

MSCI's Impact Materiality Assessment – Sample

Identifying industries' most significant
impacts on society and the environment

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Why an impact materiality map?

Companies that are subject to European Union's Corporate Sustainability Reporting Directive (CSRD), including both financial and non-financial undertakings, are required to conduct a double materiality assessment. The double materiality assessment requires companies' to identify all sustainability issues that are material from either an impact perspective, a financial perspective, or both¹ within their direct and indirect activities². The assessment considers both how the company's activities may impact society and the environment (inside-out) and also how sustainability issues may impact the company's own financial position (outside-in).

The backdrop to these regulatory requirements is the simple fact that, as companies go about their business, they, and consequently their investors and financiers, have impacts on the outside world – on stakeholders and the environment. Whether companies are creating good jobs, polluting the water, using commodities produced on deforested land, or developing life-saving medicines, the way that they operate, the value chain that they rely on, and the products and services that they offer affect the world around them in ways that can be either positive or negative, and can range from negligible to substantial. Within any particular timeframe, some of these outside impacts also have financial implications for the companies themselves and investors. The mechanisms can be as varied as litigation, new regulation, brand damage or enhancement, shifts in consumer preferences, operational disruption, or technological developments. The implications may materialize in costs, savings, or business opportunities for companies, and in the creation or erosion of value for investors.

[MSCI ESG Ratings](#) already provides a long-standing opinion of the environmental, social and governance issues that are most financially relevant to an industry or company. To support clients in their double materiality evaluation, MSCI's Impact Materiality Assessment now complements this financial assessment in identifying the most significant negative and positive impacts across ESRS sub- or sub-sub-topics by Global Industry Classification Standard (GICS®)³ sub-industry.



¹ ESRS 1 paragraph 43: "An impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- and long-term. 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." ESRS 1 paragraph 49: "(...) a financial perspective if it triggers or could reasonably be expected to trigger material financial effects on the undertaking. This is the case when a sustainability matter generates risks or opportunities that have a material influence or could reasonably be expected to have a material influence, on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term." Source: European Parliament and Council of the European Union. (2019). [Official Journal of the European Union, L 317, 1](#)

² Impacts, risks and opportunities 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.

³ GICS is the global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

Consumer Staples Sector

	Drug Retail	Tobacco	Soft Drinks & Non-alcoholic beverage	Agricultural Products ⁴	Household Products	Personal Care Products
ESRS E1 Climate Change						
Climate change mitigation						
ESRS E3 Water and Marine Resources						
Water withdrawal						
ESRS E4 Biodiversity & Ecosystems						
Land-use change, fresh water use change						
ESRS S1 Own Workforce						
Adequate Wages						
ESRS S3 Affected Communities						
Water and Sanitation						
Rights of indigenous people						
ESRS S4 Consumers and End-users						
Privacy						

Legend: Significant Negative Impact Significant Positive Impact Significant Negative Impact Significant Positive Impact

⁴ Agricultural products sub-industry is also identified as having a potential significant positive impact on climate change mitigation given its involvement in renewables (e.g., biomass, biofuels).

Source: Source: MSCI ESG Research LLC, as of May 13, 2024

How can the Impact Materiality Assessment be utilized?

MSCI's Impact Materiality Assessment may be leveraged by clients to identify the main impacts generated by industries on the environment and society in order to inform or corroborate their impact analysis.

Based on the initial Impact Materiality Assessment output, it is possible to conduct a more specific and contextual deeper dive for any individual company⁵. For companies that fall under the CSRD reporting requirements, the Impact Materiality map is a helpful starting place and reality check. For firms needing to report on investment or lending portfolios, or upstream or downstream counterparties, the Impact Materiality map likewise can be utilized as a baseline to identify the main positive and negative impacts for the main industries represented in their value chain.

How does MSCI assess impact materiality?

MSCI's Impact Materiality Assessment evaluates how companies' business activities may have significant positive or negative impact on society or the environment. This could be through companies' direct operations, value chain, business relationships, or products and services. This can include both actual or potential impacts that may manifest over the short, medium, or long-term.

We considered the scale of the impact (i.e., how grave or significant the impact is on people or the environment) in order to determine the level of materiality of the impact. Where applicable, scope (i.e., how many people and/or hectares of land were affected) and irremediability (i.e., can prior enjoyment be restored) of the impact(s) were also considered.

MSCI's Impact Materiality Assessment is mainly informed by past events and considers historical data on positive and negative externalities generated by business activities and companies at the GICS sub-industry level. For some ESRS topics, we integrated measures of future and potential impacts such as emissions trajectory with future climate goals and CAPEX data (e.g., for climate change mitigation ESRS sub-sub topic).

We conducted the Impact Materiality Assessment by drawing upon MSCI ESG Research's over 40 years⁶ of expertise in measuring and modelling sustainability performance of companies and industries. This assessment was informed by a combination of recognized third-party sources (scientific and regulatory datasets), company-reported data, and MSCI ESG Research LLC proprietary assessment (e.g., [MSCI Sustainable Impact Metrics](#), [MSCI ESG Controversies and Global Norms](#), [MSCI Implied Temperature Rise](#), [MSCI ESG Business Involvement Research Screening](#), [MSCI EU Taxonomy Reported Data](#)).

Contact Us

Ready to talk? [Get in touch](#) now for more information on our [CSRD Metrics Solution](#), including our impact materiality assessment.

⁵ MSCI's Impact Materiality Assessment at the sub-industry level is not a substitute for a materiality assessment conducted by the undertaking. This information is provided "as is" and does not constitute legal advice or any binding interpretation. Any approach to comply with regulatory or policy initiatives should be discussed with your own legal counsel and/or the relevant competent authority, as needed.

⁶ Through our legacy companies KLD, Innovest, IRRRC, and GMI Ratings.



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