

Double Materiality Principle

In January 2023, the European Union's **Corporate Sustainability Reporting Directive (CSRD)** came into effect. From 2024 onwards, companies in the EU are required to provide detailed non-financial information in their management reports regarding environmental, social, and governance aspects. The European Sustainability Reporting Standards (ESRS) serve as the guiding framework for reporting. Fact Sheet 1 provides an initial overview of the background and scope of the directive, as well as the requirements of the ESRS. One of the significant changes introduced by the CSRD is the concept of Double Materiality.

Materiality in Sustainability Reporting

Similar to financial reporting, sustainability reports should focus on providing meaningful information that is relevant and assessable to the target audience. This focus is referred to as "materiality."

Given the multitude of aspects encompassed by environmental, social, and governance areas, companies face the challenge of narrowing down their reporting to the topics that are material to them.

The Double Materiality Principle

Various concepts of materiality have been discussed and developed in sustainability reporting in recent years. In these discussions, topics were often prioritized based on the intensity of their impact on the environment, society, and the economy, as well as the expectations and interests of stakeholders.

The principle of double materiality represents a shift in reporting practice, as it guides companies to consider the materiality of sustainability aspects from **two perspectives**: the Inside-Out perspective (**Impact materiality**) and the Outside-In perspective (**Financial materiality**)¹.

- The **Inside-Out perspective** helps companies identify the actual and potential positive and negative impacts of their business activities on various sustainability topics.
- The **Outside-In perspective** (financial materiality) examines the opportunities and risks of sustainability topics for a company's financial position and the future viability of its business model.

When defining which topics are material for a company, **both perspectives** are taken into account when conducting a materiality analysis according to the Double Materiality Principle: a topic is considered material if it either creates risks and opportunities for business success (Outside-In perspective) or if it is significant based on the impact of business activities on the environment and people (Inside-Out perspective). Thus, a topic is also subject to reporting obligations if it is classified as material from the perspective of either of the two perspectives.

If a topic meets these criteria, the company must report on it in accordance with the specific ESRS standard for that topic. This includes disclosing information about the **strategy** and **governance** related to the topic, details of implemented **measures**, as well as **targets** and **key performance indicators**.

¹ [https://dfge.de/double-materiality-explained/#:~:text=The%20Double%20Materiality%20Principle&text=The%20principle%20of%20double%20materiality,In%20perspective%20\(Financial%20Materiality\).](https://dfge.de/double-materiality-explained/#:~:text=The%20Double%20Materiality%20Principle&text=The%20principle%20of%20double%20materiality,In%20perspective%20(Financial%20Materiality).)