#beSUSTAINABLE

TOOLKIT:

Materiality Assessment

Created for you by:

BURSA MALAYSIA

DISCLAIMER:

This Toolkit: Materiality Assessment ("**Toolkit**") is issued by Bursa Malaysia Securities Berhad to, among others, assist listed issuers in preparing the Sustainability Statement as required under the Listing Requirements of Bursa Malaysia Securities Berhad [paragraph 9.45(2) and paragraph (29), Part A of Appendix 9C of the Main Market Listing Requirements (supplemented by Practice Note 9) and paragraph (30) of Appendix 9C of the ACE Market Listing Requirements (supplemented by Guidance Note 11)].

While this Toolkit is intended to provide the relevant information and guidance for listed issuers to prepare their Sustainability Statement, it may not be exhaustive in its coverage. Listed issuers must exercise discernment and diligence when using this Toolkit.

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1. Purpose

Paragraph 6.2 (c), Practice Note 9 of the Main Market Listing Requirements requires disclosure on:
material sustainability matters and – (i) **how they are identified**; (ii) **why they are important to the listed issuer**; and (iii) **how they are managed** including details on: (aa) **policies to manage** these sustainability matters; (bb) **measures or actions taken to deal** with these sustainability matters; and (cc) **indicators** relevant to these sustainability matters which demonstrate how the listed issuer has performed in managing these sustainability matters.

The purpose of this Toolkit is to provide further guidance to listed issuers on how to determine their economic, environmental and social ("**EES**") risks and opportunities ("**sustainability matters**") that are material by applying materiality.

Throughout this Toolkit, sustainability matters are considered material if they:

(a)	reflect the listed issuer's significant economic, environmental and social impacts; or
(b)	substantively influence the assessments and decisions of stakeholders.[1]

This Toolkit should be read in conjunction with Bursa Malaysia's Sustainability Reporting Guide ("**the Guide**"), including the definitions provided in the Guide.

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[1] This definition is also contained in paragraph 6.3 of Practice Note 9, Main Market Listing Requirements and is adapted from the GRI Guidelines.

2. Content of this Toolkit

This Toolkit covers the following:

- How to apply materiality, including details on how to perform and analyse outcomes of the materiality assessment;
- Best practices for materiality assessment adopted by established organisations (including national and international examples);
- Examples of how a materiality assessment may be performed; and
- Example disclosures in relation to materiality assessment.

3. Applying materiality

Sustainability matters are the risks and opportunities arising from the EES impacts (i.e. impacts that relate to sustainability themes such as energy, diversity, human rights, etc) of an organisation's operations and activities.

The extent of sustainability matters for organisations can be wide ranging and not all material sustainability matters are of equal importance. Thus, in disclosing the material sustainability matters, the emphasis should reflect the relative priority of these matters. This means that more material sustainability matters should be given more prominence in the disclosure.

In the context of sustainability, the concept of materiality is broader than that defined in financial reporting standards. Materiality in financial terms refers to the threshold which *'influences the economic decisions that users make on the basis of the financial statement'*[2], and is more commonly applicable for users of the financial statements, i.e. shareholders or investors in particular.

In sustainability terms, materiality is not only limited to those matters that have a significant financial impact on the organisation but also includes consideration of EES impacts that affect the ability to meet the needs of the present and future generations. Thus, the definition of materiality used for sustainability takes into account the listed issuer's EES impacts and assessments and decisions of stakeholders. Having in place a materiality assessment process enables an organisation to map out its sustainability matters which may contribute to better business strategy performance in the short, medium and long term.

[2] Malaysian Financial Reporting Standards

Example: Material sustainability matters for the manufacturing sector

A manufacturing company may have a range of sustainability matters that it needs to consider, such as the use of materials, waste and effluent, emissions, labour practices, etc. However, because of its context, every manufacturing company is likely to have some material sustainability matters that are unique to them. For instance, a manufacturing company planning expansion in Bangladesh may see human rights issues as more material, as compared to a similar company expanding on the east coast of Peninsular Malaysia. Similarly, if the country in which the company operates lacks safety and health legislation, safety and health may become a material sustainability matter that could erode its value and reputation in the eyes of its stakeholders if it fails to adopt international norms of behaviour with respect to safety and health while operating in that country.

Although there is much discussion in relation to the determination of approaches for assessing materiality in the sustainability context, a common approach can be used, as shown in Figure 1 below.

In applying this approach, organisations should understand that there is flexibility in terms of how far they seek to develop their materiality process (depending on their size, capacity, strategic direction, etc.). The key outcome is to ensure that the substance and concept of materiality is brought out by its process to achieve its intended objectives. Organisations can choose to conduct a comprehensive materiality assessment or look to limit their assessment or perhaps choose to conduct a full materiality assessment every two years. These options are further explained in **Phase 5: Process Review** of this Toolkit. Notwithstanding this, it is expected that organisations will choose to move towards a more comprehensive materiality assessment over time.

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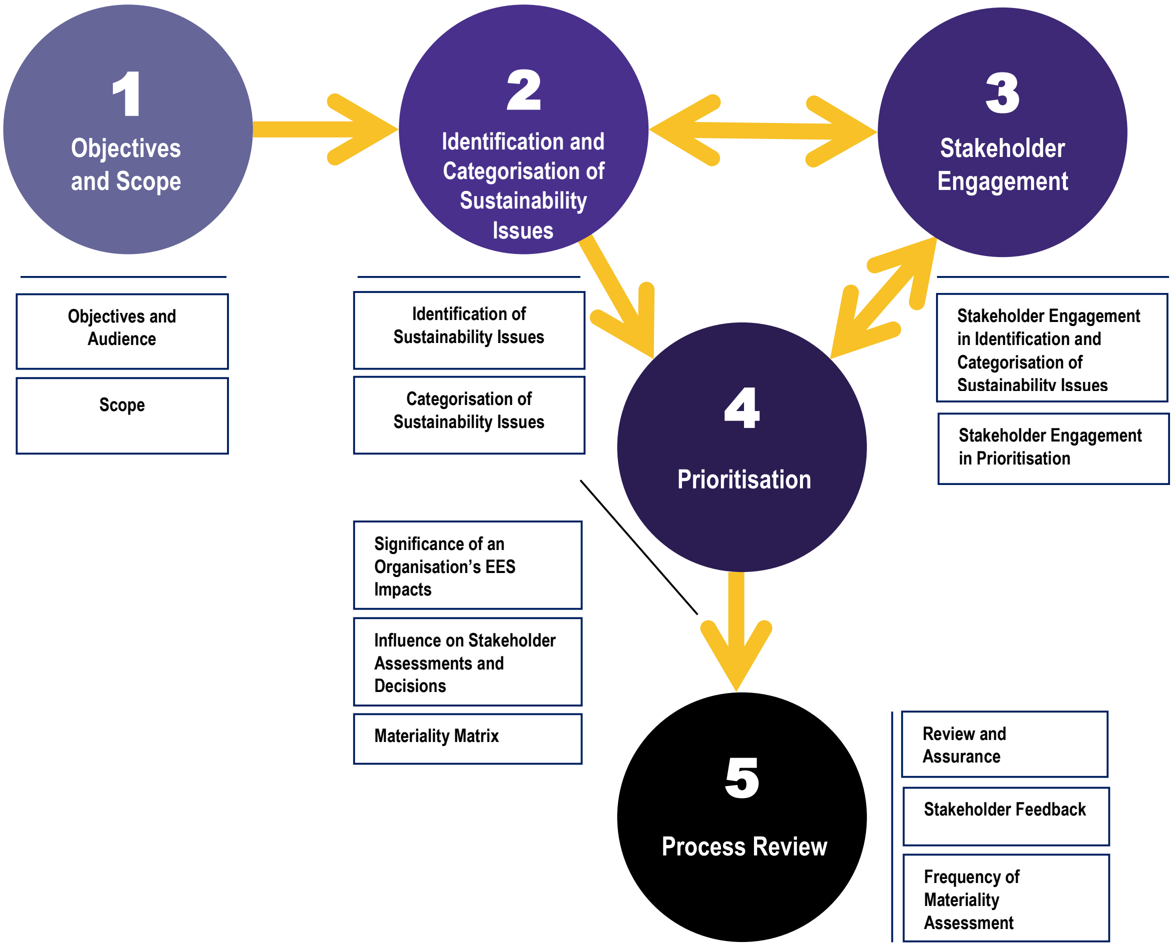
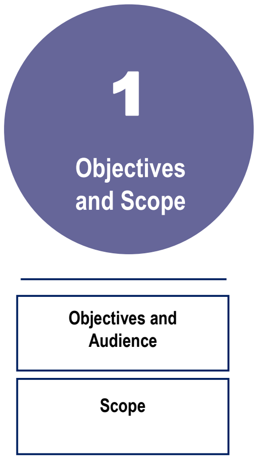


Figure 1: Materiality Assessment Process

Phase 1: Objectives and scope



Objectives and audience

Firstly, an organisation should understand its operating environment and what materiality means to achieving its business objectives. In setting materiality objectives, the organisation needs to consider and understand the intended audience of the materiality assessment - who the key users are of the outcome of the materiality assessment and how the information is to be used. The audience may be internal or external. The materiality assessment outcome may benefit internal audiences such as the board of directors in developing a better informed business strategy. It may also enable external audiences such as investors to make informed investment decisions, by understanding how sustainability matters are considered and managed by the organisation.

Other objectives of the materiality assessment may include, among others, the following:

- identifying relevant sustainability issues, considering their impacts and associated risks and opportunities;
- informing the development or revision of business strategies – to include sustainability considerations;
- identifying material sustainability matters that need to be managed and included in sustainability disclosures (for communication with internal and external stakeholders);
- facilitating more effective engagements with internal and/or external stakeholders, with particular focus on addressing their concerns;
- identifying future trends that may affect the organisation or its business strategy;
- identifying areas for target setting to improve business and sustainability performance.

Understanding the objectives and audience enables the organisation to structure its materiality process more strategically. For example, a materiality assessment with the objective of identifying material sustainability matters for the purpose of sustainability reporting may be scoped in a more holistic manner (e.g. group-wide), as compared to an assessment which aims to inform the development or revision of certain business strategies which may then focus only on a specific group of stakeholders or areas of operations.

Scope

After setting the objectives and identifying the audience, it is important for an organisation to determine the scope within which materiality will apply. In establishing the scope, an organisation may consider:

- **its physical locations (geographical boundary) -** whether the materiality assessment will provide a global view of the organisation's business or examine specific geographical regions or both;
- **its entities (organisational boundary)** - whether to cover the overall group level or specific key business operations; and
- **its operations within or outside the organisation (including the entire value chain) -** whether to cover the entire value chain or specific operations (e.g. upstream or downstream) which may include operations within or outside the organisation.

Food for thought

- What is the purpose of the materiality assessment? Is there an operation, a region or business activity the organisation and/or its stakeholders, are particularly concerned about?
- Has the scoping of materiality considered subsidiaries which are not financially significant to the organisation but may have significant sustainability impacts (i.e. operations in locations with heightened community and social issues)?
- Have all parts of the organisation's value chain (including suppliers and consumers) been considered?

As mentioned above, the scope may depend on the objectives of the materiality assessment and its intended audience. From a sustainability disclosure point of view, it is recommended that the disclosure provides a holistic view of the organisation's sustainability matters.

Apart from the above-mentioned considerations, an organisation may also consider how it intends to address and present the management of its material sustainability matters to its stakeholders. For example, an international conglomerate operating a range of businesses (e.g. plantation, consumer goods, and property) may choose to scope its materiality by sectors to cater to different sector-specific sustainability matters, rather than by geographical regions, even though its financial reporting is based on its country of operations.

Phase 2: Identification and categorisation of sustainability issues

After setting the objectives and scope, the organisation can start developing an initial list of sustainability issues that are relevant to its business and stakeholders.

Identification

The initial list of relevant sustainability issues can be identified from a combination of internal and external sources.

For example:

Internal Sources	External Sources
• Board/Board committee reports and minutes of meetings • Business strategy, short and medium term goals and objectives, and policies • Internal analysis of megatrends that are relevant to the organisation (e.g. talent management, cyber security) • Business model of the organisation • Risk management assessments and risk registers, e.g. significant risks identified via the organisation's enterprise risk management system	• Sustainability issues or concerns raised by stakeholders • Stakeholder feedback and complaints, interest and expectations • Topics and emerging trends such as climate change reported by industry and peers • Relevant regulations and laws, and international agreements or commitments which may impact the business strategy or drive stakeholder concerns • Standards (e.g. Roundtable on Sustainable Palm Oil, GHG Protocol, Carbon Disclosure Standards Board) and sustainability-related ratings or rankings (e.g. FTSE4Good Bursa Malaysia Index) • Bursa Malaysia's Sustainability Reporting Guide • Media review (including social media) • External peer review

Please refer to Figure 2 below for further examples of internal and external sources.

AccountAbility provides the following example of key sources from where organisations can use to identify and develop a list of sustainability matters relevant to their business.

Information about	Information streams	Key sources
short-term risks and opportunities; issues that may impact ability to deliver on its strategic objectives Stakeholder behaviour and concerns Best practice norms Societal norms, future regulation.	Internal business priorities	Business objectives, strategy and policies Sustainable development strategy, KPIs and previous reports Internal risk analysis and corporate risk register Financial reports and regulatory disclosures (10K, etc.)
	Stakeholder relationships with different parts of the business	Letters from regulators and NGOs Customer feedback, surveys and complaints Shareholder resolutions, SRI questionnaires and investor queries Feedback received on previous reports
	Active engagement with stakeholders	Surveys with individual stakeholders (customers, employees, suppliers) Generalised stakeholder dialogue, roundtables etc... Focused stakeholder dialogues (e.g. on a particular issue or company programme) Ongoing one-to-one relationships with external organisations Report review committees or stakeholder panels, and Dialogue within industry and multi-stakeholder groups and initiatives.
	Emerging stakeholder consensus as reflected in relevant standards	Voluntary standards e.g.: UN Global Compact principles and GRI indicators Environmental, EHS and occupational health management systems Multi-sector standards and agreements Peer based norms, sector standards and benchmarks Intergovernmental agreements e.g.: ILO standards, Millennium Development Goals.
	Issues and debates	Media reports Parliamentary questions, bills and government white papers Public opinion surveys Published research Civil society campaigns

Internal sources

External sources

(Source: The Materiality Report: Aligning Strategy, Performance and Reporting, AccountAbility, BT Group Plc and LRQA, 2006)

Figure 2

To obtain a more encompassing overview of relevant sustainability issues, an organisation should consider its operating environment and the views of its internal and external stakeholders. The role of external stakeholders is particularly important during the identification stage, especially for an organisation which is in the early stages of applying materiality or has undergone business changes such as expansion into new industries, mergers and takeovers, etc as such an organisation may have stakeholders whose views have not been heard before. Engaging with stakeholders therefore, allows the organisation to gather and identify sustainability issues which may not have been considered or may have been overlooked.

The identification and review of relevant sustainability issues should be conducted periodically particularly when there are significant changes to the business strategy, operations or context. Some organisations may have in place a system which enables a continual update of a list of sustainability issues which may be material to the business. In these cases, the regularity of a materiality identification process may be extended to every alternate year if the organisation determines that the list of sustainability issues is relevant and updated.

Food for thought

- What sustainability issues are other organisations or stakeholders in the sector (domestically and internationally) increasingly concerned about?
- Is there any industrial standard or code that the organisation must adhere to?
- Who are the key stakeholders of the organisation and how does the organisation intend to obtain input from these stakeholders regarding their concerns on sustainability issues?
- What are the possible sustainability issues that may affect the organisation's value in the short, medium and long term?
- What sustainability related risks are being flagged by international bodies (e.g. the World Economic Forum (WEF), United Nations, International Monetary Fund, etc.) and have these been considered?

Categorisation

The list of sustainability issues identified earlier may be further rationalised and refined into categories, taking into consideration, alongside business strategies, the following:

- operating industry and business model;
- the organisation's business segments;
- operating regions and/or markets;

- internal stakeholders' responsibilities and interests;
- external stakeholders' interest and concerns; and
- how sustainability issues are connected to, and overlapping with each other, etc.

Categorising sustainability issues into a shorter list makes the prioritisation process (please refer to **Phase 4: Prioritisation** below) easier. Further, it may also facilitate efficient management of material sustainability matters.

Case Study: Identification and categorisation of sustainability issues for an organisation in the banking sector

The list of sustainability issues on the left was identified from the organisation's business strategy and policies, industry and peer review as well as media reviews. It is further streamlined to a shorter list based on a broader set of categories. Items in blue on the left denote items to be combined to form the following shortlist of issues (on the right) which will then be prioritised in the subsequent stages:

List of Sustainability Issues

Sustainability issues identified	Category
Environmental impact	Responsible lending
Human rights	Responsible lending
Workforce diversity	Employees
Labour rights for employees	Employees
Women empowerment at management level	Employees
Information technology risk management	Security
Personal data protection	Security
Anti-money laundering	Security
Terrorism	Security
Financial inclusion for communities	Community
Overseas expansion strategy	Business strategy
GHG emissions	Environment
Financing for renewable energy projects	Environment
Climate change	Environment
Development in regulations	Government and regulations
Bank Negara Malaysia inquiries	Government and regulations
Remuneration for directors and senior management	Governance
Bank fees	Customers
Interest rates	Customers
Access to banking services for customers in rural areas	Customers
Safety of banking products	Customers

Shortlist

Shortlisted Sustainability Issues

Shortlisted sustainability issues	Category
Environmental and social impact of lending activities	Responsible lending
Workforce diversity (including gender, age and ethnicity)	Employees
Labour rights for employees	Employees
Information technology risk management and data protection	Security
Anti-money laundering and anti-terrorism	Security
Financial inclusion for communities	Community
Overseas expansion strategy	Business strategy
Regulatory development and Bank Negara Malaysia scrutiny	Government and regulations
Remuneration for directors and senior management	Governance
Bank fees and interest rates	Customers
Access to banking services for customers in rural areas	Customers
Safety of banking products	Customers
Carbon footprint	Environment

Figure 3

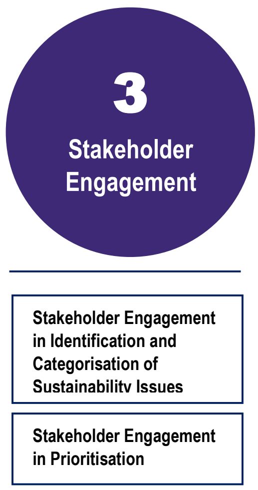
Example disclosure on identification and categorisation of sustainability issues

"We have developed a List of relevant Sustainability Issues ("List") in 2008. The List was developed based on our engagements with internal and external stakeholders which were initiated specifically for the purpose of a materiality exercise. Amongst others, the stakeholders considered in the development of the List were as follows:

- **Internal** - Board of Directors, C-suite officers (e.g. CEO, CFO and COO), Head of Divisions, employees and workers' union. Representatives from each level were also sought from each country of operation to ensure all levels of internal stakeholders were fairly represented.
- **External** - Regulators and government authorities, suppliers, customers, NGOs, shareholders (retail and institutional) and community.

Since then, we have established an ongoing process whereby emerging concerns raised by stakeholders during any engagement will be documented and updated in the List held by the Sustainability Department. Throughout the period from 2014 to 2015, there were no significant changes to our business model or operating boundaries. As such, there were no significant changes to the List, apart from a few additions of technology-related sustainability issues such as information protection as a result of development in the area of personal data protection in Malaysia."

Phase 3: Stakeholder engagement



Stakeholders play an important role to an organisation's business, either as advocates, sponsors, partners or agents of change. Engagement with stakeholders serves a broad purpose focusing on inclusiveness, responsiveness and building continuous relationships between an organisation and its stakeholders. While stakeholder engagement may be used to serve broader business objectives (e.g. to assess customer preference for specific products), an organisation may also conduct exclusive stakeholder engagement sessions for the purpose of a materiality assessment exercise.

Generally when applying materiality, inputs from stakeholders are required during the following 2 phases:

- **Phase 2: Identification and categorisation of sustainability issues**; and
- **Phase 4: Prioritisation** of sustainability matters.

For further guidance on how to engage with stakeholders, please refer to **Toolkit: Stakeholder Engagement**.

Stakeholder engagement in Phase 2: Identification and categorisation of sustainability issues

As mentioned above (**Phase 2: Identification and categorisation of sustainability issues** – Identification), external stakeholders play an important role in the identification of sustainability issues. They provide input from a perspective which accounts for some of the externalities that may not have been considered by the organisation. For example, proper handling of waste may be of greater significance to the surrounding community, whose living conditions and quality of living may be affected by improper waste disposal practices, than to an organisation which seeks to dispose its waste at minimum cost (e.g. illegal dumping).

In identifying relevant sustainability issues, an organisation can engage its stakeholders in groups. Proper stakeholder identification, mapping and prioritisation based on their influence and interest help ease the organisation's analysis of sustainability matters raised by each stakeholder group.

Commonly, an organisation would use different engagement approaches for different categories of stakeholders, and may invest more resources in engagements with stakeholders with higher priority. The organisation could approach its stakeholder groups using different methods, such as surveys, interviews and workshops, considering the effectiveness and efficiency of these methods in soliciting necessary feedback and input.

Case Study: Categorisation of sustainability issues for an organisation in the banking sector after stakeholder engagement

The following diagram illustrates the outcomes of engaging with different external stakeholder groups during Phase 2 – Identification and categorisation of sustainability issues. Engagement outcomes from these stakeholder groups, as well as that from internal stakeholders, can be consolidated, categorised and shortlisted into a list of sustainability issues, as shown in Figure 4 below:

External Stakeholders

Sustainability issues identified	Stakeholder Groups
Environmental impact	NGOs
Human rights	NGOs
Labour rights for employees	Employees
Women empowerment at management level	Investors
Personal data protection	Investors; Customers
Anti-money laundering	Government; Investors
Terrorism	Government; NGOs; Investors
Financial inclusion for communities	NGOs; Investors
GHG emissions	Investors
Financing for renewable energy projects	Investors
Climate change	Investors
Bank Negara Malaysia inquiries	Investors
Remuneration for directors and senior management	Regulators; Investors
Bank fees	Regulators; Customers
Interest rates	Regulators; Customers
Access to banking services for customers in rural areas	Customers
Safety of banking products	Regulators; Customers

Internal Stakeholders

Sustainability issues identified
Workforce diversity
Business continuity
Development in regulations
Information technology risk management
Overseas expansion strategy

Consolidation and alignment

List of Sustainability Issues

Sustainability issues identified	Category
Environmental impact	Responsible lending
Human rights	Responsible lending
Workforce diversity	Employees
Labour rights for employees	Employees
Women empowerment at management level	Employees
Information technology risk management	Security
Personal data protection	Security
Anti-money laundering	Security
Terrorism	Security
Business continuity	Security
Financial inclusion for communities	Community
Overseas expansion strategy	Business strategy
GHG emissions	Environment
Financing for renewable energy projects	Environment
Climate change	Environment
Development in regulations	Government and regulations
Bank Negara Malaysia inquiries	Government and regulations
Remuneration for directors and senior management	Governance
Bank fees	Customers
Interest rates	Customers
Access to banking services for customers in rural areas	Customers
Safety of banking products	Customers

Figure 4

Stakeholder engagement in Phase 4: Prioritisation

Now that the list of sustainability issues has been identified and categorised, the next step is to prioritise sustainability issues to determine the material sustainability matters, by considering the risks and opportunities associated with these issues. The prioritisation process is further discussed in **Phase 4: Prioritisation** below.

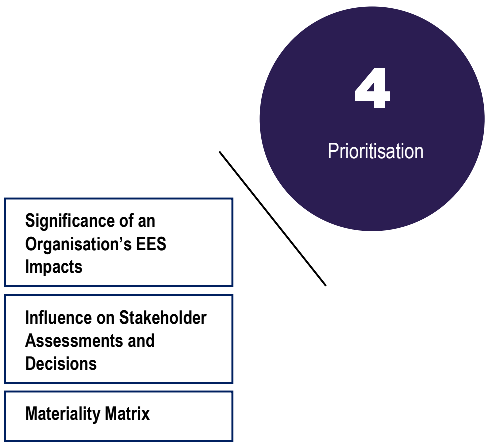
The prioritisation process is based on the definition of materiality, i.e. what reflects an organisation's significant EES impacts or what substantively influences the assessments and decisions of stakeholders. Involvement of stakeholders, therefore, enables the organisation to assess which sustainability matters are important to their stakeholders' assessments and decisions.

Generally, each stakeholder group is engaged via different methods to obtain their input on how important each sustainability matter is to them. Prioritisation of sustainability matters will be adjusted depending on the priority of the stakeholder group to the organisation.

An organisation usually will have different categories of stakeholders, and these stakeholders may have different interests that are in conflict with each other. For example, a retail investor focusing on short-term financial gains may prefer the organisation's earnings to be distributed as dividends instead of being retained for further business expansion, while a long-term institutional shareholder may focus more on the expansion of the business in a 5 to 10-year timeframe, i.e. in favour of retained earnings for re-investment. Therefore, stakeholders need to be prioritised by the organisation to indicate how significant or important a stakeholder group is to the organisation in the prioritisation of sustainability matters. The priority of each stakeholder group will be taken into account during the prioritisation process, where the concerns of key stakeholders will carry greater weight.

For further guidance on how to prioritise and engage with different stakeholder groups, please refer to **Toolkit: Stakeholder Engagement** and **Toolkit: Stakeholder Prioritisation Matrix.**

Phase 4: Prioritisation



The list of potential sustainability issues identified from **Phase 2: Identification and categorisation of sustainability issues** reflects the sustainability issues which are relevant to an organisation and its stakeholders. The next step is to translate the issues into sustainability risks and opportunities (i.e. the sustainability matters) and thereafter to determine which of these are material. This is done through prioritisation as explained in this **Phase 4: Prioritisation**.

The end result of the prioritisation process should be a list of material sustainability matters. Organisations need to have focused efforts to manage, monitor and disclose such matters. It is important to note that while sustainability matters not considered material need not be actively managed or monitored, they should nevertheless be kept in view.

Materiality

Material sustainability matters refer to those that reflect the organisation's significant EES impacts or substantively influence the assessments and decisions of stakeholders. In other words, materiality is the threshold where a sustainability matter becomes sufficiently important for focused management and reporting by the organisation. More emphasis and efforts need to be placed on managing material sustainability matters as they have a greater impact on the organisation.

When defining materiality, an organisation should consider the key questions set out in Figure 5 below:

Is it strategically relevant to its business?

Sustainability matters which have significant impacts (positive and negative) on its business strategy should be identified, monitored and managed.

Is it important to its stakeholders?

Different stakeholders may have different areas of concern. An organisation should take into account both its internal and external stakeholders' interests when identifying and prioritising material matters.

In addressing the above two key questions, an organisation should also consider the following:

Does it have an economic, environmental or social impact on the value chain?

An organisation should consider the extent of economic, environmental and social impacts when assessing the significance of a sustainability matter to its business or stakeholders, i.e. how a sustainability matter impacts the entire value chain (e.g. suppliers, customers) of the organisation as well as the extent of impact.

Figure 5

When applying materiality, an organisation may find that the level of importance of a sustainability matter to its business differs from that as perceived by its stakeholders. A materiality matrix, therefore, becomes a useful tool as it enables an organisation to determine the materiality of each sustainability matter, by plotting out the position of each sustainability matter based on its significance to the organisation and its influence on stakeholder assessments and decisions, as shown in Figure 6 below.

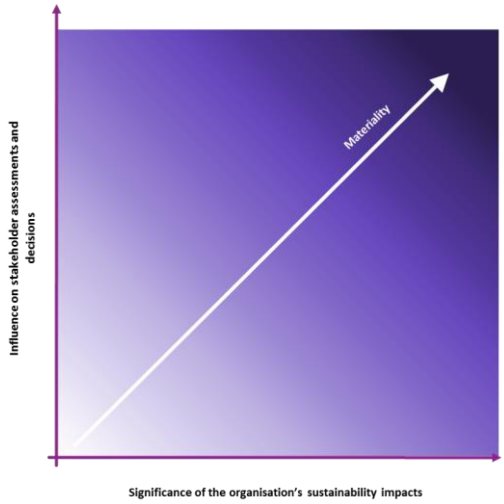


Figure 6

Sustainability matters are considered material if they:

(a) reflect an organisation's significant economic, environmental and social impacts; or

(b) substantively influence the assessments and decisions of stakeholders.

In determining material sustainability matters, an organisation is required to determine the extent of the impact to be qualified as 'significant' as well as influence which is deemed to be 'substantive'. The factors which you can use to formulate the criteria if EES impacts are significant, or if the matter substantively influences stakeholders' assessments and decisions may include, among others, the severity and likelihood of the impacts over time on financial performance, actual or perceived value of the organisation, availability of products/services or reputation.

Example: Prioritisation of sustainability matters by an organisation in the plantation sector

An oil palm grower has conducted research on climate change impacts on its business and forecasted drought as a significant risk that will affect its palm oil yield in 5-10 years. The organisation's stakeholders do not understand the possibility and impact of such occurrence and thus do not see it as a significant risk. Although the stakeholders do not consider this risk as significant, nevertheless the board of directors and senior management regard it as significant and material to their business. Thus, the organisation has identified it as a material sustainability risk for which action needs to taken. On the other hand, the organisation is accustomed to the use of low cost foreign labour and providing sub-standard amenities to its labourers. Nevertheless, communities around the oil palm estates are concerned about the impact of this practice such as security as well as public health and safety issues which have been increasingly affecting the communities. Taking into account the feedback received from its stakeholder, i.e. local communities, the organisation considers labour practices as a material sustainability matter that needs to be managed properly.

Significance of an organisation's EES impacts

When prioritising sustainability matters, an organisation should assess the significance of its EES impacts as these impacts create both risks and opportunities to the organisation. Different criteria may be considered when determining the level of significance. These could include:

Criteria	Description	Considerations
Revenue	The way a sustainability matter affects the revenue of the business across short, medium and long term.	• Will the business revenue source be affected by the sustainability matter considered? • How does the sustainability matter positively or negatively affect the revenue stream of the business in the short, medium and long term?
Cost	The way a sustainability matter affects the cost of the business across short, medium and long term.	• In what manner will cost of doing business be impacted by the sustainability matter considered? What are the costs possibly affected, e.g. legal cost, compliance cost, operating cost, licensing costs, etc.? • How does the sustainability matter affect the cost of the business, including cost of capital, in the short, medium and long term?
Media	Possible media response to an event relating to a sustainability matter and its influence on the organisation.	• How positively or negatively does media usually respond to an event relating to the sustainability matter considered? • What is the possible influence of media's response on the organisation?
Strategic and Operational Risk	The impact of a sustainability matter on the organisation in terms of strategic and operational risks (e.g. corruption may be a	• How does the sustainability matter affect the day-to-day running of the organisation's business operations?

Criteria	Description	Considerations
	strategic risk for business expansion in developing regions, and at the same time it may also be an operational risk itself)	• How will the sustainability matter impact the organisation's medium to long-term business performance?
Business Opportunities	The opportunities brought by a sustainability matter in assisting the organisation in the implementation of its business strategy.	• What are the opportunities created for the organisation in enhancing its value such as business expansion, gaining a competitive edge and market positioning? • How will the sustainability matter considered enable long-term business vision to be achieved in a shorter time period?

Food for thought

- Who has the best knowledge to assess the significance of the organisation's EES impacts?
- Is the assessment outcome significantly different from the organisation's industry or peers?

Depending on the sector the organisation operates in, as well as the business strategy adopted, significance of EES impacts may be assessed by applying other lenses which the organisation sees as critical.

For example, intellectual property assets may be considered critical criteria for some businesses. In this case, an organisation may also want to consider the organisation's EES impacts in the context of intellectual property for instance, the importance of talent attraction and retention on the ability of the organisation to build up its intellectual property assets (especially in the case of technology organisations).

An organisation may want to involve internal stakeholders from each relevant business function in the prioritisation of sustainability matters as they would be able to provide meaningful assessment of, and insights into, the significance of the EES impacts.

A rating approach may also be developed to allow sustainability matters to be prioritised according to the level of significance of EES impacts.

Influence on stakeholder assessments and decisions

In addition to determining the significance of EES impacts, an organisation needs to assess the influence of the sustainability matters on stakeholder assessments and decisions. These include:

- identifying what is most important to the organisation's stakeholders;
- identifying whose interest may be impacted by the organisation but yet may not be considered fully by the organisation.

It is paramount for an organisation to identify its key stakeholders and engage with them accordingly to understand and take their concerns into consideration in its decision-making. This is because by doing so an organisation will be able to understand how its business affects its stakeholders and how stakeholders are able to affect the continuity of the business. In both cases, the inclusion of stakeholders' view enables the organisation to understand stakeholders' concerns and incorporate such information in determining material sustainability matters.

Stakeholder engagements are useful to obtain their input on the importance of sustainability matters to them during the prioritisation exercise. This exercise may be facilitated via existing, ongoing engagement channels, or via initiatives specifically designed for the purpose of prioritisation.

One of the methods in assessing the overall significance of a sustainability matter across the organisation's stakeholder groups entails assigning weighting to each group according to its priority to the organisation. The weightings represent the stakeholder priority to the organisation, and are not dependent on the sustainability matters under assessment. The weightings of the stakeholder groups will then be taken into account when consolidating the overall significance of a sustainability matter to stakeholders. This will help determine the position of the sustainability matter along the y-axis of the materiality matrix.

Stakeholder engagement, in the context of prioritising sustainability matters, is discussed in **Phase 3: Stakeholder Engagement – 'Stakeholder engagement in prioritisation'** above. Further details on the stakeholder engagement process are also provided in **Toolkit: Stakeholder Engagement.**

Food for thought

- Are stakeholders prioritised based on their importance to the organisation?
- Are known key stakeholder's concerns discussed and prioritised during the engagement with stakeholders?

Best practice: Stakeholders

GRI's G4 reporting framework suggests that the stakeholder engagement process should take into account "*the interests of stakeholders who are unable to articulate their views (such as future generations, fauna and ecosystems)*" when applying materiality.

For example, an oil and gas organisation involved in offshore exploration activities may cause significant impact on the biodiversity of marine areas within its range of activities which might not be represented by any stakeholder. In this case, the organisation should take into account risk of loss of biodiversity in prioritising its sustainability matters.

Example Disclosure: Prioritisation of sustainability matters by an organisation in the plantation sector

"Prioritisation of sustainability matters is performed via assessment of significance of each sustainability matter to business and to stakeholders based on the following considerations:

- the organisation's medium and long term business objectives and targets;
- the geographic regions in which the organisation operates;
- megatrends (current and emerging) characterising the plantation sector;
- the organisation's enterprise risk management framework;
- the organisation's public commitments (nationally and internationally);
- stakeholders' feedback and expectations.

The prioritisation exercise is conducted annually by the Sustainability Department together with other business functions. Engagements with internal and external stakeholders were specifically initiated for the purpose of the prioritisation exercise. The Sustainability Department is responsible for finalising the outcome of the prioritisation on a materiality matrix ("matrix"). The matrix is tabled to the Board Sustainability Committee for approval by the Head of Sustainability Department, i.e. the Chief Sustainability Officer."

The Materiality Matrix

The outcomes of the materiality assessment in terms of the significance of EES impacts to the organisation or influence on stakeholder assessments and decisions are best illustrated through a materiality matrix as below (see **Toolkit: Materiality Matrix** for further details):

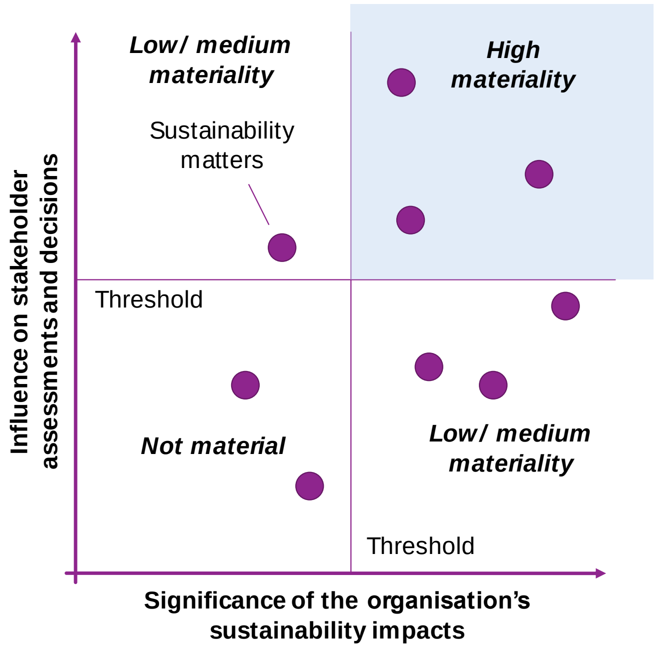


Figure 7

The 'x' axis represents the significance of an organisation's EES impacts.

The 'y' axis represents influence on stakeholder assessments and decisions.

An organisation which applies materiality for the first time may face difficulties in coming up with a comprehensive rating approach when prioritising its sustainability matters. Therefore, such an organisation may start by adopting an approach which rates significance of a sustainability matter to business along a scale of 'high', 'medium' and 'low'. This approach should then be similarly applied to determining the significance to stakeholder assessment and decisions.

An organisation should set a threshold (as indicated in Figure 7 above) on the materiality matrix for which sustainability matters beyond the set limit would be considered material. In doing so, the organisation may consider the threshold used for its risk management framework in determining significant risks to enable better linkage between its material sustainability matters and risk management. Sustainability matters falling in the "high materiality" segment are interpreted to have the greatest significance to the organisation's long-term business value or stakeholders' interest, and should be prioritised for their management and reporting.

There could also be instances where a material sustainability matter need not be highly significant to both the business and its stakeholders. It occurs when the organisation is able to foresee significant emerging sustainability risks but the stakeholders do not, and vice versa. Taking into such consideration, an alternative method of setting threshold may be as follows (Figure 8):

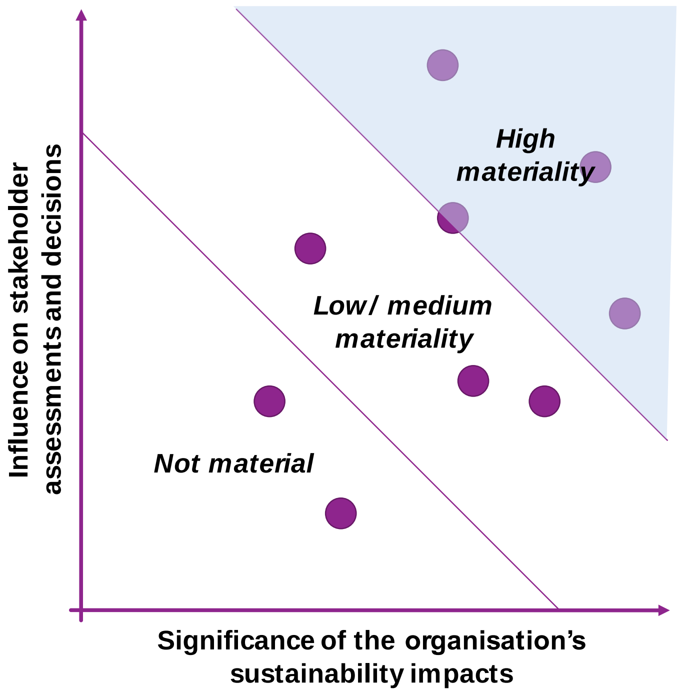


Figure 8

While applying materiality enables the organisation to determine its material sustainability matters and allow for better management and reporting, it does not mean that sustainability matters determined to be non-material should be completely omitted from management. The organisation should exercise its judgement to determine the balance between resources invested in, and the expected outcome of, the management of EES risks and capitalising on opportunities that may arise.

In disclosing sustainability matters, the emphasis should reflect the relative priority of these material sustainability matters. This means that more material sustainability matters (e.g. sustainability matters falling under the 'High Materiality' segment) should be given more prominence in the disclosure. On the other hand, less information can be disclosed for sustainability matters that fall within the segment(s) labelled as 'Low/Medium Materiality'.

An organisation may also choose to disclose sustainability matters which are not considered as material. For example, direct greenhouse gas emissions may not be material to a bank, but the bank may still choose to capture the information to be in line with peers. In this instance, banks may choose to communicate such information via their websites.

Food for thought

- Do the material sustainability matters reflect what the organisation and stakeholders see as important factors in determining organisational value?

Example: Materiality assessment - labour practices

Significance of EES impact[3]

The organisation intends to assess the significance of labour practices to its business and to what extent the sustainability matter affects the achievement of its business strategy. Firstly, the organisation determines the criteria it sees as crucial in determining success toward business strategy. These include revenue, cost, media, strategic and operational risks and business opportunities. The assessment is conducted jointly by the Management Committee, Risk Management Committee and Sustainability Committee, with inputs from relevant Heads of Department, where necessary.

Labour practices are assessed against each criterion, and given a significance rating of 0%, 50% and 100%. (0% being 'low' significance, 50% being 'medium' significance and 100% being 'high' significance).

The outcome of the analysis is as follows:

Criteria	Significance
Revenue	0%
Cost	0%
Media	100%
Strategic and operational risks	100%
Business opportunities	100%
Overall significance of the organisation's EES impact - labour practices	60%

From the perspectives of media, strategic and operational risks and business opportunities, labour practices is considered a significant aspect that would affect the organisation's long term business viability. The organisation is aware of the possibility of getting negative publicity and losing its largest customers if it does not address its labour practices issues, which are increasingly being scrutinised by the public. The issues surrounding poor labour practices are also likely to impact the organisation's future plans to expand to developed countries.

[3] Please note that the illustration given above is a highly-simplified version of determining significance of EES impacts on the organisation. Every organisation values its business from different perspectives and some with the assistance of a range of different valuation models. Each organisation has to decide for itself how the organisation's value (which may also include the cost of externalities considered by more mature and sophisticated organisations) is determined, and subsequently how each sustainability matter affects its valuation.

On the other hand, the organisation sees labour practices as having little impact on revenue and cost.

The overall significance of the organisation's EES impact for labour practices at '60%' is the average of all 5 criteria. According to the scale provided earlier, '60%' indicates that the significance level is slightly above medium.

The position of labour practices on the materiality matrix, from the perspective of the organisation, will be at the 60% mark of the x-axis, as follows:

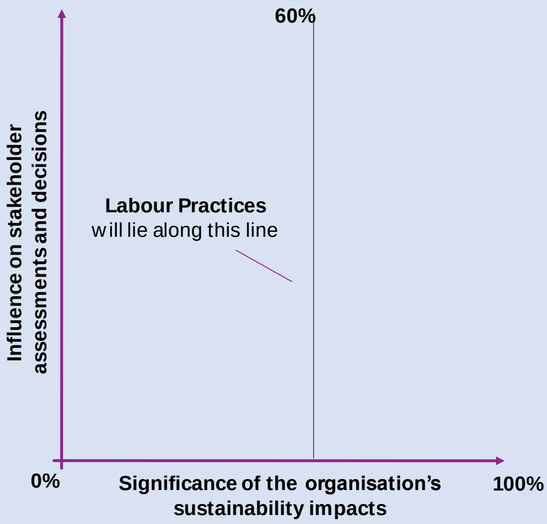


Figure 9

Influence on stakeholder assessments and decisions

Stakeholder group	Employees	Customers	Investors	Community	Government and regulators	NGOs	Overall influence on stakeholder assessments and decisions - labour practices
Stakeholder prioritisation- (A)	**30%**	**20%**	**20%**	**15%**	**10%**	**5%**	
Labour practices - significance to each stakeholder group - (B)	80%	90%	60%	50%	70%	90%	
Influence on stakeholder assessments and decisions - (A) x (B)	*24%*	*18%*	*12%*	*7.5%*	*7%*	*4.5%*	***73%***

The organisation has determined that its employees are its most important stakeholder group, and thus assigns a relatively higher weighting of 30%, followed by customers and investors which the organisation sees of equal importance (20%). Overall, the ranking of the organisation's stakeholder groups is as follows: employees, customers and investors, community, government and regulators and NGOs. The total weighting of all stakeholder groups is 100% in row (A).

Each of the stakeholder groups is engaged separately to obtain its feedback on how significant labour practices are to the group. It is found that customers and NGOs rate it as highly significant at 90%, followed by employees, government and regulators, investors and community, as recorded in row (B).

The overall significance of labour practices to stakeholder assessments and decisions is **73%**. While customers and NGOs both perceive the significance of labour practices at 90%, their contribution towards the overall influence on stakeholder assessments and decisions are different: the former at 18% and the latter at 4.5% only. This is because of the different weightings assigned to them in row (A) based on the priority of the stakeholders to the organisation.

The position of labour practice on the materiality matrix, from the stakeholders' perspective, will be at the 73% mark of the y-axis, as follows:

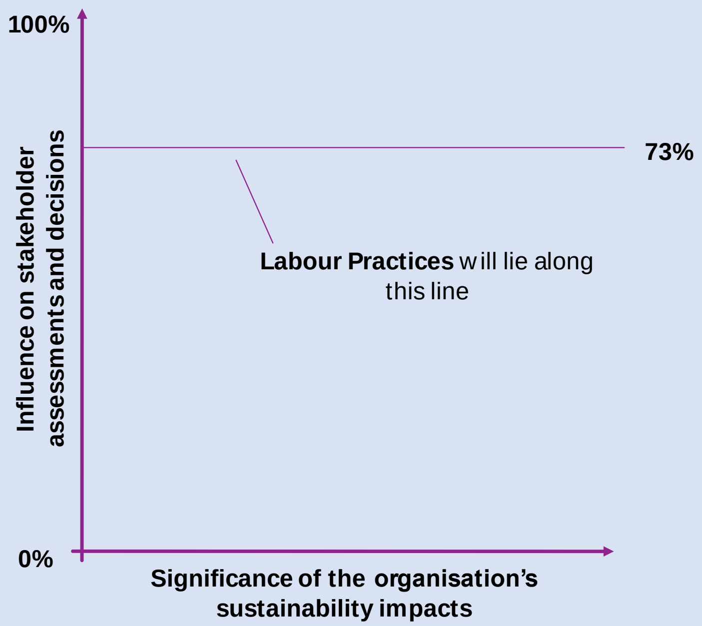


Figure 10

Materiality Matrix

Combining the two axes, the organisation determines the position of labour practices on the materiality matrix. The organisation finds that it is within the range of material sustainability matters (exceeded the threshold) and requires focused management and reporting.

Figure 11

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Example Disclosure: Identification and prioritisation of material sustainability matters - palm oil sector

"We (or the Group) identify material sustainability matters by assessing the significance of the sustainability matters to our business as well as to our stakeholders.

The outcome of the materiality assessment is illustrated in the materiality matrix below (Figure 12):

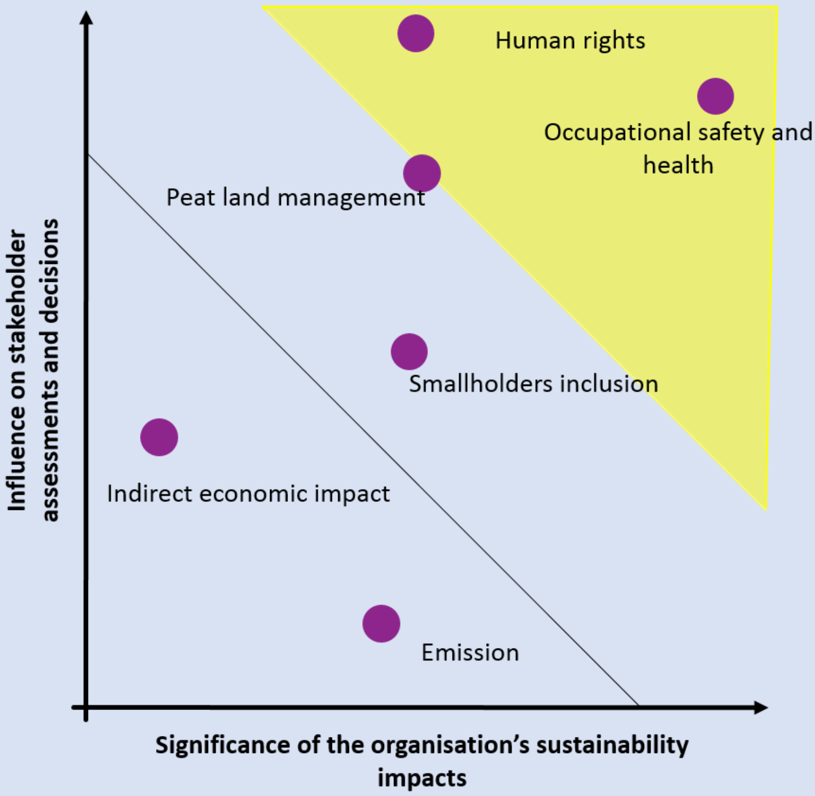


Figure 12

The material sustainability matters arising from the materiality assessment process include the following:

(a) human rights concerns in relation to the local communities (due to estate developments) and workers;

(b) inclusion of smallholders in the sustainable palm oil certification process;

(c) management of peat land, high conservation value (HCV) and high carbon stock (HCS) areas; and

(d) occupational safety and health issues, including fatalities and accidents."

An example for disclosure on (d) occupational safety and health issues, is provided below.

Example Disclosure: Management of occupational safety and health issues, including fatalities and accidents

"We completed our review of the Group's safety strategy in 2014 and determined that the current safety and health strategy in reducing injury and eliminating fatality at workplace remains relevant and current.

In this regard, we currently have in place an occupational safety and health policy which highlights our commitment. The policy is accessible on our corporate website.

For the financial year ending 31 December 2014, our internal audit function has conducted an audit on occupational safety and health matters, and Management has undertaken necessary measures to address the occupational safety and health risks which were rated as medium and high, including the following:

- monthly workplace safety meeting and briefing;
- continuous trainings on occupational safety and health for all employees and workers; and
- enhancement to occupational safety and health criteria in engaging contractors/ sub-contractors.

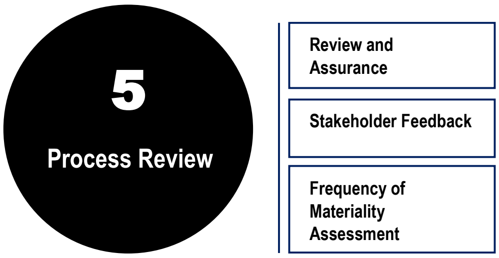
The Group's fatal incident and accident frequency rate during the financial year 2014 is reported below:

	Fatal incidents	Accident frequency rate
2010	0	0.81
2011	1	0.64
2012	2	0.67
2013	0	0.63
2014	2	0.58

We did not meet our goal of zero fatality in 2014. Two workers lost their lives due to an equipment incident at a plantation mill in Sabah. We are deeply concerned with the event and have undertaken an investigation to identify factors leading to the event, and to draw up action plans required to prevent the occurrence of such incident. We will continue to collaborate with our peers to share and apply best practice in this regards.

We constantly monitor our accident rate performance based on accident frequency rate (AFR) which includes data for both employees and contractors. Since 2010, we have successfully reduced its AFR by 28.4% and marked a success achieving the Group's target of below 0.6 before 2015. We will continue to maintain the AFR below 0.6 and strive towards its zero AFR goal."

Phase 5: Process



Objective

It is important that the process and outcome of the materiality assessment are reviewed and approved by senior management. The outcome should also be approved by the Board of Directors. Together, this ensures the integrity and credibility of sustainability disclosures. Approval at the senior levels of the organisation will secure buy-in across the organisation and ensure adequate response to material sustainability matters by ensuring allocation of resources and accountability for the management of these matters. The review processes could be done internally and externally.

Review and assurance

The process and outcome in materiality assessment should be reviewed and endorsed to ensure accountability is demonstrated.

The Board may delegate the oversight of the review process to the Sustainability Committee, CEO, CFO, Chief Sustainability Officer, or their equivalent, but ultimately it is the Board's responsibility to ensure the robustness of the review process and the accuracy and reliability of the outcome. Best practice suggests that the review and endorsement of the materiality outcome should be properly documented and signed-off by the Board.

The review process allows users of the sustainability disclosures access to credible information for making informed decisions. Such practice also enables clearer communication of the tone from the top, and drives sustainability management throughout the organisation, ensuring adequate response to material sustainability matters.

An organisation may consider leveraging its internal auditors in the review process, to provide independent assurance on the effectiveness and integrity of the materiality assessment process. Independent professional consultants may also be engaged to perform the review process.

Aside from providing assurance on the integrity and effectiveness of process and outcome of the materiality assessment, reviews may also enable enhancement opportunities to be identified to improve the materiality process.

Best practice: AA1000 – Principles of Materiality

The review of process may take into consideration the following Principles of Materiality, provided by AA1000 AccountAbility Principles Standards 2008:

- It has in place a materiality determination process that is:
  - applied across the organisation (e.g. group and local level);
  - integrated in the organisation; and
  - ongoing and not 'one off'.
- It has in place, or has access to, the necessary competencies and resources to apply the materiality determination process.
- The materiality determination process:
  - identifies and fairly represents issues from a wide range of sources including the needs and concerns of stakeholders, societal norms, financial considerations, peer-based norms and policy-based performance and understands their sustainability context;
  - evaluates the relevance of the identified sustainability issues based on suitable and explicit criteria that are credible, clear and understandable as well as replicable, defensible and assurable;
  - determines the significance of the identified sustainability issues using criteria and thresholds that are credible, clear and understandable as well as replicable, defensible and assurable;
  - takes into account the changing sustainability context and maturity of issues and concerns; and
  - includes a means of addressing conflicts and dilemmas between different expectations regarding materiality.
- The materiality determination process results in a comprehensive and balanced understanding and prioritisation of its material sustainability issues.

Source: AA1000 AccountAbility Principles Standards 2008

Stakeholder feedback

As materiality takes into account stakeholders' concerns, feedback may also be sought from stakeholders on the outcome of the materiality assessment. The management of material sustainability matters may be discussed during engagement with stakeholders, with a view to communicate to the stakeholders on how the organisation has addressed their concerns, identify what needs to be done further, as well as how the organisation has capitalised on opportunities identified. Stakeholders' input and feedback should be documented and signed-off by relevant personnel, before action plans to further address stakeholders' concerns, or to enhance the management of sustainability matters, are developed.

Frequency of materiality assessment

An organisation should from time-to-time reconsider its material sustainability matters, to ensure recent developments and changes have been incorporated and considered. While a full and detailed materiality assessment may not be required annually, the review of material sustainability matters should be conducted at least on an annual basis. Nevertheless, the organisation shall at least on an annual basis determine if there is a need to conduct a full materiality process. In making such consideration, the organisation shall take into account factors internal and external to it, including changes in supply chain, changes in global legislations and regulations, etc,

Apart from ensuring the business strategy, which incorporates sustainability considerations, is kept updated to reflect current business and market conditions, frequent review also ensures that sustainability matters being managed and reported remain material to the business and aligned to stakeholder needs.

4. References for additional guidance

1. *AA1000 AccountAbility Principles Standard 2008*, AccountAbility, 2008.

2. *G4 Sustainability Reporting Guidelines: Reporting Principles and Standard Disclosures*, Global Reporting Initiatives, 2013.

3. *G4 Sustainability Reporting Guidelines: Implementation Manual*, Global Reporting Initiatives, 2013.

4. *Redefining Materiality II: Why it Matters, Who's Involved, and What It Means for Corporate Leader and Boards*, AccountAbility, 2013.

5. *Sustainable Insight: The essentials of materiality assessment*, KPMG International, 2014.

6. *The Materiality Report: Aligning Strategy, Performance and Reporting*, AccountAbility, BT Group Plc and LRQA, 2006.

7. *The International <IR> Framework*, International Integrated Reporting Council (IIRC), 2013.