

# IFRS Consultation Paper on Sustainability Reporting: Datamaran Response

## To the IFRS Foundation Trustees,

We welcome the initiative of the IFRS Foundation Trustees to explore broadening its current remit beyond the development of financial reporting standards and the opportunity to comment.

Our feedback letter addresses primarily the approach to materiality that could be taken by the Sustainability Standards Board (SSB). [Datamaran](#) is trusted by Fortune 500 companies to identify and monitor material and emerging issues, including environmental, social and corporate governance (ESG) risks and opportunities; it enables them to apply the materiality principle in a robust, dynamic and data-driven way thanks to our [patented technology](#), and capture evidence-based insights to inform risk management, Board oversight and annual reporting.

In our experience, confirmed by significant academic and practitioner research<sup>1</sup>, one of the greatest challenges for market participants relates to the application of the materiality principle, i.e. its translation into an operational process (typically called “materiality assessment”) that informs the identification of material risks and opportunities. In particular, the overabundance of high-level definitions and principles addressing materiality combined with the lack of standardized operational procedures hinders the creation of a consistent level

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<sup>1</sup> Calace D. (2019) Materiality: From Accounting to Sustainability and the SDGs. In: Leal Filho W., Azul A., Brandli L., Özuyar P., Wall T. (eds) Responsible Consumption and Production. Encyclopedia of the UN Sustainable Development Goals. Springer, Cham. [https://doi.org/10.1007/978-3-319-71062-4\\_43-1](https://doi.org/10.1007/978-3-319-71062-4_43-1)

playing field in the identification of material issues across different market participants (e.g. corporate, investors, regulators, auditors).

**Our first recommendation to the IFRS Trustees is to address the operational gap in the application of the materiality principle** so that market participants can rely on legitimate and clear standards to identify material issues. In particular, two aspects of the operational gap are in need of detailed guidance, **data** and **governance**.

- **Data**

Different sources of information can be leveraged to gather more robust evidence of materiality, ease potential biases in the stakeholders' perspective, support decision-making with comprehensive and accurate data that can shed light on impacts and dependencies - as well as prove useful to different levels of management. Corporate filings, regulations, news, social media posts, academic papers, NGO activism are examples of the sources that should be analyzed when conducting a thorough materiality assessment.

**A clarification of the nature and typology of the data that can constitute evidence of materiality** (both environmental and social, or financial) in the SSB Standards would have the potential to dramatically improve the quality and reliability of materiality determination processes, promoting an auditable and data-driven approach, and providing actionable guidance on materiality to market participants.

- **Governance**

There is general consensus<sup>2</sup> that materiality judgements fall within the mandate of the Board of Directors. Yet, application of this foundational principle is dismally limited, siloing the

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<sup>2</sup> See Eccles and Youmans (2015): Materiality in Corporate Governance: The Statement of Significant Audiences and Materiality

identification and monitoring of sustainability related material risk and opportunities from the key decision makers.

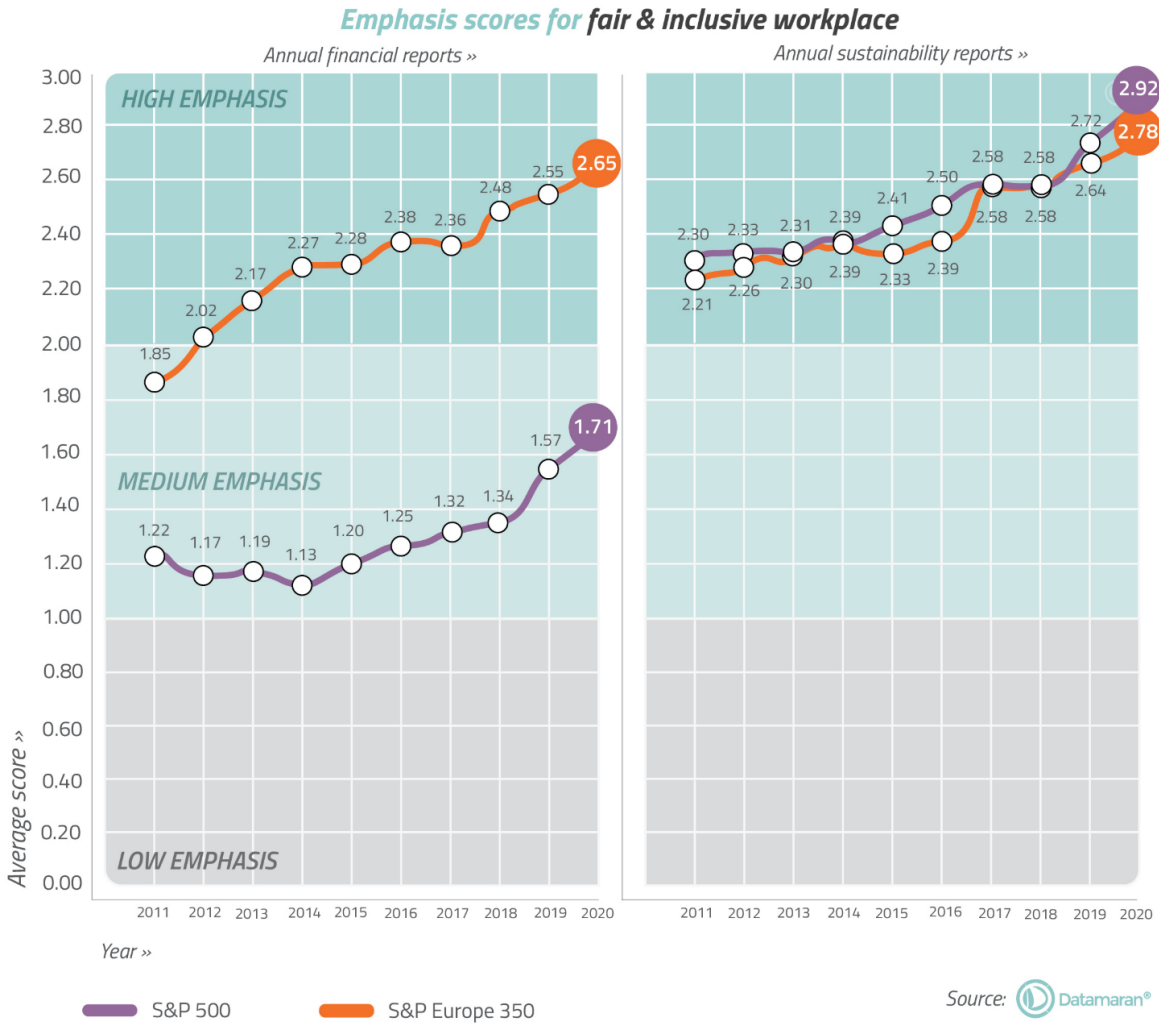
This is due to the above mentioned overabundance of high-level definitions and principles and lack of standardized operational procedures. Organizations solve the application of the materiality principle with ad hoc and inconsistent processes - failing to connect materiality to strategy and risk management, adequately inform the Board and ensure senior Executives are prepared to make informed decisions on emerging risks and opportunities.

A rules-based approach (i.e. pre-determined lists of material issues) would not solve the governance challenge. While those approaches may be based on extensive and authoritative research, they take away from the Board the accountability of making materiality judgements. It provokes box-ticking.

**The introduction of a standardized procedure**, balancing between a principles-based and a rules-based approach, clarifying internal organizational bodies involved, prescribing the frequency of the analysis - at least annual, aligned with the reporting cycle - and third-party audit, would have a substantial impact on the integration of sustainability issues in the core decision making processes.

**Our second and final recommendation concerns double materiality.** Datamaran is in a unique position to track the evolution of issues from a broader stakeholder perspective of materiality to financial materiality. [Research](#) we conducted this year shows clear evidence of how issues like diversity, equity, and inclusion (DEI) are increasingly being addressed in financial reporting and mandatory regulatory requirements.

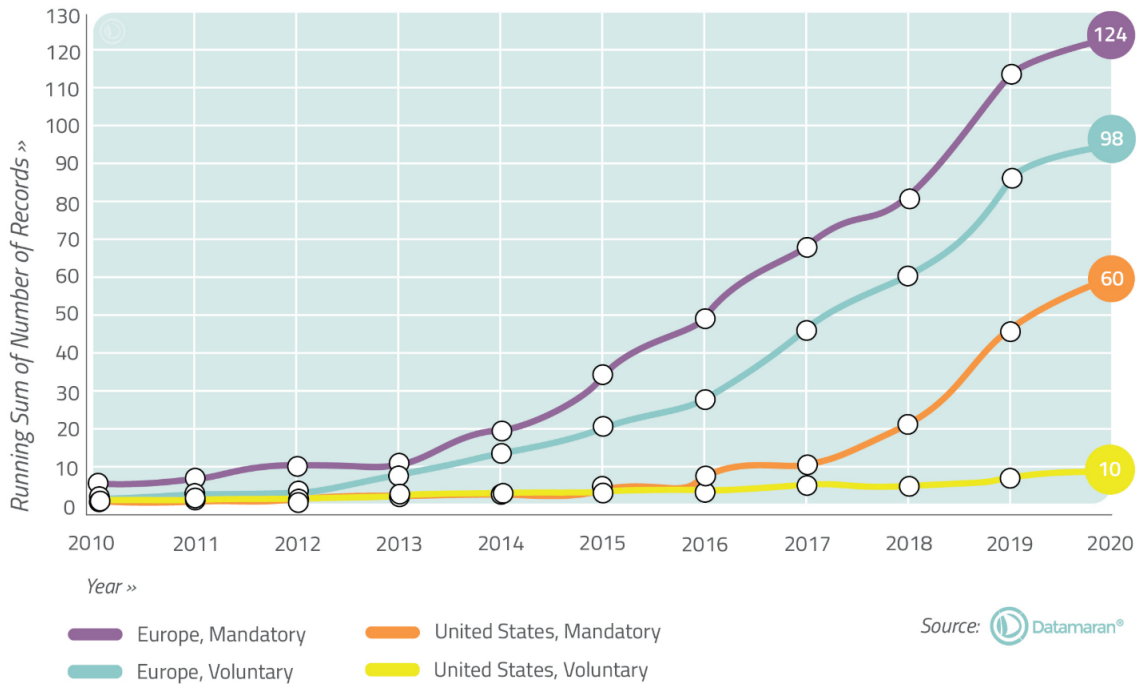
Chart 7



*Note: The level of emphasis is a Datamaran analysis based on natural language processing techniques, which enable computers to analyze, interpret, and categorize large amounts of unstructured data. Datamaran's patented technology ranks disclosures on external risk topics addressed in annual reports on a 3-point scale, with 3 representing the highest level of emphasis and 0 representing no mentions. This is derived from quantitative and qualitative information, including the number of associated narrative references to the topic, as well as where within the report bodies those references are made. The analysis offers a more comparable and accurate analysis of the level of attention a company or sector places on each topic. © Datamaran Ltd. All rights reserved.*

Chart 8

*Number of mandatory and voluntary regulations related to DE&I issues*



It would be important, in order to ensure a proper reflection of the dynamic nature of materiality in the standards, to identify a timeline to address materiality from a broader stakeholder perspective beyond the financial one. Especially if it is not possible to include a double materiality approach from the outset. Alternatively, the SSB standards would risk to lag behind market participants' current practices, and miss an opportunity to achieve their ambitious goal.

This consultation is a unique opportunity not only to foster transparency and promote better functioning markets, but also and, more importantly, to drive authentic change. We firmly believe, thanks to our experience of working every day with corporate leaders in the Datamaran community, including CFOs, CEOs and Non-Executive Directors, that our recommendations can advance corporate accounting, governance and reporting processes in order to make our society more balanced and companies better prepared to address systemic risks.

We look forward to seeing the outcome of your consultation and we hope that our contribution will help you with your ambitious mandate.

### **The Datamaran Team**

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### **About Datamaran**

Datamaran is the only software analytics platform in the world that identifies and monitors external risks, including ESG. Trusted by blue-chip companies and top tier partners, it brings a data-driven business process for external risk and materiality analysis. In house - at any time.

Datamaran's patented technology offers real-time analytics on strategic, regulatory and reputational risks, specific to your business and value chain.

Companies worldwide use Datamaran to:

- **Gain a clear view of risks and opportunities tied to ESG, geopolitical, technology and emerging issues** - with the power of patented technology;
- **Monitor** these material and emerging risks through live dashboards; and
- **Strengthen risk management, Board oversight and annual reporting** with credible data and real-time insights.

