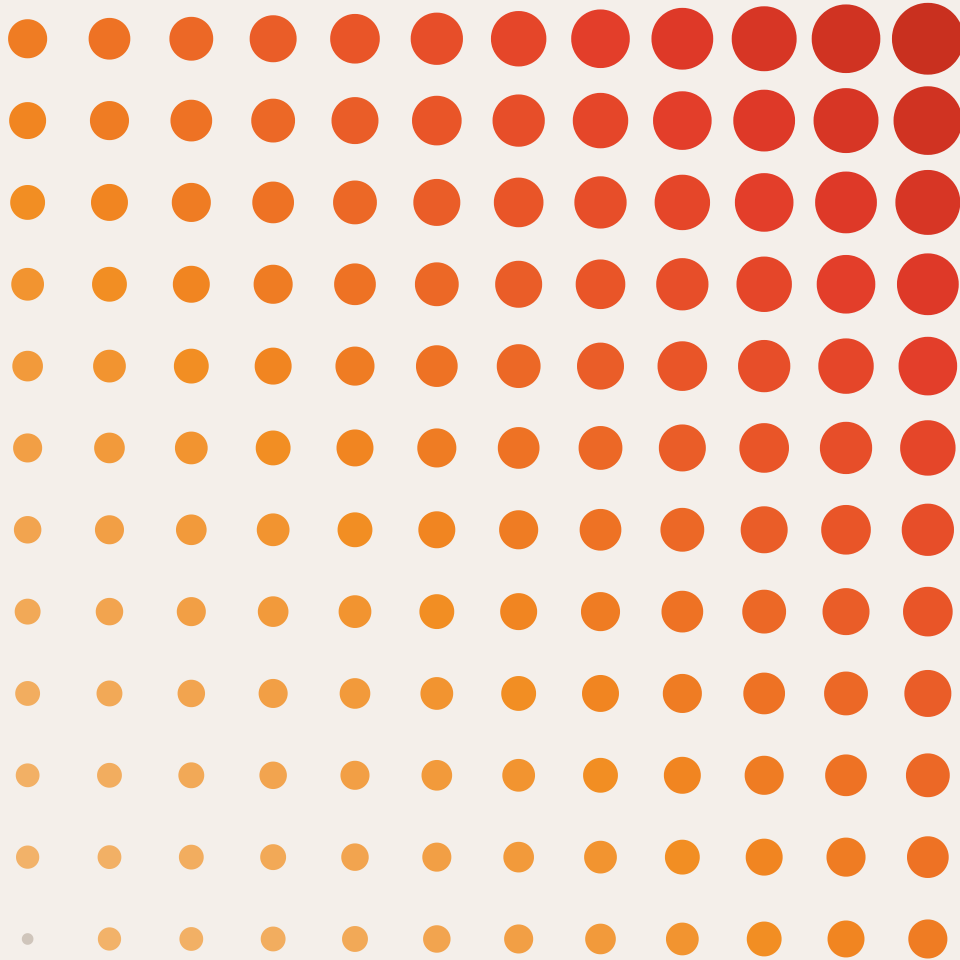




NO. 02 ————— **SUSTAINABILITY REPORTING SERIES**

What Matters Most

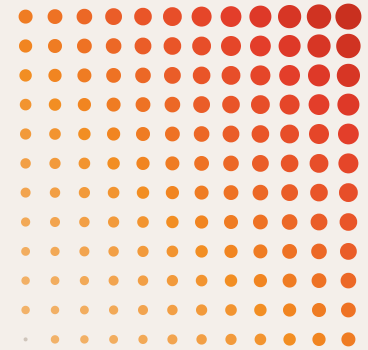
Materiality, explained and applied

What Matters Most

Materiality, explained and applied



By Tyler J. Butler



6.4

of 10 ESRS topics found material on average, across 905 financial year 2025 statements reviewed by EFRAG¹

50%

of the world's 250 largest companies use double materiality, in KPMG's most recent survey (2024)²

6 in 10

issuers, roughly, met the objective of the materiality process disclosure, in ESMA's review of 2024 reports³

01

One word, several tests

You are in the kickoff meeting for this year's report. The controller says a topic is not material. The community affairs lead says it obviously is. The general counsel asks everyone to stop putting the word in emails. Each is right, because each applies a different test.

This guide separates four meanings of materiality: impact, financial, double, and the older one in U.S. securities law. Then it walks through an assessment you can defend.

Most large companies already run one. In KPMG's most recent survey (2024), 78 percent of the world's 250 largest companies carried out a materiality assessment.² So did 48 percent of the top 100 U.S. companies.²

What moved this year is the rulebook. The revised European Sustainability Reporting Standards (ESRS), published on September 21, 2026, keep double materiality and change how the assessment is run.⁴ The chair of the U.S. Securities and Exchange Commission (SEC) has said disclosure should "be guided by materiality as the North Star."⁵ ESMA, the European Securities and Markets Authority, has said where the first materiality disclosures fall short.³

IN THIS GUIDE

- | | | | |
|----|--------------------------------|----|---|
| 01 | One word, several tests | 05 | What first reports and regulators found |
| 02 | Three meanings and a legal one | 06 | Whether focus on material issues pays |
| 03 | How to run an assessment | 07 | Keeping the assessment current |
| 04 | What the revised ESRS changed | 08 | What to watch next |

02

Three meanings and a legal one

Each standard attaches its own test to the word. Settle which one you are applying before anyone scores anything.

Impact materiality (GRI 3)

In the Global Reporting Initiative (GRI) Standards, material topics are those that "represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights."⁶

Double materiality (ESRS)

Double materiality "has two dimensions: impact materiality and financial materiality," and the company must consider how they interact.⁴

Financial materiality (IFRS S1, SASB)

IFRS S1 comes from the International Sustainability Standards Board (ISSB). Under it, information is material if "omitting, misstating or obscuring" it could reasonably be expected to influence decisions primary users make on the basis of a company's financial reports.⁷ Primary users are investors, lenders and other creditors.⁷ The ISSB is also responsible for the industry-based SASB (Sustainability Accounting Standards Board) Standards.⁸

IRO and DMA

An IRO is an impact, risk or opportunity, the unit an ESRS assessment scores. DMA is shorthand for double materiality assessment.

Two lenses look in opposite directions, and double materiality uses both

How the main definitions of "material" relate, as of October 2026



Figure 1. Based on GRI 3, IFRS S1, revised ESRS 1 and TSC Industries v. Northway.^{4,6,7,9}

GRI 3, PRECISELY

GRI 3: Material Topics 2021 is one of the three GRI Universal Standards. It is in effect for reports published on or after January 1, 2023 and unchanged as of October 2026.

Determining material topics is one of the nine requirements for reporting in accordance with the GRI Standards.¹⁰ Its test is impact materiality, as quoted above: the organization's most significant impacts, including impacts on human rights, whether actual or potential, negative or positive.^{6,10}

Section 1 of GRI 3 gives four steps to determine material topics. They are: (1) understand the organization's context, (2) identify actual and potential impacts, (3) assess the significance of the impacts, and (4) prioritize the most significant impacts for reporting. The first three are ongoing work, done with relevant stakeholders and experts. Step 4 is where the organization "determines its material topics."⁶

On significance, an actual negative impact is judged on severity: scale, scope and irremediable character. A potential one is judged on severity and likelihood, and for potential negative human rights impacts "the severity of the impact takes precedence

over its likelihood." Positive impacts are judged on scale and scope, plus likelihood when potential.⁶

The steps are guidance. The requirements are to determine your material topics and report Disclosures 3-1 (the process), 3-2 (the list) and 3-3 (how each topic is managed).^{6,10} Financial effect is a separate question. GRI 1 says material topics "cannot be deprioritized on the basis of not being considered financially material by the organization."¹⁰

THE U.S. LEGAL MEANING

U.S. securities law has its own meaning of "material," stated by the Supreme Court in two cases. *TSC Industries v. Northway* (1976) concerned a proxy statement. The Court held that an omitted fact is material "if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote."⁹

The Court added that "there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the 'total mix' of information made available."⁹

Basic Inc. v. Levinson (1988) concerned public statements denying merger talks. The Court wrote: "We now expressly adopt the *TSC Industries* standard of materiality for the § 10(b) and Rule 10b-5 context." That is Section 10(b) of the Securities Exchange Act of 1934 and the SEC rule under it. The Court described the inquiry it endorsed as "fact-specific."¹¹

GRI 3 and the two cases ask different questions. GRI 3 asks which of your impacts are most significant. The cases ask what a reasonable shareholder or investor would consider important. This is general information, not legal advice. Confirm with securities counsel how the legal test applies to anything you publish.

IN PRACTICE State which definition you are using wherever the word "material" appears in the report. Have securities counsel confirm that wording, and any explanatory note, before you publish.

For how the three standard systems fit together, see No. 03, The Standards Map.

How to run an assessment

The standards differ on the test and agree on the shape of the work. This sequence is our practice guidance, built on the four GRI 3 steps with additions for ESRS and ISSB reporters.

1

Fix the lens and the scope

Decide which definitions apply to this report (impact, financial or both) and write it down.

2

Map your context

Set out your activities, business relationships and the stakeholders they affect, the first GRI 3 step.⁶

3

Identify impacts, risks and opportunities

List actual and potential impacts and, for a financial lens, risks and opportunities. Under the revised ESRS you are "not required to assess every possible impact, risk or opportunity" across your operations and value chain.⁴

4

Engage stakeholders

Affected stakeholders inform the impact side; investors and lenders inform the financial side. Revised ESRS 1 calls the results of engagement done through ongoing due diligence "a key input to the impact materiality assessment."⁴ Record who you heard from and what changed.

5

Score

For negative impacts, score severity and, for potential impacts, likelihood. GRI 3 and the ESRS use the same three severity factors.^{4,6} For the financial side, ask whether the matter triggers, or could reasonably be expected to trigger, material financial effects. Those are effects on financial position, performance, cash flows, access to finance or cost of capital.⁴

6

Set thresholds

GRI 3 says to rank impacts from most to least significant and set a cut-off point.⁶ Decide it before you look at the ranking, and write down why. ESMA expects issuers to explain their thresholds and data sources and how affected stakeholders' views were integrated.¹²

7

Test, sign off and document

GRI 3 says to test the selection with potential information users and experts, and to have the highest governance body review and approve it.⁶ Keep one file with sources, scores, thresholds and decisions. It feeds GRI Disclosure 3-1 and the ESRS process disclosure, and an assurance provider is likely to ask for it. See No. 05, Prove It.

🎯 WHAT THE RESEARCH SAYS

Garst, Maas and Suijs, California Management Review, 2022. Review of how companies select ESG topics.¹³

The authors lay out six main steps of a materiality assessment and show how much judgment each one involves. They conclude that "the selected materiality perspective influences how the other steps are conducted." They add that results should surface "tensioned topics," which show material impact on society but lack a business case.

Why it matters. Choose the lens first. Give tensioned topics a visible place in the results, because under an impact lens they can still be material.

● 04

What the revised ESRS changed

The revised ESRS (Delegated Regulation (EU) 2026/1563) enter into force on November 10, 2026 and apply to financial years beginning on or after January 1, 2027. For financial year 2026 (FY2026), companies in scope may use the existing ESRS, the existing ESRS plus a set of reliefs, or the revised ESRS in full. They must say which.⁴

Double materiality stays. The assessment itself gets lighter in five ways.

CHANGE	WHAT REVISED ESRS 1 SAYS	WHAT IT MEANS FOR YOU
Top-down option	A company "may derive a conclusion, without further assessment" on a topic or sub-topic from an analysis of its strategy and business model.	You can rule topics in or out at a high level, provided the analysis is on file.
Proportionate evidence	Use "reasonable and supportable information" available "without undue cost or effort." Focus on areas where material items are deemed likely to arise.	Aim the evidence gathering at likely hot spots.
Annual check	At each reporting date, consider whether "significant changes have occurred" that could affect earlier conclusions.	Check every year. Rebuild only when something significant has changed.

Gross or net	Actual negative impacts: assessed as they occurred, with no credit for remediation in the period. Potential ones: mitigation counts only if it can reasonably be assumed to reduce severity or likelihood effectively.	Be ready to show a control works before you net it off.
Information filter	Do not disclose a prescribed datapoint "if that information is not material." Fair presentation is now an explicit principle.	A material topic does not pull in every datapoint.

Table 1. Changes to the double materiality assessment in revised ESRS 1, status as of October 2026.⁴

One gap remains. EFRAG, which advises the European Commission on the ESRS, released its non-authoritative materiality guidance, IG 1, on May 31, 2024 for the original ESRS.¹⁴ Its 2026 notice on the revised standards says implementation guidance for them "is not available" at this stage.¹⁵ Until it arrives, work from the regulation text.

What first reports and regulators found

EFRAG reviewed 905 assured sustainability statements for FY2025. Companies identified an average of 6.4 material ESRS topics out of 10 and reported an average of 30 IROs.¹ PwC's review of the first 100 reports under the EU's Corporate Sustainability Reporting Directive (CSRD), a year earlier, showed a wide spread. IRO counts ran from fewer than 15 to more than 80.¹⁶

Three topics are material for nearly everyone; the rest depend on the business

Share of companies finding each ESRS topic material, 905 assured FY2025 statements

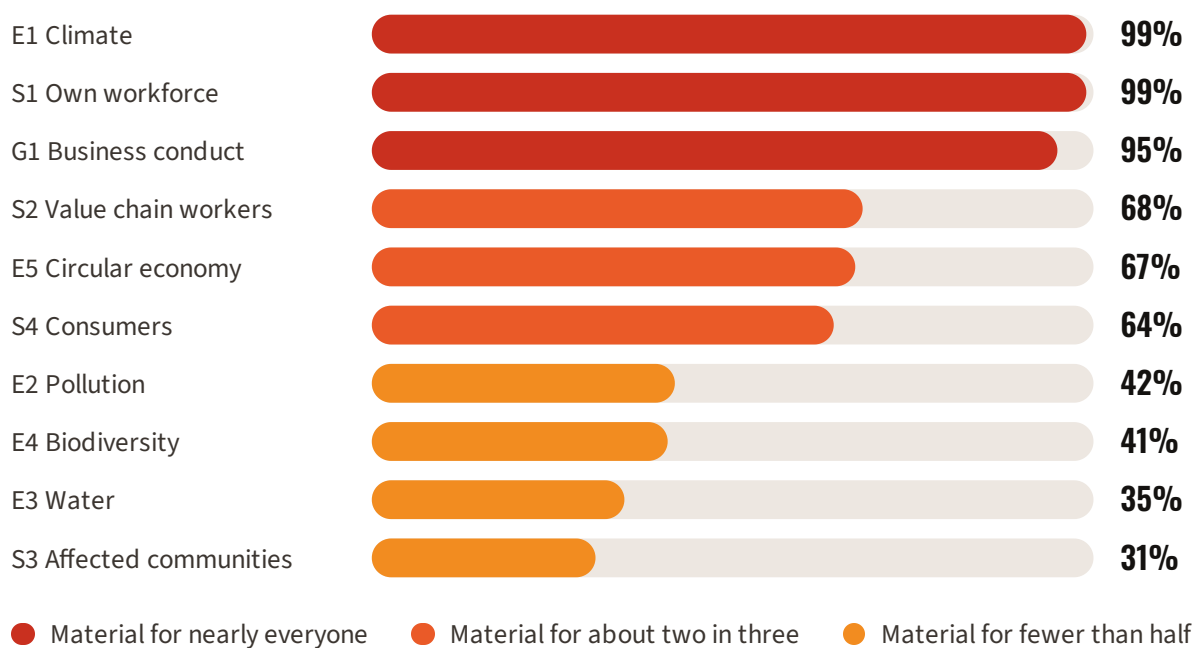


Figure 2. Second-year ESRS statements, for financial year 2025 (FY2025). EFRAG, State of Play 2026.¹

Most teams blend methods. EFRAG describes bottom-up as starting from a long list of potential IROs and narrowing it to the material ones. It describes top-down as starting from the business model and peer comparison. It found that 67 percent of companies used a hybrid of the two.¹

Two in three companies use a hybrid approach

Share of companies by approach to the double materiality assessment, financial year 2025 (FY2025) statements. Each dot is 1% of companies.



Figure 3. How companies ran the assessment. Shares and the description of each approach, paraphrased, are from EFRAG, State of Play 2026.¹

The weaker spot is follow-through. On average, companies set targets on 3.3 of their 6.4 material topics.¹

About half of material topics come with a target

Average number of ESRS topics per company, financial year 2025 (FY2025) statements. Each dot is one topic. The numbers are averages, so a partly filled dot shows a fraction of a topic.

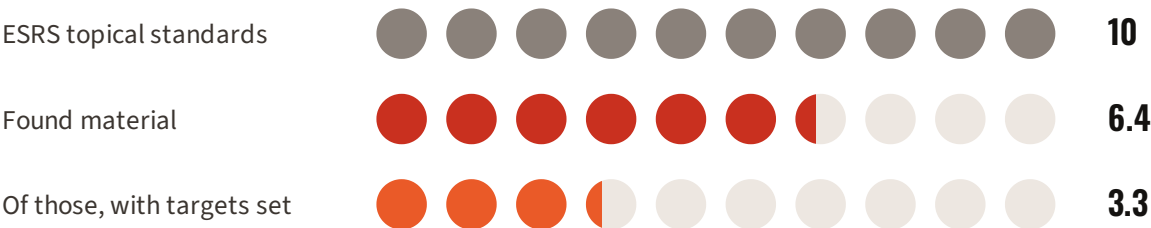


Figure 4. From topics to targets. EFRAG, State of Play 2026.¹

Regulators looked at the description of the process. ESMA studied 2024 reports from 91 issuers in 23 Member States.³

WHAT ESMA LOOKED FOR	SHARE OF ISSUERS	ISSUERS ASSESSED
----------------------	------------------	------------------

Met the overall objective of the process disclosure	Around 60 percent	81
Gave some explanation of how thresholds were set	Close to 80 percent	91
Reported that they had consulted stakeholders	93.8 percent	81
Gave enough detail on how they consulted	71.6 percent	81
Clearly considered gross impacts	72.5 percent	91

Table 2. ESMA fact-finding on materiality disclosures in 2024 sustainability statements. For 10 of the 91 issuers, the analysis could not be fully completed, so some rows cover 81.³

Enforcement followed. In 2025, European enforcers carried out 402 examinations of sustainability statements. The 367 that went into content led to actions against 109 issuers, an action rate of 30 percent. Most actions required a correction in a future statement.¹⁷

Enforcers found first ESRS materiality disclosures satisfactory for a majority of issuers. They found the process descriptions "generic," with little on how issuers had adapted the steps to their own circumstances.¹⁷ ESMA's advice to issuers: "Avoid boilerplate disclosures" and be clear about how you exercised judgment.³

IN PRACTICE

Rewrite your process description to show what a template would not: your thresholds, your data sources, who you consulted and what changed as a result.

Enforcers found first materiality disclosures satisfactory for a majority of issuers, and process descriptions too generic to show what the company itself did.

Whether focus on material issues pays

One study is cited more than any other for the idea that focus on material issues pays. It has been challenged. Know both papers before you quote the first one to your CFO.

WHAT THE RESEARCH SAYS

🎯 THE FINDING

Khan, Serafeim and Yoon, *The Accounting Review*, 2016. Stock returns sorted by SASB's industry lists of material issues.¹⁸

Firms with good ratings on material sustainability issues "significantly outperform" firms with poor ratings on those issues. Good ratings on immaterial issues brought no significant outperformance.

🎯 THE CHALLENGE

Berchicci and King, *Journal of Financial Reporting*, 2022. Reproduction, then many alternative model choices.¹⁹

The authors reproduced the estimate, tested reasonable alternatives, and concluded the result is "a statistical artifact." With popular sustainability data, they add, "accurate guidance on materiality may be difficult to achieve."

IN PRACTICE Treat the performance claim as influential and contested. The firmer case for focus is practical. It puts effort where your impacts and risks are largest, and it is what standards and enforcers ask for.

A related study found that firms voluntarily disclosing more SASB-identified sustainability information showed greater stock price informativeness, meaning prices reflected more company-specific information. Disclosure of other sustainability information showed no such link.²⁰

Investors are a mixed audience for the assessment itself. In PwC's 2025 Global Investor Survey of 1,074 investment professionals, 45 percent said they rely heavily on materiality assessments.²¹

Keeping the assessment current

Materiality moves. In 2020, five standard setters (CDP, CDSB, GRI, IIRC and SASB) wrote that "materiality is a dynamic concept." Topics a company once considered immaterial for disclosure, they added, can become material.²²

The revised ESRS turn that idea into a routine: the annual check in Table 1.⁴ Practice is already close. In EFRAG's FY2025 review, 82 percent of companies described updating their assessment from the prior year.¹

IN PRACTICE Agree in advance what reopens the assessment between cycles. Examples: an acquisition or divestment, a new market or product line, a serious incident, a new rule, or a shift in what stakeholders raise. At year end, record the check even when nothing changed.

What to watch next

The next two reporting cycles run on a few fixed dates and two open questions.

The revised materiality rules phase in over two reporting cycles

Scheduled dates for ESRS reporters, October 2026 to end of 2028, drawn to scale. Colored bands show the year each set of reports is published. Numbered markers are dates.

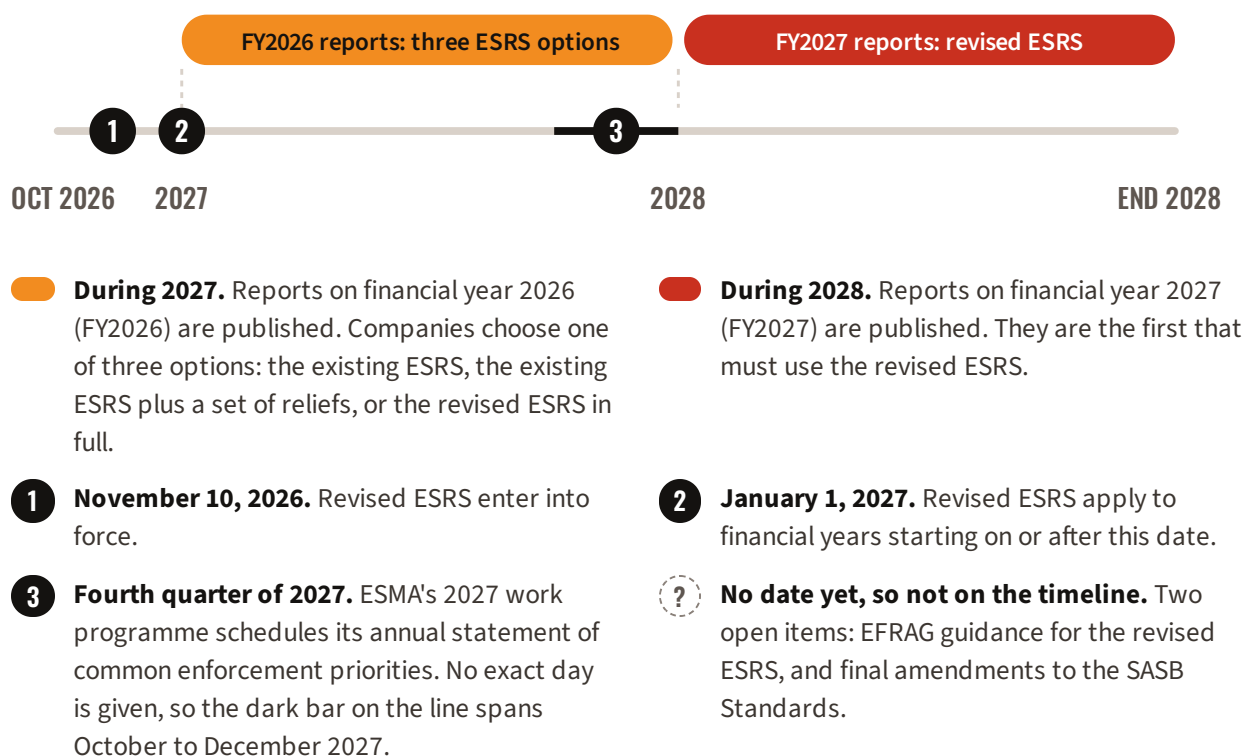


Figure 5. Dates from Delegated Regulation (EU) 2026/1563 and the 2027 Annual Work Programme of ESMA, the European Securities and Markets Authority; open items from EFRAG and the IFRS Foundation. ^{4, 15, 23, 24}

↑ RISING

Top-down scoping, from a low base

Only 5 percent of companies ran a top-down assessment for FY2025.¹ The revised ESRS now expressly allow it,⁴ so we expect the share to grow. That expectation is ours.

↓ FALLING

Page counts and datapoints

Like for like, average statement length slipped from 108 pages for FY2024 to 103 for FY2025.¹ The Commission says the revised ESRS cut mandatory datapoints by over 60 percent.²⁵

— HOLDING

Two definitions, side by side

Double materiality stays in the revised ESRS.⁴ In the U.S., the SEC's move to rescind its climate rule was still a proposal as of October 2026, framed around investor materiality.⁵

● SCHEDULED DATE

January 1, 2027

Financial years starting on or after this date must apply the revised ESRS, including the revised materiality rules.⁴

ESMA published its enforcement priorities for 2025 annual reports, materiality among them, on October 14, 2025.¹² We had not seen the statement for 2026 annual reports as of early October 2026.

COLLABORATION FOR GOOD OUTLOOK

We expect the next two cycles to reward judgment that is written down. ESMA's 2027 work programme commits it to monitor how the EU's simplification changes are applied.²³ The top-down option is likely to hold up where the strategy and business model analysis is on file, and to draw questions where it is not. If you report in both the U.S. and the EU, run the investor test and the impact lens in parallel, with counsel involved in the wording.

Our analysis, based on the sources cited in this section. Not a prediction from any single source.

TALK IT THROUGH

1. When someone says "material" in our meetings, which test do they mean, and does everyone mean the same one?
2. Could an outsider tell from our process description what we did that a template would not say?
3. Where did stakeholder input change a score or a conclusion last cycle, and can we show it?
4. Which material topics have no measurable target, and why?

5. What would have to change in the business for us to reopen the assessment mid-year?

START THIS WEEK

- ☐ Write a one-line definition of "material" for your report glossary and send it to legal for review.
- ☐ Open last cycle's assessment file and confirm it holds thresholds, data sources, stakeholder input and sign-off.
- ☐ List every material topic that has no measurable target.
- ☐ If you report under the ESRS, choose one of the three FY2026 options and note what it does to your assessment.
- ☐ Put the annual significant-change check on the calendar with a named owner.

Sources

1. EFRAG, "State of Play 2026," July 2026. https://www.efrag.org/sites/default/files/media/document/2026-07/EFRAG_State%20of%20Play%202026_vShared_Layout%20checked%20-%20DD.pdf
2. KPMG International, "The move to mandatory reporting: Survey of Sustainability Reporting 2024," December 2, 2024. <https://assets.kpmg.com/content/dam/kpmgsites/xx/pdf/2024/11/the-move-to-mandatory-reporting-web-copy.pdf>
3. European Securities and Markets Authority (ESMA), "Materiality matters (!): Results of a fact-finding exercise on 2024 corporate reporting practices under ESRS Set 1," October 14, 2025. https://www.esma.europa.eu/sites/default/files/2025-10/ESMA32-846262651-5288_Fact_finding_on_materiality_disclosures_in_sustainability_statements.pdf
4. European Commission, Commission Delegated Regulation (EU) 2026/1563 of 3 July 2026 (revised ESRS), Annex I, ESRS 1, Official Journal of the European Union, September 21, 2026. https://eur-lex.europa.eu/eli/reg_del/2026/1563/oj/eng
5. U.S. Securities and Exchange Commission, "SEC Proposes Rescission of Climate-Related Disclosure Rules," press release 2026-49, May 29, 2026. <https://www.sec.gov/newsroom/press-releases/2026-49-sec-proposes-rescission-climate-related-disclosure-rules>
6. GRI, "GRI 3: Material Topics 2021," Global Sustainability Standards Board, 2021. <https://www.globalreporting.org/publications/documents/english/gri-3-material-topics-2021/>
7. International Sustainability Standards Board, "IFRS S1," paragraph 18, IFRS Foundation, issued June 2023. <https://www.ifrs.org/content/dam/ifrs/publications/html-standards-issb/english/2025/issued/issbs1.html>
8. IFRS Foundation, "SASB Standards," accessed October 2026. <https://www.ifrs.org/issued-standards/sasb-standards/>
9. TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438 (1976). <https://supreme.justia.com/cases/federal/us/426/438/>
10. GRI, "GRI 1: Foundation 2021," Global Sustainability Standards Board, 2021. <https://globalreporting.org/pdf.ashx?id=12334>
11. Basic Inc. v. Levinson, 485 U.S. 224 (1988). <https://supreme.justia.com/cases/federal/us/485/224/>
12. ESMA, "European Common Enforcement Priorities for 2025 Corporate Reporting," public statement, October 14, 2025. https://www.esma.europa.eu/sites/default/files/2025-10/ESMA32-2064178921-9254_Public_Statement_-_2025_European_Common_Enforcement_Priorities.pdf
13. Garst, J., Maas, K., and Suijs, J., "Materiality Assessment Is an Art, Not a Science: Selecting ESG Topics for Sustainability Reports," California Management Review 65, no. 1 (2022): 64-90. <https://doi.org/10.1177/00081256221120692>
14. EFRAG, ESRS implementation guidance documents (project page for IG 1, IG 2 and IG 3, released May 31, 2024). <https://www.efrag.org/en/projects/esrs-implementation-guidance-documents>

15. EFRAG, "EFRAG ESRS Knowledge Hub: 2026 Revised ESRS and Voluntary Standard Interactive Document Set Now Available," news item, 2026. <https://www.efrag.org/en/news-and-calendar/news/efrag-esrs-knowledge-hub-2026-revised-esrs-and-voluntary-standard-interactive-document-set-now>
16. PwC, "Insights from the first 100 CSRD reports," March 31, 2025. <https://www.pwc.ch/en/insights/sustainability/initial-csrd-insights.html>
17. ESMA, "Report on 2025 Corporate reporting enforcement and regulatory activities," May 7, 2026. https://www.esma.europa.eu/sites/default/files/2026-05/ESMA32-2064178921-9413_Report_on_2025_Corporate_reporting_enforcement_and_regulatory_activities.pdf
18. Khan, M., Serafeim, G., and Yoon, A., "Corporate Sustainability: First Evidence on Materiality," *The Accounting Review* 91, no. 6 (2016): 1697-1724. <https://doi.org/10.2308/accr-51383>
19. Berchicci, L., and King, A. A., "Corporate Sustainability: A Model Uncertainty Analysis of Materiality," *Journal of Financial Reporting* 7, no. 2 (2022): 43-74. <https://doi.org/10.2308/JFR-2021-022>
20. Grewal, J., Hauptmann, C., and Serafeim, G., "Material Sustainability Information and Stock Price Informativeness," *Journal of Business Ethics* 171, no. 3 (2021): 513-544. <https://doi.org/10.1007/s10551-020-04451-2>
21. PwC, "PwC's Global Investor Survey 2025," December 2025. <https://www.pwc.com/gx/en/global-investor-survey/pwc-global-investor-survey-2025.pdf>
22. CDP, CDSB, GRI, IIRC and SASB, "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting," September 2020. <https://www.globalreporting.org/media/bixjk1ud/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting.pdf>
23. ESMA, "2027 Annual Work Programme," September 28, 2026. https://www.esma.europa.eu/sites/default/files/2026-09/ESMA22-50751485-1673_Annual_Work_Programme_2027.pdf
24. IFRS Foundation, Enhancing the SASB Standards (ISSB work plan project page), accessed October 3, 2026. <https://www.ifrs.org/projects/work-plan/enhancing-the-sasb-standards/>
25. European Commission, "Commission adopts revised sustainability reporting standards to reduce administrative burdens for EU businesses while maintaining high-quality disclosures," news release, July 3, 2026. https://finance.ec.europa.eu/news/commission-adopts-revised-sustainability-reporting-standards-reduce-administrative-burdens-eu-2026-07-03_en

ABOUT THE AUTHOR



Tyler J. Butler is the founder and CEO of Collaboration for Good, a social impact consultancy she founded in 2016. She has led corporate social responsibility and community investment at global technology companies, including a Fortune 500 company and the world's largest domain registrar. She is a certified GRI practitioner and has served on the Arizona Governor's Commission on Service and Volunteerism since 2015. Collaboration for Good led the development of the Arizona Sustainability Navigator, a statewide sustainability resource for small businesses, nonprofits, and government, built with contributions from public, philanthropic, and community partners.

This guide provides general information and is not legal, tax, accounting, or financial advice. Rules and standards change. Figures and rule status reflect sources available as of October 2026.

COLLABORATIONFORGOOD.COM · CONNECT@COLLABORATIONFORGOOD.COM · © 2026 COLLABORATION FOR GOOD