

REVISED FAQ 23: When an undertaking has already put in place actions to avoid, minimise, restore or compensate environmental impacts, shall it nevertheless consider the impacts before those actions when assessing materiality?

222. As a general principle, the environmental impacts are considered gross on the materiality assessment. This is coupled with the objective of providing information in relation to the management of impacts by the undertaking over time. Reporting in this instance should ensure a reasonable understanding of the “trajectory” followed by the undertaking with respect to its management of each material impact: from the date of identification of an impact being material or from a base year to the reporting period and then prospectively to the date set for setting the corresponding target. Therefore, the users of the sustainability statement will receive the information on the gross impacts, the management of such impacts (i.e., policies, actions and target) and understand the net impact.
223. This question requires to differentiate between actual impacts, i.e., those that have happened or are ongoing in the reporting period, and potential impacts, i.e., those that have a likelihood of occurrence in the short-, medium- or long-term future.

Actual impacts

220. The undertaking is expected to assess its actual impacts that have taken place in the current reporting period (present) or in the previous reporting periods (past). The severity of the impact, assessed for the current reporting period, will depend on successful mitigation. The following examples further illustrate this point:
- a. In the case of a current year accident, for example an oil spill or the failure of an emission treatment facility and subsequent pollution-related impacts, the undertaking is expected to consider these events in its materiality assessment when identifying actual impacts. If the undertaking has undertaken remediation or rehabilitation activities in the same period for the actual impact, this is taken into account in the materiality assessment. In the example above, mitigation activities such as pollution containment or immediate stop of operations are already taken into consideration when assessing the severity of the impact.
 - b. In the case of an undertaking connected to severe negative impacts in the past, it is expected to consider these past impacts in the materiality assessment and assess whether these are still material in the current reporting period. In the example of the oil spill, aquatic and coastal ecosystems may be materially negatively affected by oil pollution for many years and hence a material impact would remain in the current year materiality assessment.

Potential impacts

221. The undertaking is expected to assess its potential impacts as they are likely to occur in the future and disclose those that are material. The materiality assessment of potential impacts can therefore also consider technical or other management measures for avoiding or mitigating impacts in the future provided that the assumptions for considering those measures are (i) technically feasible; (ii) economically viable and (iii) accurately described in the report (see ESRS 2 – Annex B: Qualitative characteristics of information). For this to be the case, there should be a managerial decision already taken at the appropriate level of responsibility (e.g. individual or body responsible for authorising the expense for a certain monetary amount) and the effective implementation of the mitigation activities should not depend on third parties decisions (e.g. in case a public authority has to authorise a certain project, the corresponding mitigation activity can be considered only after the authorisation).
- a. For example, if a chemical producer plans to introduce a new production process which uses a hazardous substance for which there is currently no wastewater treatment technique available, it cannot assume in its materiality assessment that there will be such a technique available in the future and neglect the potential impact. On the other hand, if a treatment technique is available and the undertaking is planning to install it, this may be disclosed when

the undertaking reports on how it manages the material impact but not taken into account in the materiality assessment. If the development of the treatment technique is subject to significant uncertainties, the undertaking may explain the hazards related to the use of the substance and the prospects for the treatment technique to be available in the future.

b. In the case of an incident, for example an ocean oil spill affecting an ecological sensitivity area or a failure of an emission treatment facility, the undertaking is not considering its emergency response protocols when assessing the severity and likelihood of the potential impact but shall describe such mitigation actions in the topical standard if it's a material potential impact.

223. Examples of avoidance, minimisation, restoration and compensation are included below:

Avoidance

A mining undertaking plans to develop a new mine in a biodiversity sensitive area. Through careful site selection and project planning, the company identifies an alternative location that is less ecologically sensitive. By choosing this less sensitive site, the company avoids disrupting critical habitats and species.

Minimisation

The construction of a new highway will impact a nearby river and its ecosystem. The environmental impact assessment as identified a series of measures that, if implemented, will minimize the impact of the highway on the river. These includes measures like erosion control, sedimentation ponds, and careful construction scheduling to reduce water pollution during construction. These measures seek to limit the extent and severity of impacts on the river ecosystem.

Remediation or Restoration

An oil spill occurs in a coastal area, causing harm to marine life and the shoreline. In response, the company responsible starts a cleanup effort to remediate the damage. They use oil-absorbing materials, deploy booms to contain the spill, and do cleanup activities on the shoreline to restore it pre-spill condition.

Compensation

A real estate developer plans to urbanize a parcel of land that includes a wetland. Despite efforts to avoid and minimize impacts, impacts to the wetland are unavoidable. To compensate for this impact, the company agrees to create a new wetland nearby, designed to be of equal or greater ecological value. This newly created wetland compensates the loss of the original wetland and provides additional positive environmental impacts.