requirements for the practitioner's procedures on the entity's materiality process.
  - (c) The entity's materiality process and materiality applied by the practitioner need to be more clearly separated in the application material and grouped under specific headings.
  - (d) The entity's materiality process needs to be explicitly referred to in the application material on risk procedures, including the consequences of an inadequate process or problematic outcomes for the practitioner.
12. Although three of the MG members supported the "bifurcated" approach in ED-5000, two of them commented that the requirement to consider materiality for qualitative disclosures should be strengthened. They considered that the word "consider" could be interpreted as inherently optional and could lead to inconsistent application. The fourth MG member indicated that the distinction between "considering" qualitative materiality and "determining" quantitative materiality is unclear.

### Other Respondents' Comments

#### The Entity's "Materiality Process"

13. Overall, respondents sought:
  - (a) Clarification of the term used for the entity's materiality process.
  - (b) An explicit requirement for the practitioner's considerations with respect to the entity's materiality process at the acceptance and continuance stage.
  - (c) Further requirements or application material for the practitioner's procedures on the entity's materiality process to build on the preliminary knowledge and flow through the engagement, that clearly separate the practitioner's considerations of the entity's materiality process from the practitioner's consideration or determination of materiality.

- (d) Further guidance to support the practitioner's considerations of the entity's materiality process as part of their preliminary knowledge, through the different stages of the engagement.
- (e) Clarity regarding the practitioner's procedures when an assurance conclusion is required to be provided on the entity's materiality process.

#### Terminology

14. Respondents' comments included the following:

- (a) A single defined term is needed for the entity's materiality process. While different reporting frameworks use different terminology for the entity's materiality process, several respondents suggested it would be simpler and framework neutral for the standard to use that defined term consistently, as various terms are used interchangeably in the standard. Some suggested using a term other than "materiality process" to avoid confusion with the materiality applied by the practitioner and others proposed the term "process to identify reporting topics." Also, respondents supported guidance on common terminology for this process in established reporting frameworks.
- (b) There should be stronger recognition of the common underlying concept of materiality relating to the information needs of intended users that underpins the entity's materiality process, the entity's materiality and materiality considered or determined by the practitioner.
- (c) The distinction between the entity's materiality process and the materiality applied by the practitioner is not sufficiently clear and needs to be clearly separated to avoid confusion, such as by use of appropriate headings. This is consistent with MG members comments (see paragraph 11(c)). There was strong support for the way these terms were explained in the Materiality FAQs,<sup>1</sup> whereas feedback on the application material in ED-5000 (see paragraph A157 and A275 of **Agenda Item 3-H**) was that it can easily be misinterpreted.
- (d) In addition to clearer application material, respondents suggested examples illustrating the entity's materiality process and materiality applied by the practitioner, which may also assist to address scalability challenges.

#### Practitioner's Consideration of the Entity's Materiality Process for Acceptance and Continuance

- 15. The need for a requirement for the practitioner to explicitly consider the entity's materiality process at the acceptance and continuance stage was raised by respondents from a wide range of stakeholder groups, including two of the MG members. Respondents described it as a cornerstone of sustainability reporting and "a fundamental element to be scrutinized during the assurance engagement" and others noted that the engagement would lack a rational purpose if the sustainability information selected were not based on an appropriate process by the entity. Some suggested that such a requirement could be included in the preliminary knowledge required in paragraph 69 of ED-5000.
- 16. Respondents asked for clarification on the extent of work effort that the practitioner is required to perform on the entity's materiality process prior to acceptance. However, other respondents suggested that the work effort needed to be pared back at this stage to something akin to determining that management has a "reasonable basis" for the sustainability information, cautioning that the work

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<sup>1</sup> *Frequently Asked Questions - Proposed ISSA 5000: The Application of Materiality by the Entity and the Assurance*

effort expected at the acceptance stage should not exceed the work effort currently expected for financial statement audits. One respondent observed that “some aspects of the preliminary knowledge may be difficult to obtain before the acceptance of the engagement, especially when the entity is preparing the sustainability information for the first time.”

17. Several respondents considered that any additional requirement with respect to assurance on the materiality process would need to be conditional, because a requirement may not be relevant in all circumstances, such as when specific topics are required to be reported by the reporting framework. One respondent questioned whether it is the practitioner’s role to obtain assurance on whether the material topics covered by the sustainability report are complete, but observed that users are likely to assume that assurance over a whole report on sustainability was obtained, particularly if prepared under a fair presentation framework.
18. One respondent suggested that the criteria for the entity’s process to identify sustainability information to be reported should be evaluated in the same way as the suitability and availability of criteria for preparation of the sustainability information and addressed in the same paragraphs.

#### Practitioner’s Work Effort During the Engagement

19. Clarification of the stages of the engagement where procedures are required to be performed on the entity’s process to identify sustainability information to be reported was sought by two MG members as well as some other respondents, with one observing that “it is unclear where in the standard the practitioner’s more detailed understanding of the entity’s materiality process, beyond the initial preliminary understanding, is obtained.”
20. Noting that the practitioner’s approach to the entity’s process is iterative, respondents, primarily professional bodies and practitioners’ firms, recommended that ED-5000 include the procedures to be conducted during the engagement that build on the preliminary understanding obtained and address expectations for the level of the practitioner’s further understanding of the entity’s process, similar to those set out in the Materiality FAQs.
21. Respondents suggested this could be addressed in the risk procedures (including a MG member), evaluation of uncorrected misstatements, and a “stand back” requirement. Different views were expressed on whether this would require assurance on the robustness of the process only or also on the relevance and completeness of the sustainability information identified to be reported. One respondent emphasized the risks that the disclosures may be materially incomplete, and the risks of fraudulent or misleading reporting might not be identified without sufficient understanding of the entity’s process.

#### Further Application Material and Guidance

22. Respondents called for further application material or guidance, including practical examples on the practitioner’s consideration of the entity’s materiality process and material on identification of intended users and stakeholders and their information needs. Some respondents provided specific matters that could be addressed in guidance.

#### Assurance Conclusion on the Entity’s Materiality Process

23. Some respondents noted that the practitioner may be required to conclude on the entity’s materiality process (e.g., the Corporate Sustainability Reporting Directive in the EU), such as when assuring the

entirety of the sustainability information reported, and therefore, assurance on the entity's process needed to be explicitly included in the standard to accommodate engagements where this is required.

24. Respondents had various suggestions on how an assurance conclusion could be addressed in the standard:
- (a) The practitioner's conclusion would be focused on whether the entity had met the requirements as set out in the applicable criteria.
  - (b) One respondent stated that assurance on the entity's process should focus on the robustness of the process, while others suggested that assurance would need to address the outcomes of that process.

### *The Notion of "Double Materiality"*

#### Need to Clarify the Terminology

25. Respondents acknowledged that the consideration of materiality in sustainability assurance is complex due the multiple contexts in which the term is used. Many respondents sought clarification and clearer delineation of double materiality from other terms related to materiality.
26. Respondents that commented on question 11 made the following suggestions:
- (a) Align the descriptions of financial materiality and impact materiality with the key sustainability reporting frameworks, in particular ESRS and IFRS Sustainability Disclosure Standard 1, *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1,) such as replacing reference to 'impact' with 'risks and opportunities' and adding the time horizon to estimate the impacts (e.g., short, medium and long term).
  - (b) Reserve the term materiality for financial materiality, and not use it for impact materiality, or reserve it for the materiality applied by the practitioner only, and use an alternative term for double materiality.
  - (c) Clarify that the "materiality" of a sustainability matter in the context of double materiality is different from the "materiality" of a misstatement of the reported information for assurance purposes.
  - (d) Define double materiality in the standard to aid clarity, which could be drawn from the Materiality FAQs or the Materiality FAQs could be used for related application material.
  - (e) To be framework neutral, broaden the impacts on the entity from financial impacts to also include operational or governance impacts, or describe double materiality in terms of the entity's impacts that are financially material and those that are not.
  - (f) Include examples to illustrate the differences between financial materiality and impact materiality.
  - (g) Do not use the term double materiality as it is not framework neutral. If it is used then do not describe it, as the applicable criteria would cover double materiality where applicable.

#### Clarify Practitioner's Considerations in Addressing Double Materiality

27. A number of respondents proposed the following additional requirements or application material was needed with respect to the practitioner's considerations regarding double materiality:

- (a) Incorporate further requirements for the practitioner to understand how the entity applied a double materiality perspective, as well as requirements for assurance on the entity's process to identify sustainability information to be reported (addressed in the analysis of responses on question 19).
- (b) Explain more clearly how the practitioner considers the entity's use of double materiality in their determination of materiality.
- (c) Clarify whether the application of double materiality by the entity impacts the work required to be performed by the practitioner.

#### Conditional Requirements to Apply Double Materiality

- 28. A number of respondents proposed that conditional requirements needed to be included in ED-5000 for the circumstances where the reporting framework requires application of double materiality and that this would drive consistency in practice. Many of these respondents were of the view that double materiality will have an impact on the materiality considerations of the practitioner, 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.
- 29. One respondent proposed that requirements are also needed to explain the interrelationship between the notions of "double materiality," "materiality of a misstatement" and "performance materiality," and to clarify the practitioner's work effort, rather than just covering this in application material.

#### Further Application Material and Guidance

- 30. Many of the respondents suggested additional application material or guidance was needed to:
  - (a) Provide clarification and more examples on applying the notion of double materiality, including an explanation of how double materiality would impact the materiality applied by the practitioner for the engagement, to reduce varying interpretations among practitioners, stakeholders, and regulators, drawing on the Materiality FAQs.
  - (b) Clarify whether the practitioner also applies "double materiality" to perform the procedures on the engagement when the criteria include the "double materiality" notion.
  - (c) Address how the entity's materiality analysis should be used by practitioners to inform their own materiality analysis.
  - (d) Cross-reference the application material addressing double materiality to the entity's process to identify sustainability information to be reported and materiality considerations more broadly.
  - (e) Explain how the entity's double materiality can lead to a 'single' materiality for purposes of performing assurance engagements and assessing misstatements, rather than considering and determining materiality from those two perspectives.
  - (f) Separate the application material on double materiality from that relating to the materiality applied by the practitioner as it is confusing, particularly in paragraph A274 of ED-5000, as well as removing the duplication and inconsistency with paragraph A180 of ED-5000.



### *Practitioner's Approach to Materiality*

31. Most of other respondents supported the bifurcated approach, and many also provided suggestions for clarification. Some other respondents noted similar comments as the MG members and suggested utilizing Appendix 2 of the Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines (CUSP Guidelines), to clarify the difference in work effort and documentation between “considering” and “determining” materiality.
32. There were also respondents who noted that the bifurcated approach is confusing and creates an additional level of complexity. There were mixed views on whether “consider” or “determine” should be used for both qualitative and quantitative disclosures.

### *Application of Performance Materiality*

33. Respondents had mixed views regarding both the requirement and application material on performance materiality. There was support for the practitioner to determine performance materiality. On the other hand, similar to a comment from one of the MG members, some respondents noted that this requirement is not clear and may lead to inconsistent application. In particular, to illustrate the lack of clarity they cited the reference in the requirement to “applicable in the circumstances” (see paragraph 92 of **Agenda Item 3-H**) and that “may consider” is used in the related application material (see paragraph A284 of **Agenda Item 3-H**).
34. Respondents also noted that further guidance is needed around performance materiality, including on how to set performance materiality.

### *Additional Guidance or Requirements*

35. Respondents noted that there is helpful guidance in the proposed standard, but there were various comments, including from two MG members, on the need for further guidance. In some cases, further requirements were suggested.
36. Matters suggested for guidance included how to:
  - (a) Consider/ determine materiality.
  - (b) Accumulate or aggregate misstatements, evaluate the effect of misstatements and conclude.
  - (c) Identify intended users and understand the information needs of those intended users.
  - (d) Apply materiality to a “group” sustainability assurance engagement or materiality in the context of “consolidated” sustainability information.
37. Some respondents suggested that the IAASB consider the development of a separate ISSA for materiality and respondents also noted that the Materiality FAQs are helpful and recommended the content to be included in the proposed standard.

### *Other Matters*

38. Some respondents noted the following matters:
  - (a) Considering qualitative factors for quantitative disclosures

Respondents, including a MG member, suggested that qualitative factors should also be considered when determining materiality for quantitative disclosures.

(b) Revision of materiality

Respondents commented that it is not clear what is expected when the practitioner obtains information after planning that may cause the practitioner to change the initial materiality. A MG member also suggested that, although the concept is addressed in paragraph A282 of ED-5000, requirements based on paragraphs 12 and 13 of ISA 320<sup>2</sup> should be brought into the proposed standard.

(c) Multiple materialities

One respondent noted that the proposed standard uses singular language for materiality when it is most likely that the practitioner will set multiple materiality thresholds.

39. A number of respondents made comments related to transparency regarding materiality in the assurance report. These comments will be considered in the analysis of question 21 on whether the assurance report will meet the information needs of intended users, that will be presented at the IAASB meeting in June 2024.

*Observations from the Survey*

The survey asked respondents *Do you agree with the way in which ED-5000 addresses the entity's "materiality process"? If not, what approach would you suggest? Provide your specific views, if any, about the approach for addressing the entity's "materiality process."*

Of the 36 surveys received, 5 did not respond to this question, 18 respondents agreed, 6 disagreed and 7 were undecided.

With respect to the entity's "materiality process" those that commented suggested:

- As identifying the sustainability information to be reported is a critical part of sustainability reporting, it should be a key feature of the standard.
- Clarifying the practitioner's procedures to be performed on the entity's materiality process, including understanding of the entity's materiality process in engagement planning in order to assess the relevance and completeness of the reporting topics.
- Grouping the material on materiality together in the standard.
- Describing the entity's materiality process, including that it is considered within the context of the decision making of the intended users and requires engagement with affected stakeholders.

Respondents provided the following comments on double materiality:

- More guidance is needed on double materiality, including implementation guidance and worked examples on double materiality for different sectors would be helpful.
- Acknowledgement of the importance of the inclusion of double materiality in ED-5000.

Those that disagreed noted the following with respect to the practitioner's approach to materiality:

- "Consider" for qualitative disclosures is subject to professional judgment, and could yield vastly different approaches among firms and practitioners. The Exposure Draft does not include a requirement for content in the report on how the practitioner "considered" materiality, or what

<sup>2</sup> ISA 320, *Materiality in Planning and Performing an Audit*

decisions were made regarding procedures or conclusions. This omission is one of many that puts analysts and users at a distinct disadvantage. Also note that some disclosures may be both qualitative and quantitative in nature.

Those that were undecided noted with respect to the practitioner’s approach to materiality:

- It must be made much clearer that materiality should be considered within the context of the decisions of intended users and the 'purpose' behind their decision making, including the people affected, on whose behalf the intended users may act. This necessitates identification and engagement with intended users to understand their perspectives on sustainability issues.
- It makes sense to have a distinction in the role of the practitioner regarding the materiality of qualitative and quantitative information, but in many cases entities starting out will be initially reporting qualitative information only, building to quantitative information over time.

## SATF Views and Recommendations

### *The Entity’s “Materiality Process”*

Relevant Paragraphs in Agenda Item 3-H		
Introduction and Requirements	Application Material	Related Definitions
3A, 70(a), 106	A1A, A163A, A344A  (Deleted: A191, A192, A271, A273, A280A)	N/A

### Terminology

40. The SATF acknowledged that both the term “entity’s process to identify reporting topics” and “entity’s process to identify and select topics and aspects of topics” were used interchangeably in ED-5000, while the term “entity’s process to identify reporting topics” was used in the EER Guidance. The application material explained that other terms are used in the reporting frameworks, including “materiality assessment,” or “materiality process.” The SATF agreed that a consistent term needs to be used throughout the standard and that the term should not include the word “materiality.”
41. The SATF discussed using the terms “entity’s process to identify reporting topics,” “entity’s process to identify topics and aspects of topics and reporting boundaries to be reported,” “entity’s process to identify sustainability matters to be reported” and “entity’s process to identify sustainability information to be reported.” In considering the CUSP principles, the SATF concluded that the term “entity’s process to identify sustainability information to be reported” was appropriate, as although it is longer than the terms used in ED-5000, the meaning is clear and relatively simple to understand.
42. To highlight the importance of the ‘entity’s process’ in a sustainability assurance engagement, the SATF included a new paragraph describing the entity’s process to identify sustainability information to be reported in the introductory material (see paragraph 3A of **Agenda Item 3-H**), with related application material, that identifies terms used for the entity’s process in some reporting frameworks. This application material was relocated from paragraph A157 and amended. References to materiality have been removed from this paragraph to focus more directly on the entity’s process and reduce confusion between this process and materiality considerations in the engagement (see

paragraph A1A of **Agenda Item 3-H**).

43. In order to further separate the entity's materiality process from materiality applied by the practitioner in the application material, the SATF proposed the following amendments to the application material:
- (a) Deleted part of paragraph A273, to remove duplication with paragraph A1A, and incorporated the remainder of that paragraph into paragraph A271 (see paragraph A273 of **Agenda Item 3-H**); and
  - (b) Deleted paragraph A275, which compares the entity's process to identify sustainability information to be reported with the materiality considered or determined by the practitioner, as it was considered to be confusing and inaccurate. The SATF was of the view that there is no need for application material to make this comparison, as the SATF proposes that the term materiality is not used in both contexts. In addition, the SATF noted that this comparison is not considered in the ISAs<sup>3</sup> for audits of financial statements.

#### Practitioner's Consideration of the Entity's Process in Acceptance and Continuance

44. The SATF acknowledged the strong support from respondents for inclusion of a requirement to conduct assurance on the entity's process to identify sustainability information to be reported, when accepting or continuing an engagement. In considering how to address this process in the requirements, the SATF noted that the proposed ISSA 5000 needs to remain framework neutral. However, the SATF also recognized that major global and regional sustainability reporting frameworks require the entity to carry out a process to identify sustainability information to be reported and include disclosures related to that process, for example (emphasis added):
- (a) IFRS Sustainability Standards include requirements for the entity to disclose material information (being information that could reasonably be expected to influence decisions that primary users) about the sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects, including the governance processes, controls and procedures the entity uses to monitor and manage sustainability-related risks and opportunities and the processes the entity uses to identify, assess, prioritize and monitor sustainability-related risks and opportunities.
  - (b) GRI Standards require the entity to determine all material topics, report its process for determining material topics and report disclosures for each material topic.
  - (c) (ESRS include requirements to disclose the governance processes, controls and procedures used to monitor and oversee impacts, risks and opportunities, and to disclose the processes by which the entity identifies impacts, risks and opportunities and assesses their materiality.
45. The SATF considered whether requirements relating to the entity's process would be necessary or appropriate for all sustainability assurance engagements or would need to be conditional to accommodate other engagement circumstances, including if:
- (a) The frameworks and or jurisdictional law or regulation specify the sustainability information to be reported, such as jurisdictions that are following a "climate first" approach. In these circumstances there may not be the need for a detailed or formal process to identify sustainability information to be reported. That process could be as simple as identifying the

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<sup>3</sup> International Standards on Auditing

sustainability information required in the framework or applicable law or regulation.

- (b) The entity reports on selected sustainability information voluntarily.
  - (c) The scope of the assurance engagement does not include all of the sustainability information to be reported, consequently the entity's process would extend beyond the sustainability information within the scope of the engagement.
46. In response to the comments received, further supported by the requirements in the major reporting frameworks identified in paragraph 44 above, the SATF added new subparagraph 70(a) of **Agenda Item 3-H** for the practitioner to consider, prior to acceptance or continuance of the engagement, whether the entity has a process to identify sustainability information to be reported.
47. The SATF was of the view that this requirement does not need to be conditional as it is scalable. The SATF considered that it would still be necessary for the practitioner to consider whether the entity has a process to identify the sustainability information to be reported even in the circumstances set out in paragraph 45 above, including for a narrow scope engagement.
48. The SATF proposed new application material on considering whether the entity has a process to identify sustainability information to be reported, to explain the purpose of this requirement (see paragraph A163A of **Agenda Item 3-H**).
49. In the context of the proposed new requirement in paragraph 70(a), the SATF reconsidered the application material for the requirement on rational purpose (see paragraph A192 of **Agenda Item 3-H**), that the practitioner may consider whether “a robust process to identify sustainability information to be reported has been conducted.” The SATF concluded that it would be unnecessarily onerous for the practitioner to establish whether the entity has a robust process prior to the acceptance of the engagement as proposed in ED-5000 and therefore proposed deleting the first bullet of paragraph A192.
50. The SATF noted calls from a number of respondents for entities to apply a consistent approach to conducting the entity's process to identify sustainability information to be reported; however, this primarily falls within the remit of the reporting frameworks and it is not the role of the assurance standard to include requirements or application material on the approach to the entity's process. The reporting frameworks provide criteria for the entity's process, or in the absence of a framework, the entity develops the criteria for that process. The practitioner determines the suitability and availability of those criteria, when applicable, in the establishing whether the preconditions for an assurance engagement are present (see paragraph 72 of **Agenda Item 3-H**).

#### Practitioner's Work Effort During the Engagement

51. In response to the comments raised on the need to address the entity's process during the engagement, the SATF considered where it was appropriate to address the entity's process more explicitly in requirements or application material in the standard. The SATF has proposed a new requirement on understanding of the entity's information system and communication relevant to the sustainability information and the preparation of the sustainability information, including the entity's process to identify the sustainability information to be reported, and added related application material (see paragraphs 106(a) and A334A-A334C of **Agenda Item 3-H**).
52. The SATF noted that the entity's process to identify sustainability information to be reported, as a part of the information system, is evaluated by the practitioner and the outcomes of that evaluation

will drive whether the practitioner seeks to obtain evidence by testing the operating effectiveness of controls, that then flows on to the identification of any control deficiencies, the risk assessment, risk responses, concluding and reporting. Related application material includes references to the entity process to identify sustainability information to be reported in accumulating and evaluating misstatements (see paragraphs 137, A400, A401 and A417(a) of **Agenda Item 3-H**)

53. The SATF seeks the Board's views on whether further application material in the performance of the engagement is needed to reference the entity's process to identify sustainability information to be reported or if another tool would be helpful for explaining how this process is addressed, such as a diagram in an appendix to the standard or in the first-time implementation guidance. The SATF notes that the Materiality FAQs explain that the practitioner obtains evidence about the entity's process at several different times throughout the assurance engagement and details when that would be.
54. In response to some respondents' requests for differentiation in the requirements and application material for limited versus reasonable assurance with respect to the entity's materiality process, the SATF noted that the requirement in paragraph 106 to understand the entity's information system and communication applies to both limited and reasonable assurance, however the procedures that flow on from that understanding differentiate limited and reasonable assurance in the risk assessment and risk response.

#### Further Application Material and Guidance

55. Application material has been considered in conjunction with the need for additional requirements as outlined in paragraphs 43, 48-49 and 51-53 above. Given the level of importance placed by respondents on this issue, the SATF suggests that the entity's process to identify sustainability information to be reported is included as a topic for the proposed first-time implementation guidance.

#### Assurance Conclusion on the Entity's Materiality Process

56. The SATF considered whether requirements and application material are needed to address the circumstance when an assurance conclusion on the entity's process to identify sustainability information to be reported is required. The SATF noted that there were a number of circumstances where the practitioner may be required to report on other matters as part of the engagement, which may arise from the reporting framework or law or regulation (for examples see paragraph 44 above). However, the SATF considered that these are other reporting responsibilities (see paragraphs 173-176 of **Agenda Item 3-H**), that are reported in a separate section of the assurance report.
57. The SATF discussed whether it would be appropriate to include a conditional requirement, under the section on preparing the assurance report, to accommodate reporting on matters related to the sustainability information. As there are many different reporting requirements in the reporting frameworks and law or regulation in different jurisdictions on which assurance may be required, the SATF recommended that addressing these different reporting requirements would not be appropriate for an overarching standard providing a global baseline for sustainability assurance. The SATF noted that this did not preclude the practitioner conducting an assurance engagement on sustainability information encompassing a wide range of aspects of topics, such as the entity's processes, and existing application material explains that this can be included in the assurance report (see paragraph A490 of **Agenda Item 3-H**). Assurance on these specific reporting requirements can be considered for separate guidance in the future or addressed in the relevant jurisdictions.

*The Notion of “Double Materiality”*

Relevant Paragraphs in Agenda Item 3-H		
Introduction and Requirements	Application Material	Related Definitions
N/A	A180, A274, A274A,	17(vv)

Clarify and Simplify the Terminology

58. While there was a high level of support for the way double materiality was addressed in ED-5000, it was acknowledged that the term needs further refinement to better accommodate existing frameworks, while not undermining the objective of framework neutrality and allowing for evolving reporting frameworks. While a small number of respondents proposed elevating the description to a definition, SATF considered that a description was preferable as it would allow flexibility for practitioners when applying interpretations of double materiality set out in relevant reporting frameworks, rather than restrict the meaning to a single definition.
59. SATF considered the respondents’ recommendations to draw on the terms used in IFRS S1 and European Sustainability Reporting Standards (ESRS) 1 *General Requirements* (ESRS 1), noting that some respondents considered that using the term “impacts” was GRI focused and so not framework neutral. The wording used to reflect the perspectives of these three key reporting frameworks is set out below:
- (a) Financial materiality perspective: IFRS S1 requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s cash flows, its access to finance or cost of capital over the short, medium or long term (collectively referred to as ‘sustainability-related risks and opportunities that could reasonably be expected to affect the entity’s prospects’).
  - (b) Impact materiality perspective: GRI Standards require an organization to provide a comprehensive picture of its most significant impacts on the economy, environment, and people, including impacts on their human rights, and how it manages these impacts.
  - (c) Double materiality perspective: ESRS 1 (paragraph 2) states that ESRS “specify the information that an undertaking shall disclose about its material impacts *risks and opportunities* in relation to environmental social and governance *sustainability matters*.” “The information disclosed in accordance with ESRS enables users of the sustainability statement to understand the undertaking’s material impacts on people and environment and the material effects of sustainability matters on the undertaking’s development, performance and position.”
60. The SATF has proposed amending the existing description of double materiality and linking the description to the relevance of the criteria (see paragraph A180 of **Agenda Item 3-H**). The SATF considered whether the wording from the reporting frameworks could be used, but decided this would not be framework neutral, so instead propose mirroring the wording from the revised definition of sustainability matters (see paragraph 17(vv) of **Agenda Item 3-H**). The SATF also noted the concerns of some respondents who thought that it was not sufficiently clear that double materiality is both financial and impact materiality, so restructured the paragraph to separate the three possibilities: financial materiality, impact materiality and both of those (double materiality).

#### Clarify Practitioner's Considerations in Addressing Double Materiality

61. In order to address respondents' calls for clarity regarding how double materiality will impact practitioners' consideration or determination of materiality, the SATF proposed deleting the existing application material (see paragraph A274 of **Agenda Item 3-H**), as it is duplicative of paragraph A180, rather than explaining what the practitioner needs to do and replacing it with new application material (see paragraph A274A of **Agenda Item 3-H**). This application material reflects, but does not duplicate, the description of double materiality in paragraph A180 and relates it to the practitioner's materiality consideration for qualitative disclosures or materiality determination for quantitative disclosures.

#### Conditional Requirements to Apply Double Materiality

62. The SATF considered whether a conditional requirement on double materiality should be included in the standard, as suggested by a number of respondents. However, the SATF's view is that a separate requirement to explain how double materiality is addressed by the practitioner is not necessary as double materiality will be required by the criteria. Consequently, if double materiality is required by the criteria, then the existing requirements in ED-5000 for the practitioner to determine whether the criteria are suitable, in particular relevant (see paragraphs 72 and 98A of **Agenda Item 3-H**) will apply to those criteria. In addition, if double materiality applies then it will need to be addressed in the applicable criteria for the entity's process to identify sustainability information to be reported (see paragraphs 3A and 106(a) of **Agenda Item 3-H**). The SATF suggested that double materiality may be perceived by some stakeholders as not framework neutral and should not be over-emphasized. The SATF decided that addressing double materiality in the application material as proposed in paragraph 60 above would be sufficient for an overarching standard and that further material needed could be instead considered for separate guidance.

#### Further Application Material and Guidance

63. The SATF also noted respondents' suggestions to separate the entity's materiality considerations from those of the practitioner; however, the SATF considered that the concept of double materiality was relevant to the practitioner primarily when evaluating the suitability of the criteria, which may include concepts of materiality, and when considering or determining materiality for purposes of planning and performing the assurance engagement. The two references in ED-5000 to double materiality are in the application material relating to relevance of the criteria (see paragraphs A180 of **Agenda Item 3-H**) and under the section on materiality (see paragraph A274 of **Agenda Item 3-H**). Therefore, the SATF considered it appropriate to retain reference to this concept in both of these two sections of the application material.
64. The SATF noted the respondents' suggestion to explain how the practitioner considers double materiality, if applicable, and then arrives at a single materiality and proposed including this in the new application material paragraph discussed in paragraph 60 above (see paragraph A274A of **Agenda Item 3-H**).



*Practitioner’s Approach to Materiality*

Relevant Paragraphs in Agenda Item 3-H		
Introduction and Requirements	Application Material	Related Definitions
91, 91-93, ,144A	A270, A271, A278, A279, A280, A280A, A282, A284A, A284B, A411A, A413, A416A, A423	N/A

Clarity of the Bifurcated Approach

65. Although there were comments opposed to the bifurcated approach, the majority of the respondents supported this approach. Therefore, the SATF proposed that the standard should keep the bifurcated approach.
66. In addition, the SATF proposed clarifying the difference between “considering” and “determining” materiality to address respondents’ comments by adding additional application material (see paragraph A270 of **Agenda Item 3-H**). This application material, based on CUSP Guidelines, clarifies the work effort when considering materiality for qualitative disclosures. The SATF noted that the related documentation requirement already differentiates the requirement for “considering” and “determining” materiality, but that the differentiation could be made clearer. Therefore, the SATF proposed changing the construct of the documentation requirement and also added reference to the related application material (see paragraph 93 of **Agenda Item 3-H**).

Application of Performance Materiality

67. The SATF proposed removing “as applicable in the circumstances” in paragraph 92 of **Agenda Item 3-H** as it was unclear to respondents what such circumstances might be. Instead, the SATF has proposed application material (see paragraph A284B of **Agenda Item 3-H**) to explain the circumstances in which performance materiality will be the same as materiality.
68. Furthermore, to address the need for more guidance, the SATF has added application material in paragraph A284A of **Agenda Item 3-H**, based on paragraph A13 of ISA 320 and paragraph A118 of ISA 600 (Revised).<sup>4</sup> This application material explains the need to exercise professional judgment as performance materiality is not a simple mechanical calculation and includes factors the practitioner may take into account when setting performance materiality.

Additional Guidance or Requirements

69. The SATF also proposed the following revisions to the proposed standard in **Agenda Item 3-H**:
- (a) Added paragraph 144A to clarify the documentation requirements relating to accumulation of misstatements and determination of whether the uncorrected misstatements are material.
  - (b) Amended the lead into paragraph A271 to acknowledge that the framework criteria may discuss the concept of materiality and provide criteria that provides a frame of reference for consideration or determination of materiality, otherwise the principles in paragraph A271 may be applied.

<sup>4</sup> ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (c) Added paragraph A280A to provide guidance on factors affecting identification of an appropriate benchmark and percentage when determining materiality (based on paragraph A49 of ISAE 3410)<sup>5</sup>, and relocated the related guidance in paragraph A280 to A280A(c).
  - (d) Added paragraph A411A to provide context for the application material and signpost the related application material paragraphs, when the practitioner is required to determine whether uncorrected misstatements are material, individually or in aggregate. In addition, paragraph A415 was moved to paragraph A416A to reflect the order of the paragraphs referenced in paragraph A411A.
  - (e) Modified paragraph A423(b) to indicate that assumptions used in preparing the sustainability information that are inconsistent with assumptions used elsewhere in the entity's business may be an indicator of possible management bias.
  - (f) Replaced the terminology "qualitative materiality" and "quantitative materiality" with "materiality for qualitative disclosures" and "materiality for quantitative disclosures," respectively, throughout the proposed standard to avoid creating new terms related to materiality and to clarify for better understanding.
70. The SATF reviewed the FAQ on Materiality to identify any content related to materiality applied by the practitioner not reflected in the proposed standard that would be useful to include. However, the SATF agreed that the explanation of the bifurcated approach is educational in nature, and has not included the material in the proposed standard.

#### Other Matters

71. Regarding other comments noted by the respondents, the SATF proposed the following revisions in **Agenda Item 3-H**:
- (a) Considering qualitative factors for quantitative disclosures.

The SATF has amended the sub-heading and the lead in of paragraph to extend the relevance of qualitative factors to practitioner's consideration of materiality for quantitative disclosures as well. The SATF expanded paragraph A279 to note that qualitative factors may be considered together when determining materiality for quantitative disclosures.
  - (b) Revision of materiality.

The SATF has included paragraph 92A that requires the practitioner to revise materiality for a disclosure(s) in the event of becoming aware of information during the assurance engagement that would have caused the practitioner to have considered or determined a different materiality initially. In addition, paragraph A282 has been clarified to explain if the materiality was reconsidered it may be necessary to revise performance materiality as well.
  - (c) Multiple materialities.

The SATF noted the respondent's comment about the need to accommodate multiple materiality thresholds and discussed changing the term "materiality" to "materialities" throughout the proposed standard. However, the SATF noted that it may not be readily translated in some languages and decided not to pursue the change. Instead, the IAASB will

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<sup>5</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

address this matter in separate non-authoritative guidance, as a more detailed explanation can be provided.

**Matters for IAASB Consideration**

1. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000 with respect to the entity's "materiality process," in particular:
  - (a) Use of the term "entity's process to identify sustainability information to be reported" (see paragraphs 40-43 above).
  - (b) The practitioner's consideration of the entity's process to identify sustainability information to be reported in acceptance and continuance (see paragraphs 46-49 above).
  - (c) The practitioner's work effort during the engagement on the entity's process to identify sustainability information to be reported when understanding of the entity's information system and communication (see paragraph 51 above).
  - (d) Whether further guidance is needed on the entity's process to identify sustainability information to be reported in the performance of the engagement, in application material, a diagram in an appendix or implementation guidance (see paragraph 53 above).
2. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000 with respect to the notion of "double materiality," in particular:
  - (a) The description of double materiality (see paragraph 60 above).
  - (b) Guidance on practitioner's work effort when double materiality applies (see paragraph 61 above).
3. The IAASB is asked for its views on the SATF's recommendations and proposed revisions to ED-5000 with respect to the practitioner's approach to materiality, in particular:
  - (a) The required work effort and documentation for the bifurcated approach (see paragraph 66 above).
  - (b) Application of performance materiality (see paragraph 67-68 above).
  - (c) Additional requirements and application material on materiality (see paragraphs 69 and 71 above).