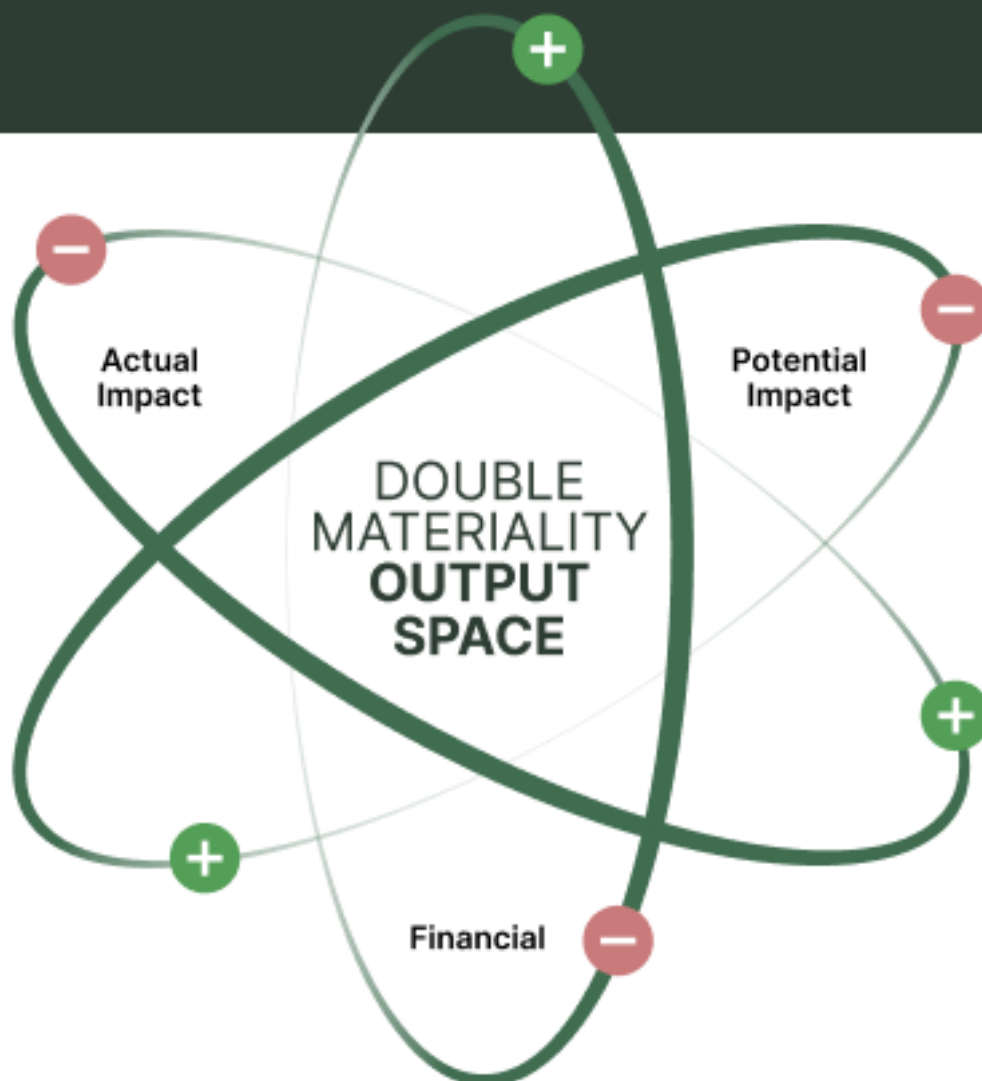


E S R S

DOUBLE MATERIALITY MAZE

Atomic Terminology for Navigating the Output Space



Introduction

This paper builds on the LinkedIn post [The Materiality Maze: Assessing Negative and Positive Impacts](#), shared on August 19, 2024.

The primary goal of this post was to emphasize the importance of distinguishing between "Impact" and "Action" as two distinct concepts, while also recognizing their causal connection. This distinction is key to helping sustainability practitioners and teams avoid confusion during the double materiality assessment (DMA) and ensure clarity when developing actions aimed at managing the company's impact on both people and planet.

This post sparked a lively debate in the comments, offering new perspectives and raising questions. It became clear that something is missing in the terminology. Using the same "atomic terms" to describe different elements creates ambiguity, making it difficult, if not impossible, to avoid confusion.

However, LinkedIn's format has its limitations to fully address the details of these concepts. This paper aims to explain how these concepts can be misused and what seems to be missing to avoid confusion.

This paper illustrates atomic terminology using Material Impact. However, the terminology should remain consistent and generic across the entire DMA process, topical standards and the management of identified impacts.

TL;DR:

To create clarity and assist practitioners in correctly capturing and distinguishing between impacts and actions during the DMA, this paper proposes terminology for action types that manage positive impacts.

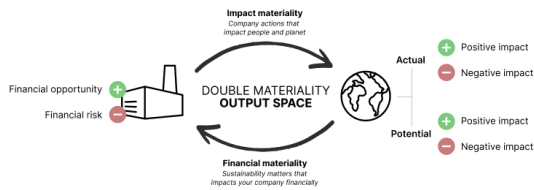
[Bo Carlsson](#)
August 2024

Zooming out

A previous post featuring the one-page view of [The ESRS Periodic Table](#) depicted the ESRS disclosure requirements (DRs) as a periodic table as well as two additional illustrations on:

Double Materiality Output Space

Highlights the six outputs used to classify actual and potential negative and positive **impacts** as well as financial risks and opportunities.



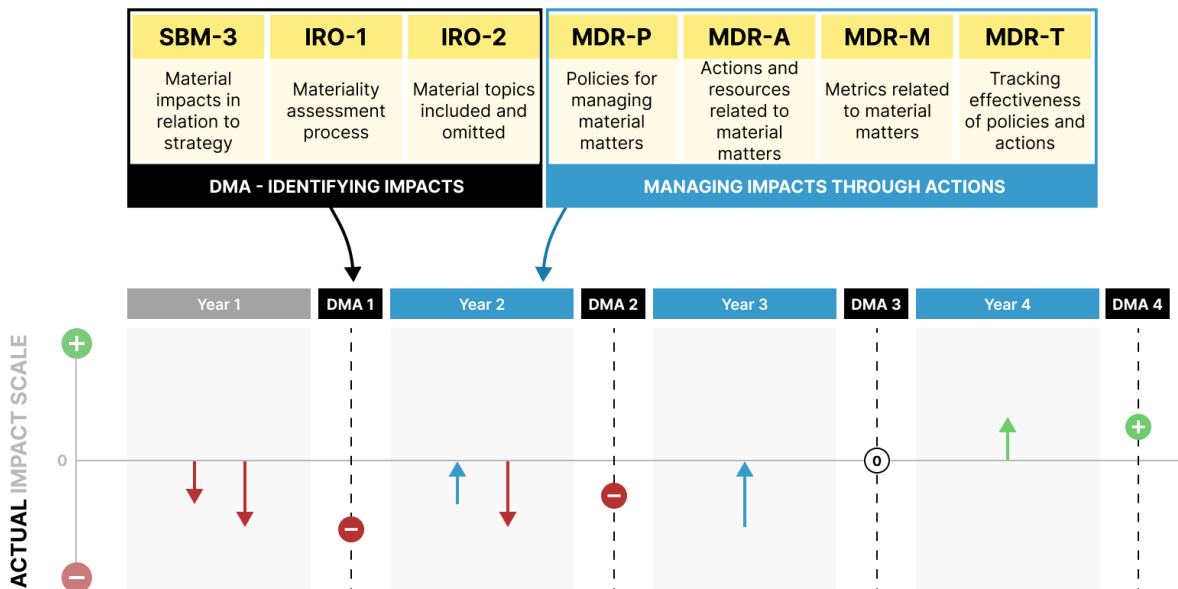
ESRS Leads Towards Action

Demonstrates how different types of DRs interact to guide practitioners in taking **action** on identified impacts.



These illustrations represent the two key areas where the concepts of **impacts** and **actions** naturally belong. The first step in managing sustainability is identifying the impacts within the DMA. The next step is to develop actions that influence these impacts, with the aim of driving better outcomes. This creates a continuous process of:

Impact → **Action** → **Impact** → **Action**, and so on.



This two-phase process is also described in FAQ 23 of the [EFRAG IG 1, Materiality Assessment Implementation Guidance](#).

SBM-3, IRO-1 and IRO-2	MDR-P, MDR-A, MDR-M, MDR-T
a) The description of the impacts before taking into account remediation, prevention or mitigation actions is the basis for the materiality assessment process and its related disclosures (namely, ESRS 2 IRO-1 and SBM-3).	b) The management of such impacts – including remediation, prevention and mitigation actions – is part of the policies, actions and targets (i.e., MDR-P, MDR-A and MDR-T).

When working to identify and measure impacts versus planning future actions, using "Impact" and "Action" interchangeably can create confusion.

Probable cause of confusion

EFRAG has done an excellent job developing the ESRS as a flexible management framework. This framework not only accommodates the variations in topical standards but can also be adapted to sector-specific standards.

Reflecting on the early guidelines on materiality assessment, such as the [\[Draft\] ESRG 1 Double Materiality Conceptual Guidelines for Standard-Setting Working Paper from January 2022](#), we can appreciate the journey EFRAG has undertaken.

“93) Although the process for materiality assessment from the impact perspective is designed primarily for identification and assessment of negative impacts the undertakings have or may have on sustainability topics, [the Board] should also consider positive impacts.”

The DMA was primarily designed to address negative impacts, which makes sense given that the sustainability agenda arose from the realization that our way of living is causing harm to both people and the planet. This also hints at why the terminology for “positive impacts and actions” has not yet been developed to the same extent.

There are established action types for addressing negative impacts, such as **Remediation**, **Prevention**, and **Mitigation**. However, no equivalent action types exist for **creation**, **enhancement**, or **amplification** of positive impacts. As a result, practitioners often use the intended outcome - "a positive impact" - to describe the action itself.

The term "positive impact," which should indicate the company's performance, is being misused to describe actions. As a result, the process now looks like this:

Impact → **Positive impact** → **Impact** → **Positive impact**, and so on.

When "impact" refers to both the result and the action intended to create it, confusion may arise about the company's actual impact and possible actions intended to influence it. In the following sections, we'll explore common scenarios where the misuse of terminology can lead to misunderstandings and discuss options for avoiding them.

The Atomic Terms

Impact

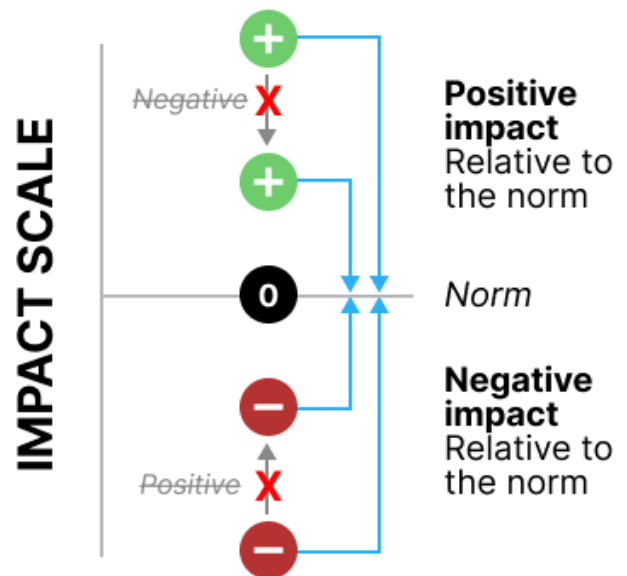
EFRAG: the term "impact" refers to positive and negative sustainability-related impacts that are connected with the undertaking's business, as identified through an impact materiality assessment. It refers both to actual impacts and to potential future impacts.

IMPACT
'a marked effect or influence'

Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships.

"The terms 'negative' and 'positive' can be misused when classifying impacts."

An impact can be considered either negative or positive relative to a commonly accepted norm. For example, in the context of GHG emissions, zero is often used as the norm. Emitting GHGs results in a negative impact, while absorbing GHGs results in a positive impact. Continuously measuring and classifying impacts as negative or positive allows the company to track its performance and plan future actions to manage them.



An impact is determined through the DMA and represents a point in time or state. It is not a change, but a measure of the accumulated impact from all the sources that emitted GHGs throughout the reporting year.

Examples of misclassifications:

1) Emission Reduction Misclassified as Positive:

A company reduced its GHG emissions from 100 tCO₂-e in year 1, to 80 tCO₂-e in year 2, and mistakenly classified it as a positive impact.

The company misused the semantics of the improvement (a change) to classify it as a positive impact. While the company reduced and improved its GHG emission, the resulting impact after year 2 is still negative relative to the norm of zero.

2) Decreased Absorption Misclassified as Negative

A company absorbed 100 tCO₂-e in year 1, but only managed to absorb 80 tCO₂-e in year 2, and mistakenly classified it as a negative impact.

The company misused the semantics of the reduction (a change) to classify it as a negative impact. While the company did absorb less GHGs in the second year, it still absorbed 80 tCO₂-e, which remains a positive impact relative to the norm of zero.

Action

A company engages in various business actions to provide value to its customers. Some of these actions can influence different sustainability topics. Collectively, these actions result in the company's impact on people and planet throughout the reporting period. To manage these impacts, different types of actions can be taken to improve the company's impact on sustainability issues.

ACTION
'an act to produce a certain result'

To manage these impacts, different types of actions can be taken to improve the company's impact on sustainability issues.

Building a clear vocabulary of action types and fostering a shared understanding of their intent is essential to avoid situations where terms like "negative impact" and "positive impact" are used to describe actions.

Action Types

Business actions

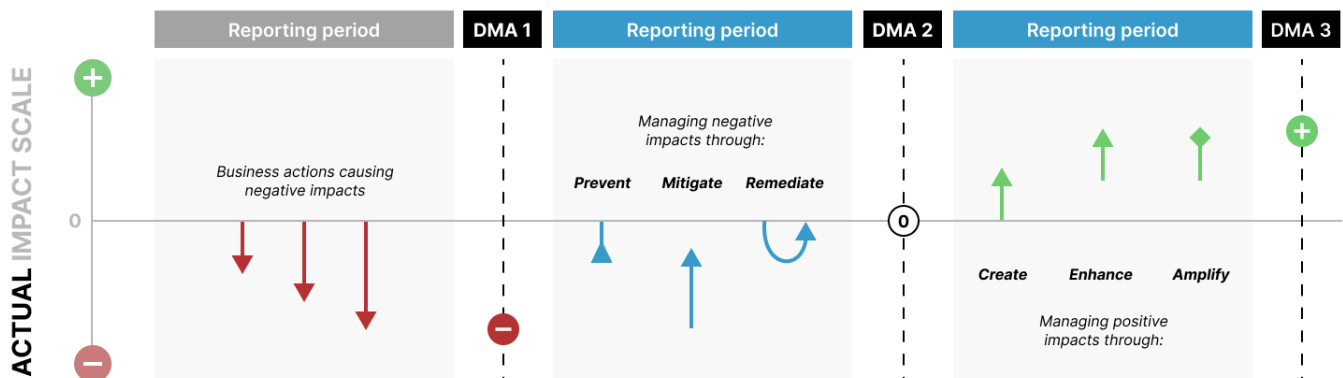
These are the everyday, business-as-usual actions the company engages in to deliver value to its customers. These actions may have an impact on people or the planet and the cumulative result of these actions throughout the reporting period is assessed yearly as an impact. Our focus is on managing business actions by minimizing their negative impacts, creating new opportunities that generate positive impacts for people and planet, while delivering value for our customers.

Given that the DMA was primarily designed to address negative impacts, we are familiar with actions for managing these, such as Prevention, Mitigation, and Remediation. However, there is a lack of established terminology for actions aimed at managing positive impacts.

The table below proposes terminology for describing actions that manage positive impacts, avoiding the use of the resulting term "positive impact" in this context.

Actions for managing negative impact	Actions for managing positive impact
Prevent Stopping a negative impact from happening all together	Create Creating a new positive impact that did not exist before
Mitigate Reducing a negative impact, making it less severe	Enhance Enhance an existing positive impact to make it even more beneficial.
Remediate Reversing a negative impact back to its norm	Amplify Contribute to creating or enhancing an existing positive impact.

It's important to note that action types in both categories aim to move an impact in a positive direction relative to its previous state. The key difference is that actions for managing negative impacts focus on reducing the impact to a negative or zero level relative to its norm, while actions for managing positive impacts aim to enhance the impact to a positive level.



Examples of misclassifications:

1) **Planned Mitigation Misclassified as Positive Impact**

During a DMA process, a company identified a GHG emission from a vehicle as a positive impact.

Instead of classifying it as having a negative impact (emitting GHGs), they recorded a corresponding future mitigating action they plan to implement. This not only shifted the focus from identifying the actual impact to a mitigating action, but they also mistakenly used the concept of mitigation (which implies a positive change) to classify it as a positive impact. Additionally, they prematurely recorded this positive impact as if it reflected the current state, even though the action has not yet been carried out and has not produced any real results.

The team should have identified both the negative impact (emitting GHGs) and recorded the future mitigation as an option in their action plan. This approach maintains clarity by acknowledging the current negative impact while recognizing the planned action as a step towards mitigating that impact, without prematurely classifying it as a positive outcome.

2) **Planned Creation Misclassified as Positive Impact**

During a DMA process, a company identified a new initiative to create a positive impact on its workforce.

Due to the lack of action types that convey the intent of creating a positive impact, they mistakenly used the term “positive impact” to describe the planned action. This not only shifted the focus from identifying a negative or lack of positive impact on the workforce to prematurely record it as a positive impact as if it reflected the current state, even though the action has not yet been carried out and has not yet produced any real result.