

WHAT IS

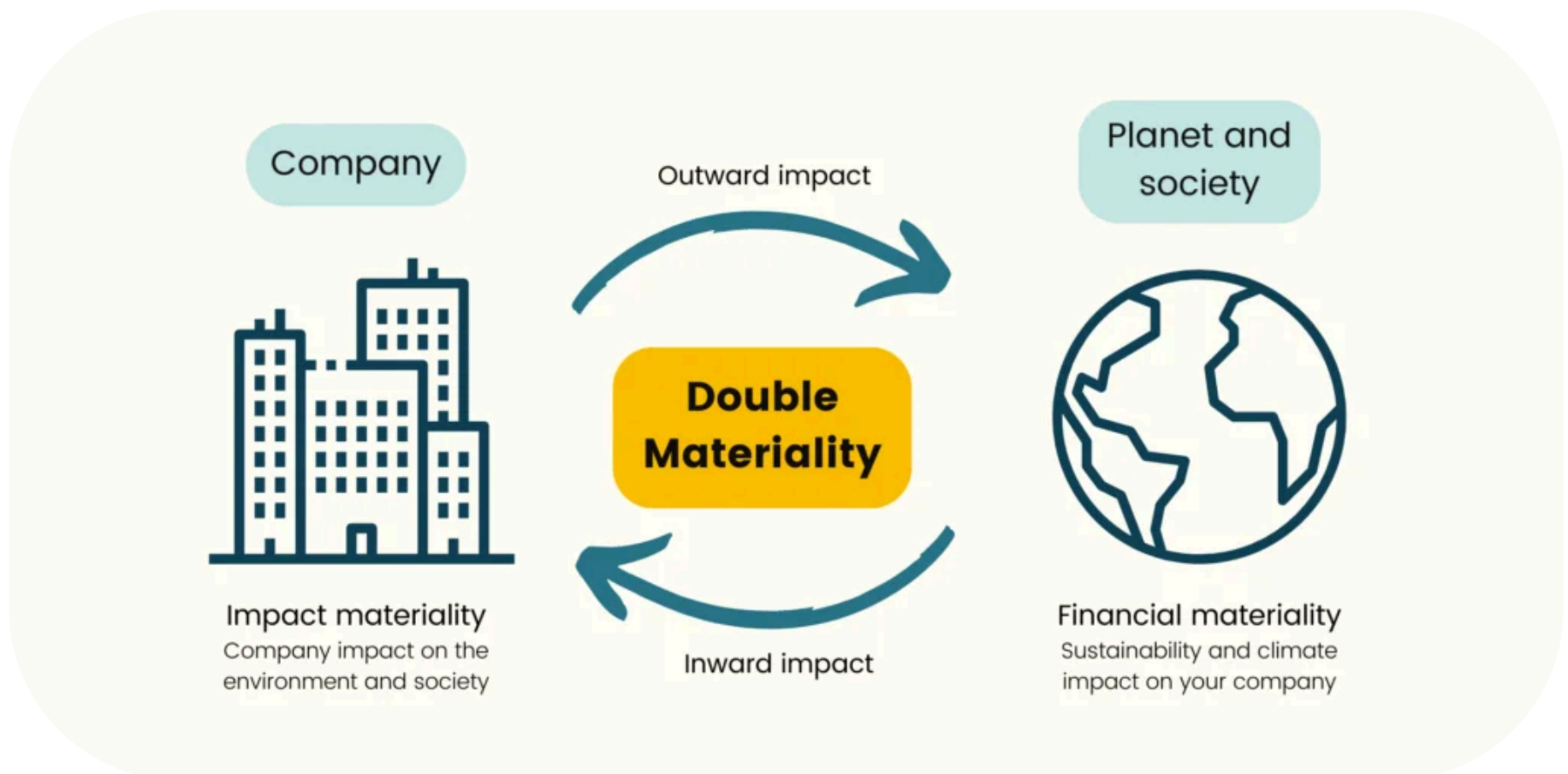
# DOUBLE MATERIALITY?

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# WHAT IS DOUBLE MATERIALITY?


Double materiality is a **concept that helps companies determine what sustainability issues they should include in their reports.**





It's about looking at sustainability from two perspectives:

- **Outside-In (Financial Materiality):** How external sustainability factors, like climate change, impact the company's financial performance.
- **Inside-Out (Impact Materiality):** How the company's operations affect society and the environment.




If a sustainability matter is important from either perspective, or both, it's considered material and must be reported.




# THE OUTSIDE-IN PERSPECTIVE: FINANCIAL MATERIALITY

Financial materiality is like asking, “**How could sustainability issues outside our company affect our business?**”

For instance:



A company operating in areas prone to severe weather faces risks like higher insurance costs and operational disruptions.




Loss of biodiversity might mean raw materials become scarcer and more expensive, impacting profitability.


# THE INSIDE-OUT PERSPECTIVE: IMPACT MATERIALITY

Now, let's flip the lens. Impact materiality asks, "**How do our actions impact the world around us?**"

For example:



A company emitting greenhouse gases contributes to climate change, which has far-reaching consequences for society.



Polluting water bodies not only harms ecosystems but also affects communities relying on that water.

# WHY DOUBLE MATERIALITY MATTERS

Because **it ensures we're not only looking at what impacts us but also what we're doing to others.**

In the past, companies could avoid reporting their environmental harms if there was no financial impact on them. Double materiality changes that by:

1. **Including financial risks** from sustainability issues.
2. **Highlighting the social and environmental impacts** caused by the company's actions.

# GLOBAL STANDARDS AND DOUBLE MATERIALITY

Double materiality is embedded in leading ESG frameworks:

## **CSRD (Corporate Sustainability Reporting Directive):**

- Mandates the inclusion of inside-out and outside-in perspectives in sustainability reporting.

## **ISSB (International Sustainability Standards Board):**

- Focuses on the financial impacts of sustainability risks.

## **ESRS (European Sustainability Reporting Standards):**

- Requires detailed disclosure of environmental, social, and governance (ESG) impacts.

# REAL-WORLD EXAMPLES OF DOUBLE MATERIALITY



## **Consumer Goods:**

A fashion brand chooses sustainable materials. This reduces environmental harm (inside-out) and attracts eco-conscious customers (outside-in).



## **Automotive Industry:**

An automaker transitions to electric vehicles, cutting emissions (inside-out) while capturing market demand for sustainable products (outside-in).



## **Healthcare:**

A company invests in employee wellness programs, improving their well-being (inside-out) and reducing absenteeism, boosting productivity (outside-in).



# SOURCES

CSRD Institute

Envoria

CarbonCloud

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