Determining What Matters Most:

A Practical Approach to Governing Materiality

Organizations must filter through a significant (and ever-increasing) amount of information (and combinations thereof) to identify information that matters for decision-making and reporting purposes. Today, the concept of *materiality* assists organizations in this endeavor, involving a wide range of decisional contexts and a growing number of users of organizational information.

Organizations today, however, also operate in a landscape where materiality is no longer a single, stable concept. Investor-focused financial materiality, stakeholder-focused impact and double materiality in sustainability reporting, and jurisdictional definitions all coexist—and often conflict—within the same enterprise. Moreover, different materiality criteria entail different ethical-economic rationales: entirely consequentialist, probabilistic and market-mediated criteria under U.S. securities regulation, for example, often contrasts and creates interoperability issues with intrinsic normative considerations on the environment, society and the economy. Consider, for example, the interoperability issues that have emerged on materiality under recent European standards and regulations.

Decisions about what matters, to whom, and when to report, can therefore become fragmented and inconsistent across functions, geographies and reporting regimes. This fragmentation introduces legal, regulatory and reputational uncertainty and complexity, undermining effective governance of material issues throughout the organization. Most organizations today have yet to adopt mechanisms to organize and define the heterogenous ways they currently use materiality, nor adopt formal mechanisms for selecting and filtering material information on issues that matter for board and senior management oversight and governance.

Two key governance enhancements can help organizations restabilize and reduce the uncertainty around materiality. First, organizations can develop a structured glossary or single source of truth—a "Materiality Reference Table"—that refines and strengthens the heterogenous ways it uses materiality (and their different rationales). The reference table serves as a cross-functional tool to help organizations better understand and articulate the plurality of ways they define and use materiality. It is a simple enhancement that most organizations can easily adopt at minimal cost. Second, organizations should develop and implement a meta-level mechanism—a "Composite Materiality Risk Governance Score"—to escalate, delegate and filter material information for board and senior executive oversight and governance (and the respective committee and subcommittee roles and responsibilities). Heterogenous information that is all considered material under some criteria or other is in desperate need of refinement and filtering. Organizations can adopt the risk governance score to incorporate the different rationales underlying materiality while providing the means for prudent resolution for purposes of oversight and governance. The reference table and composite score also offer numerous ancillary benefits, including: clearer, more consistent regulatory filings; fairer and more accurate external reporting; and greater understanding across different function roles at different horizontal and vertical levels. In our view, these enhancements will help organizations determine what matters, while providing a defensible rationale for strategic decisions and disclosures.

Why is This Necessary?

As shown in Table 1.1, materiality is incorporated, required and relied upon in an ever-expanding array of contexts.

Table 1.1. – Expanded Usage of Materiality

Frameworks/ Regulation	— **Financial reporting standards –** U.S. GAAP (FASB), IFRS (IASB), ISA 320 & 450 (IAASB) — **Securities regulation –** SEC (U.S.), ESMA / EU prospectus regulation, IOSCO principles, U.S. Sarbanes-Oxley (SOX) — **Corporate governance & risk management –** COSO ERM, ISO 3100, OECD Corporate Governance principles — **Banking & finance –** Basel (Pillar 1, 2 risks, model risk, stress testing) — **Sustainability & ESG –** CSRD/ESRS (EU), GRI, ISSB (IFRS S1&S2), SASB, TCFD — **Legal & assurance –** U.S. Supreme Court (TSC v. Northway, Basic v. Levinson), IFAC/IAASB Assurance Standards
Users	— **Regulators / judges –** disclosure and compliance — **Standard setters –** normative considerations — **Investors / analysts –** financial and market-driven material information — **Boards of directors –** strategic and prudential oversight — **Management / executives –** operational decision-making — **Auditors (internal and external) / assurance providers –** validation (fairness and accuracy) of material statements — **Employees / customers / suppliers / partners** — **Civil society / policy-makers**
Purposes / Use Cases	— **Disclosure & reporting –** identifying what must be communicated — **Risk management –** prioritizing significant risks and controls — **Strategy & capital allocation –** determining issues and initiatives that matter for long-term value — **Governance & oversight –** focusing board attention on what's most consequential — **Regulatory, legal & compliance –** defining legal requirements, thresholds for liability and omission — **Stakeholder engagement –** mapping relevance for affected parties in value chains — **Impact assessment –** identifying real-world consequences, negative externalities and dependencies — **Ethical deliberation –** discerning prudential and moral significance
Skills/ Professional Competencies	— **Accounting & auditing –** CPAs, auditors (internal / external), controllers — **Legal & compliance –** securities lawyers, compliance officers — **Risk management & operations –** risk officers, CROs, internal audit — **Sustainability & ESG –** ESG officers, sustainability professionals — **Strategy & corporate finance –** CEOs/CFOs, management consultants, strategists — **Communications –** investor relations, corporate communications, public affairs

Nowhere has the expansion of *materiality* been more controversial than when it concerns environmental and social issues. The genealogy of *materiality* helps explain why that is the case, and why organizations need to take steps to address the heterogeneity of materiality criteria. Materiality concerns determinations of what matters, and to whom; as a result, it has always been a contested and social-determined concept. The earliest English-language uses of *materiality* come from physics and literature, with references to material substance or the quality of being concrete, physical matter versus spiritual or abstract qualities of a thing.[1] The first legal usage appears in the 17th century, where *material* began to be used to describe facts or omissions that could influence a legal outcome in perjury matters (*i.e.*, the *material* facts that constitute a legal offense), providing the linguistic and conceptual foundations for its eventual expansion into legal contracts (*i.e.*, *material* adverse effect or change), securities reporting and accounting and auditing in U.S. and U.K. common law markets.[2]

Financial Materiality, the Reasonable Investor and Consequentialism

Initial legal usage of materiality in criminal and civil law provided the foundation for investor-centric financial materiality under U.S. securities regulations in the mid-20th century and the infamous "reasonable investor" standard set out by the U.S. judicial and regulatory system.[3] In this framing, material information involves facts or omissions with high probability ("substantial likelihood") that a rational, self-interested ("reasonable") investor would consider them important in investment decision-making.[4]

Common law courts and regulators in the U.S. almost exclusively focus materiality considerations on organizational facts to reduce information asymmetries with investors. Under U.S. securities regulation, organizations determine and report, on an *ex-ante* basis, information with a high probability and impact on investment value to a reasonable investor. Although not explicit in the regulation itself, the underlying rationale is entirely consequentialist, market-mediated and focused on investor protection. Materiality, in this framing, directly relates to probability determinations of future events that bear on investment value (preservation or creation) and investor decision making.

Because investor-centric materiality concerns event probabilities, it is also effectively a "risk" determination (*i.e.*, when defining risk as "the effect of uncertainty on objectives", whether positive or negative).[5] Risk became even further embedded with materiality with the adoption of criteria by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in internal controls over financial reporting and enterprise risk management, in addition to regulatory focus on material weaknesses and significant deficiencies in the Sarbanes-Oxley Act of 2002 (SOX).[6] Investor-centric materiality under U.S. securities regulation therefore includes not only substantive disclosures of risks (upside or downside) themselves, but also qualitative and quantitative risks in the internal control environment that could result in material distortions and errors in financial reporting and disclosures.

As shown in Table 1.1., a broad swath of quantitative and qualitative risks are material under this investor-centric criteria, including non-financial information—whether qualitative or quantitative—about organizational events as long as they potentially affect value and investment decision making. Many environmental, social and/or any other non-financial factors, for example, already meet an investor-centric criteria, in so far as they concern and offer a reasonable nexus with future value creation or preservation.

Stakeholder Theory, Impact and Double Materiality

Materiality underwent a dramatic shift beginning around the late 1980s and 1990s, incorporating an intrinsic normative framing into materiality criteria. Environmental and social groups focused on advancing corporate best practices and ethics, evolving ideas on corporate governance and Corporate Social Responsibility (CSR) and the advent of Stakeholder Theory culminated in the development of the Global Reporting Initiative (GRI) in 1997.[7] GRI consolidated two conceptual novelties into materiality assessments: a focus away from investors only toward certain defined harms and benefits to a broader group of stakeholders, and inclusion of *actual* as well as potential harms to these groups.[8] GRI, for example, requires, on a voluntary basis, that organizations make transparent serious harms and benefits that matter to a broader group of stakeholders, at least partially as *ends-in-and-of-themselves* because of their severity and irremediability, irrespective of future consequences, enabling voluntary accountability mechanisms and understanding of these broader stakeholder impacts. This expansion, therefore, not only frames materiality beyond consequences and market effects but also implicitly introduces intrinsic normative reasons (whether deontological or virtue-based) for reporting on past harms.[9] Certain harms are material, under this framing, irrespective of probabilistic consequences and market effects; the harms, in fact, are already known and certain. A substantiated past human rights violation in an organization's supply chain, for example, meets this criteria irrespective of any future legal, financial or operational exposure.

Numerous industry groups opposed this move. Many in the accounting professional and U.S. securities traditionalists, for example, immediately advocated in favor of limiting materiality to consequentialist, investor-centric materiality. Voluntary organizations and standard setters, such as the Sustainability Accounting Standards Board (SASB), the Task Force on Climate Related Financial Disclosures (TCFD) and others, developed in the 2010s industry- and risk-centric frameworks that incorporated environmental and social concerns, attempting to return materiality to its consequentialist, market-mediated origins.[10]

The duality between these two divergent approaches (and their variations) toward materiality sets the stage today for most global organizations. The International Sustainability Standards Board (ISSB), for example, perhaps the most important global standard setter to consolidate sustainability accounting standards (including SASB and TCFD)—embraces a consequentialist, investor-centric approach while also recognizing the value and utility of stakeholder considerations from an informational perspective (*i.e.*, stakeholder harms often translate into determinants in long-term value considerations).[11] However, in the opposite direction, regulation such as the European Sustainability Reporting Standard (ESRS) and Corporate Sustainability Reporting Directive ("CSRD"), expressly embrace intrinsic normative reasoning around actual harms on the environment and society attributed to an organization's value chain (so-called double materiality).[12]

As a result, most large multinationals now face reporting requirements that require reporting on actual and potential harms to society and planet in addition to the plethora of materiality criteria under a purely market-mediated, investor perspective. Irrespective of the arguments for or against these various materiality criteria and approaches, as is also shown in Table 1.1, the concept now traverses an extremely wide array of contexts and frameworks beyond investor-centric criteria.

The Challenge

As is perhaps obvious, the broad expansion of materiality creates a number of practical challenges. For most organizations, the most challenging issues involve data management, interoperability issues, and governance. The growing corpus of materiality criteria under different frameworks, regulations and contexts, with an expanded list of potential users of material information, for example, increases the number of false positives and negatives of material issues. Information that might be material in one domain, context or level is often immaterial in another, leading to equivocation and confusion among users of material information—both within and outside of an organization. Organizations also face the Herculean task of collecting and organizing all of the underlying data required for heterogenous materiality determinations in order to draw sound and useful insights from empirical sources. Most importantly, organizations do not have the tools to readily determine which information should be filtered, escalated and delegated to the proper roles.

Numerous issues around organizational responsibility for negative externalities demonstrate interoperability problems around materiality.[13] That is true even within consequentialist, investor-centric materiality but it is especially true when intrinsic normative factors are included. It is often unclear whether actual, serious but indirect harms on stakeholders in an organization's value chain rise to criteria for qualitative or quantitative materiality under consequentialist considerations, whether from an accounting, financial, risk, legal, or regulatory perspective, or otherwise. Under a consequentialist, market-mediated framing, serious actual harms caused by externalization of costs (negative externalities) onto individuals, jurisdictions, future generations or silent victims with extremely low or de minimis probability of financially-consequential reputational blowback or organizational future effects definitionally may not bear on a security's value and rational investment decision making. While many organizations might treat this as material anyways, that is typically because they embrace—explicitly or implicitly—an intrinsic normative rationale (or feel broader social pressure to appear to do so even beyond investor considerations). Consider, for example, an organization's indirect, value-chain contributions to regional pollution or environmental hazards and harms in jurisdictions with lax or de minimis environmental regulation. Even if highly severe and material to the harmed local stakeholder groups (and therefore material under intrinsic normative framings), it is often unclear whether that sort of activity crosses thresholds for consequentialist, investor-centric criteria under U.S. securities regulation or accounting standards. If no probable long-term value loss to the organization can be readily determined, how is this material to investors?

Differences in the growing number of additional jurisdictional regulations, standards and practices (and related enforcement and judicial actions) also exacerbate these issues. Given contrasting and evolving ways materiality gets defined and redefined in different contexts and geographies, standard setters and regulators attempt to develop complicated interoperability rules and recommendations to untangle the different approaches. This adds to a hodge-podge of additional obligations, rules and methodologies that arguably further obfuscate, rather than simplify, materiality determinations. Most organizations are left with little to no guidance on how to manage these conflicts, which will only grow as new regulation comes into effect.

Perhaps equally or more importantly, heterogenous materiality criteria lead to paralysis and misunderstanding at senior management and board levels, potentially obfuscating fiduciary duties. These duties require material issues be addressed and overseen by senior management and the board. But which material issues? Clearly, leadership needs a rational way to escalate, delegate and filter many of the issues identified in Table 1.1, for example. Simply as a matter of prudence and practicality, senior management and boards cannot oversee and manage the exhaustive list of potentially material issues under modern materiality frameworks and regulation—whether under consequentialist or intrinsic normative reasoning.

Governance issues arise primarily because existing frameworks do not address escalation mechanisms or requirements when it comes to oversight and governance. Clearly not every material issue around disclosure or reporting obligations and/or from a stakeholder engagement perspective, for example, is important for oversight and management of core goals and objectives for the organization. Under existing frameworks and regulation, however, there is no guidance on which material topics should be addressed by lower level management, senior management, the board and/or its committees and subcommittees. All materialities, even if only relevant for reporting purposes, are treated as if they are relevant to strategic oversight and governance considerations.

Governance issues are worsened by changing views of the economic and social purposes of an organization and fiduciary demands on senior management and the board. Under traditional corporate governance rules under Delaware law in the U.S., for example, senior management and the board are bound by the consequentialist logic of maximizing long-term value to shareholders (SVM) – an expressly consequentialist rationale.[14] Traditional fiduciary duties (care and loyalty) under Delaware law limit and constrain meta-level decision making and oversight to those issues with a reasonable relationship to long term financial value to shareholders, even if on a risk-adjusted basis.[15] One immediate issue, of course, that it is unclear how long is too long. What is the technical threshold for what constitutes "long term," or is it simply subject to business judgment and procedural legitimacy (*i.e.*, a reasonable risk assessment demonstrates 5 to 10 year effects)? An even more controversial expansion of "value" is raised by the fact that many organizations increasingly choose to pursue at least some non-SVM goals and objectives for intrinsic normative reasons. This also carries implications for what should be seen as material at the highest level of governance for those organizations. Corporate governance rules for alternative corporate forms (*e.g.*, Public Benefit Corporations [PBCs], cooperatives), for example, and geographies that do not require an SVM logic imply differences in material goals and objectives. What is material for oversight and governance in German companies with employee co-determination of the board, for example? What effect does worker-centric considerations have on escalation mechanisms for materiality of information to co-determined boards when compared to an SVM-oriented organization in the U.S.? Similarly, information that might be material for board oversight and governance for an organization with an impact mission involving intrinsic normative reasons (say, for example, PBCs that incorporate normative performance objectives in their bylaws) will differ from those under purely SVM constraints.[16]

None of the existing materiality frameworks and regulation provide the means for filtering or weighing the evolving subset of material issues to escalate them to appropriate levels of the organization. Current approaches to materiality simply do not adequately address fundamentally different contexts, leaving senior management and boards with limited guidance on a defensible, rational approach or best practices toward resolution.

An Alternative, Pragmatic Approach

Most proposals to address the fragmentation of materiality criteria argue for constraining the definition of materiality across the enterprise. That is neither realistic nor durable. Even if an organization resists the expansion of materiality to include intrinsic normative considerations, actual harms to stakeholders and negative externalities, most organizations still need the flexibility to apply different materiality definitions in different contexts—financial reporting, sustainability disclosures, risk management, internal controls, and the list goes on—without also sacrificing coherence and governance. The compelling alternative is to address the heterogeneity, formalize it and establish formal, defensible escalation mechanisms for oversight and governance of material issues.

A better alternative is for organizations to implement policies and procedural enhancements that allow each function to retain the definitions it needs to fulfill their respective mandates while providing a common *lingua franca* and escalation protocol for governance purposes. In other words, organizations should preserve and strengthen idiosyncratic, domain-specific logic of materiality where it is useful and often required, but elevate those determinations into a unified, auditable and defensible system for enterprise-level oversight and governance.

Two pillars anchor this approach. First, organizations ought to embrace a single formal compendium—a Materiality Reference Table—that documents every voluntary and mandatory definition, approach and methodology used across the organization. Second, organizations also ought to adopt a single scoring mechanism—a Composite Materiality Risk Governance Score—that translates heterogeneous materiality inputs into a weighted, multi-dimensional metric to guide escalation on key issues for senior level, board and committee oversight. Importantly, that includes mechanisms to resolve the tension between consequentialist versus intrinsic normative considerations. Together, these pillars enable an organization to define what matters in each context, reconcile differences transparently and address material governance issues where enterprise risk and strategy are managed.

The Materiality Reference Table: An Enterprise Rosetta Stone

A Materiality Reference Table is a structured catalog that maps how materiality is defined and applied throughout the organization. Consider the expansive list of materiality considerations in Table 1.1. The aim of the reference table is not to impose uniformity but to document the heterogenous ways materiality is defined and used in the organization. Each organization should tailor their table in idiosyncratic ways to reflect organization priorities and commitments, including the framing and reasoning behind those priorities and objectives. At a high-level, the table should address the following five considerations.

Documentation and Reconciliation

The table should document and reconcile all of the different materiality definitions across the organization. This begins with a comprehensive inventory of the sort in Table 1.1: financial reporting thresholds, securities disclosure standards, economic and ethical reasoning, internal risk criteria, voluntary frameworks, and sectoral and jurisdictional rules and regulations. Each definition is captured with its authoritative source, scope, intended audiences, time horizon and decision thresholds. Reconciliation does not mean forcing alignment; rather, each definition should assist users with relevant criteria under each domain while explicitly mapping where definitions overlap, diverge or conflict so interoperability issues are transparent.

Mapping Ownership

The table should identify primary and secondary owners of materiality determinations across functions, along with the required professional and functional competencies. Ownership clarity prevents duplication, gaps and equivocal usage, and it empowers subject-matter experts to maintain the integrity of their domains while ensuring proper escalation mechanisms for enterprise governance. The table should also identify required domain competencies, interdependencies and ensure overlap among finance, legal, sustainability, risk, internal audit, operations, and investor relations at various organizational levels and committees is visible and actionable.

Thresholds, Limits and Criteria

The table should specify clear thresholds, limits, criteria and methodological assumptions for materiality determinations under each definition. These thresholds and limits should include quantitative and qualitative criteria, at the individual and aggregate levels, as well as the economic or ethical rationale underlying the criteria. Making thresholds, criteria and methodologies explicit should reflect functional judgments and competencies and enable clear disclosures of methodologies in communications and reporting.

Conflicts, Escalation and Delegation Processes

The table should also show a structured process for addressing conflicts and interoperability issues between different materiality perspectives. Issues that might be immaterial to short- or long-term financial statements from an investor-centric, market-mediated perspective but potentially material from the perspective of actual harms or intrinsic normative considerations should be identified and addressed. The table should articulate how such conflicts are addressed and who adjudicates them, including escalation and delegation rules and documentation requirements. It should also outline how different materiality determinations will be addressed in the Compositive Materiality Risk Governance Score discussed below. This provides defensible support for interoperability issues and assists with reporting.

Reporting and Communication

Importantly, the table should ensure consistent communication of material information to the relevant stakeholder groups in the relevant reporting formats and vehicles. The same event or issue will often require different disclosures to different audiences, and material information in one context may not be material in the other. This is where the table is most powerful: it specifies what is communicated, when and how, with cross-references so that external users can understand why the same underlying fact appears in different forms in different channels. Providing clarity on differences in material issues also assists in reducing the risks of misrepresentation, including around greenwashing or greenhushing. In-house counsel should be involved in this process as the table can be referenced in securities filings or other public statements to provide contextual clarity around materiality judgments.

Beyond this high-level principled approach, the Materiality Reference Table should reflect each organization's complexity. There is significant flexibility in development timing, tools and technologies, oversight assignments and the granularity of criteria. The essential principle is centralization and transparency—documenting how materiality is used in practice and making that documentation authoritative and accessible. For a global, publicly-listed enterprise with exposure to numerous regulatory regimes and securities reporting requirements, the table will need modularity to accommodate jurisdictional nuances—for example, in assessing the severity of actual harm under ESRS. For a leaner, private organization, it may begin as a structured register that grows in sophistication over time. The point is to create a living, governed document and process.

The Composite Materiality Risk Governance Score

While the Materiality Reference Table delivers clarity and transparency, it does not by itself resolve the governance challenge of comparing heterogeneous materiality determinations or deciding when and how to escalate material issues to senior leadership and the board or delegate it elsewhere. To address the problem of escalation and delegation for oversight and governance, organizations should adopt a composite materiality risk scoring mechanism at the enterprise and business unit levels. The score serves as a meta-level tool to convert diverse inputs into a single output and language senior management, the board and any relevant committees and subcommittees already understand. The score should determine and define what matters to the organization; assign dimensional weight by values, objectives and goals (including constraints and knock-out processes for some intrinsic normative considerations); score the issues across all relevant dimensions; compute a composite materiality risk score and use that single number and its underlying components to guide proportionate, transparent and value-aligned oversight and decision making. Most organizations today do not do this.

To design the materiality risk-scoring processes and procedures, organizations should start by selecting dimensions that reflect the organization's mission, its fundamental economic logic, and values. Each organization should incorporate and make explicit the existential calculus regarding consequentialist versus intrinsic normative values and the organization's purpose. These should be reflected in corporate bylaws and foundational documentation. This is also where different objective functions under alternative corporate forms and structures should also be incorporated into the materiality risk scoring mechanism.

Typical dimensions might include some combination of financial performance, legal and regulatory exposure, operational continuity, reputational and trust implications, stakeholder impact, and strategic alignment or misalignment. Each dimension must have a clear materiality risk scoring scale, with anchors that make the rubric replicable. Where relevant, risk measures should be explicitly scored and made transparent, not buried, so that the composite risk score reflects both expected and unexpected risk calculus with the associated confidence intervals.

Weighting is where organizational values, strategy and mission also become operational. Weights should be approved at the board or designated committee level, documented and periodically reviewed. Weights can also reflect short- or medium-term considerations. For instance, a company undergoing a digital transformation might temporarily assign greater weight to cybersecurity and data privacy; a company with heavy reliance upon and exposure to water risks might weight water stewardship and environmental impacts more heavily. Weights should also reflect fundamental differences between SVM and non-SVM values or any other fundamental strategic objectives. Organizations such as PBCs or Worker Co-Operatives, for example, should adopt weights that reflect stakeholder considerations yet still require senior management and the board oversight and governance. The weighting process surfaces implicit priorities and practically ensures they get addressed as governance choices.

Aggregation rules for the score should be transparent. A simple weighted linear sum may work, but there are likely to be numerous reasons to apply non-linear transformations or minimum component thresholds so that extreme scores in one dimension (*e.g.*, regulatory exposure) cannot be diluted by low scores elsewhere. Escalation thresholds should be tiered. For example, scores above a certain level trigger board notification, while intermediate scores require executive committee review and remediation plans. Relatedly, the rules should include triggers and screens for intrinsic normative considerations and ethical constraints, prohibitions, and knock-out or knock-in items (*e.g.*, human rights abuses or faith-based exclusions). For non-probabilistic actual harms, aggregation rules should address the lack of certainty criteria and address qualitative factors such as scale, severity, and irremediability. The risk score should incorporate and reflect expert judgment from the underlying assessors in the various subdomains and functions.

To make the material risk score more than a number, the process should require standardized supporting materials and processes covering the underlying dimension scores and rationales, data sources, scenario variants showing sensitivity to assumptions, and a summary of applicable materiality definitions from the Materiality Reference Table. This creates an audit trail and a learning loop: as cases are reviewed, the organization refines scoring rubrics, adjusts weights and improves data quality.

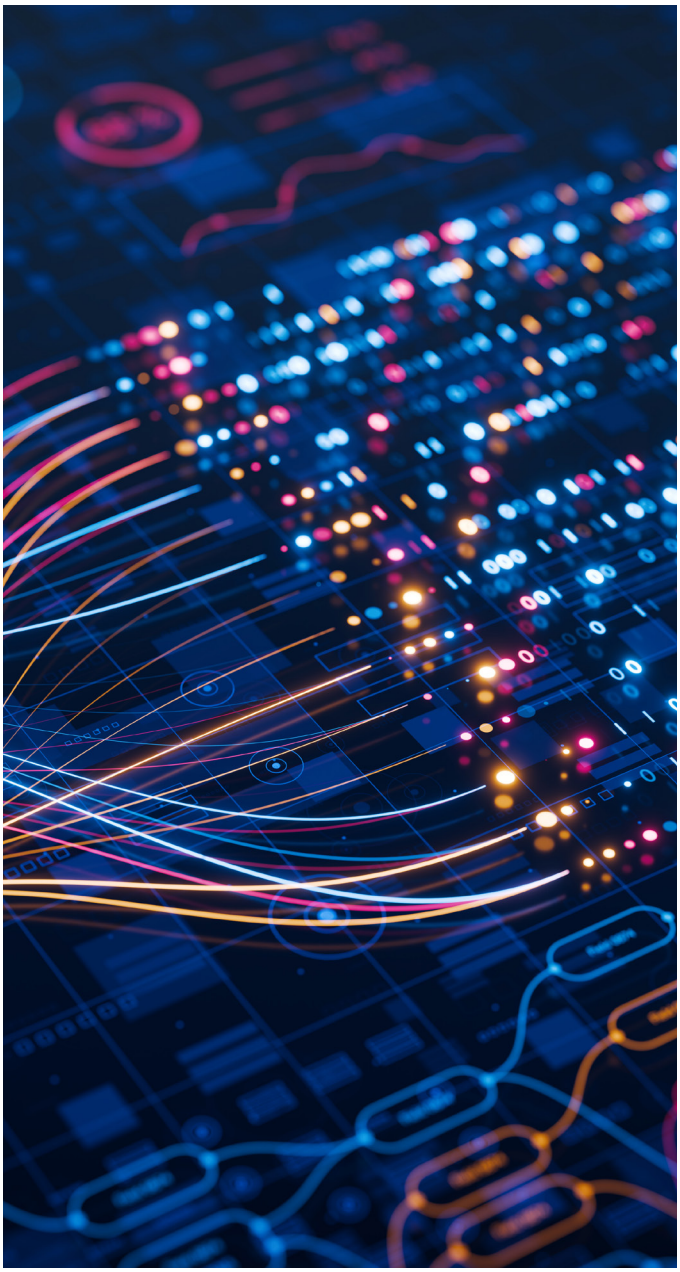
A critical, prudential benefit of a composite score is the ability to resolve tradeoffs. Consider an issue that is financially immaterial in the next reporting period but likely relevant from an intrinsic normative perspective to important stakeholders and reputationally sensitive, or issues that directly relate to the organization's core mission. Without a risk scoring mechanism and framework, the materiality of related impacts, risk and opportunities will be addressed inconsistently across functions, business units, geographies, etc., or proper escalation and delegation from senior management, board or committee oversight may not occur. With the Materiality Reference Table, the organization identifies that different definitions apply and documents the thresholds. With the Composite Risk Score, the issue is assessed across dimensions—perhaps low or de minimis short- or medium-term financial performance or accounting materiality but high stakeholder salience, with moderate uncertainty. If the weighted composite score crosses a predefined threshold, the impact escalates to the appropriate governance body, regardless of other determinations of materiality in the narrow sense.

This approach respects the integrity and utility of each materiality perspective while providing a principled and pragmatic method to resolve conflicts and more efficiently allocate senior management attention. It also supports proportionate responses. Over time, this approach should also reduce bias and noise and provide predictability in escalation, enabling boards and executives to focus and report on the right issues at the right time.

Augmenting the Existing Risk Function

Given their familiarity and expertise in reducing complex issues to a single dimension, an organization's risk function and its Chief Risk Officer ("CRO") are perhaps best positioned to steward and oversee these enhancements. Risk management already spans time horizons, business lines, and geographies, giving the CRO a panoramic view of how material risks and opportunities propagate across the enterprise. The risk function typically maintains institutional independence from performance incentives that might otherwise bias materiality determinations. Risk taxonomies provide a coherent structure for comparing heterogeneous information, and risk methodologies are accustomed to balancing quantitative and qualitative judgments. The CRO's remit also includes model risk management and control frameworks, which are directly relevant to governing the composite materiality risk governance score and ensuring it is used appropriately rather than mechanistically. None of this precludes strong roles for legal, finance, sustainability, internal audit and operations (and any related senior committees and subcommittees); rather, the CRO should convene these functions and ensure consistent, rigorous application.[17]

One objection might be that the risk function is not traditionally best positioned to address intrinsic normative criteria or treat non-SVM issues. However, at the level of governance, these areas are best addressed as minimal constraints and alternative utility functions, both of which are addressable via composite scoring and quantitative methods. While others in the organization, particularly the legal, compliance, operations, and sustainability functions, will be positioned for direct management of the underlying issues, the risk function is designed to address and report on heterogeneous, domain-specific factors to senior management and the board for prudential, decision-making purposes.



Data, Systems and Controls

While adopting a materiality governance framework to address heterogenous considerations does not require highly-advanced technology per se, organizations would benefit from existing governance, controls, risk management, ERP and AI tools and technologies. Organizations should adopt a centralized register for the Materiality Reference Table, accessible to all relevant functions, aligned with best practices around adequate controls. For composite risk scoring, workflow tools can enforce required fields, capture rationales and maintain an audit trail. Where feasible, integration with existing governance and risk platforms can help streamline adoption. Controls should include access management, change logs for weights and thresholds, and periodic validation of inputs. Model risk principles apply as well, including documenting the methodology, testing for stability, monitoring for drift, guarding against misuse and others.

Legal and Regulatory Considerations

Because materiality decisions have legal consequences, especially in securities contexts, legal counsel should be closely involved in the development of both the table and score. To the extent feasible and practicable, the table should be referenced in corporate filings and reports, if even on a briefly summarized basis, to explain the organization's application of materiality across different reporting regimes. As discussed above, adequate disclosure of materiality criteria, especially around intrinsic normative considerations, also reduces the risk of greenwashing, greenhushing, and perceived overpromising to stakeholder groups.

While the composite material risk score is an internal governance tool, not a disclosure in itself, legal counsel should consider the degree of transparency and discoverability around the underlying methodologies. Clear documentation and alignment with established policies will reduce litigation risk and demonstrate systematic, good-faith decision-making under reasonable prudential requirements. Importantly, while these enhancements do not alter or reduce detailed external reporting obligations, in certain instances they will improve the organization's ability to meet regulatory obligations consistently by clarifying domain-specific requirements.

Conclusion

If the recent trend is any indication, materiality will remain heterogenous in modern organizations. In addition to overarching governance benefits, adopting the reference table and composite score would, in all likelihood, yield numerous benefits across other regulatory, legal, operational and strategic domains. Regulatory filings would become clearer and more consistent because securities-driven and accounting materiality judgments are better documented, reconciled and applied systematically. Legal protection should improve as the organization can demonstrate disciplined, repeatable processes—especially around filtering, escalation and delegation processes—and board oversight of material issues. External reporting becomes fairer and more accurate, with stakeholders better able to understand why information might be material in one context but not in the other. Internally, the table and score augment understanding across roles and levels by specifying differences between and among materiality criteria and the relevant owners. Moreover, the explicit weighting of dimensions and adoption of constraints and alternative utility functions—including non-SVM constraints—in the governance score allows for strategic flexibility to address alternative corporate legal forms and legal entities, including, for example, co-determination, cooperative ownership, PBCs or even non-profit or governmental organizations.

Even for those with legitimate concerns over the incorporation of intrinsic normative considerations into materiality, the attempt to return to earlier views or adopt a single, universal financial or investor-centric definition across all contexts risks throwing the baby out with the bath water. It would also be highly impractical; as key jurisdictions and markets such as the E.U. adopt regulation with expanded views of materiality, organizational processes and definitions need to be realistically and prudentially managed, even if only for regulatory compliance purposes. The answer is not uniformity but governed heterogeneity.

For most organizations, developing and implementing a reference table and composite scoring mechanism will, in our view, significantly improve their ability to address necessary, cross-functional complexity around materiality while gaining the coherence and prudential simplicity that senior oversight demands. A reference table provides a transparent and detailed map of how materiality works across the enterprise. A composite score provides a principled, legally defensible way to prioritize oversight and governance at the right levels of authority. While each organization will need to fine tune and develop a bespoke approach to address organizational idiosyncrasies, the table and score provide a practical and prudential way to strengthen and preserve the concept of materiality. Despite recent challenges, materiality continues to be a critical heuristic device for governance and reporting, and, with the relatively modest enhancement proposed herein, it will continue to enable organizations to better determine, report on and manage what matters.

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Endnotes

1 See Oxford English Dictionary, referencing "materialities" use in the early 1500s by the English poet John Skelton Colyn Cloute.

2 See, e.g., Lillich, Richard B. (1959) "The Element of Materiality in the Federal Crime of Perjury," Indiana Law Journal: Vol. 35: Iss. 1, Article 1, available at: https://www.repository.law.indiana.edu/ilj/vol35/iss1/1.

3 See *TSC Indus., Inc. v. Northway, Inc.,* 426 U.S. 438 (1976) (interpreting SEC Rule 14a-9); see also Securities Act of 1933, 15 U.S.C. §§ 77a et seq.; Securities Exchange Act of 1934, ch. 404, 48 Stat. 881 (codified as amended at 15 U.S.C. §§ 78a et seq.).

4 *Id.*

5 2018 International Organization for Standardization (ISO) 31000:2018 Risk management — Guidelines, available at https://www.iso.org/standard/65694.html.

6 Committee of Sponsoring Organizations of the Treadway Commission (COSO). (2013). Internal Control—Integrated Framework; Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204 (2002).

7 See R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (Pitman, Boston 1984); https://www.globalreporting.org/about-gri/vision-mission-and-history/.

8 Contrasting actual from potential impacts, GRI requirements expressly state: "Actual impacts are those that have already occurred". https://www.globalreporting.org/publications/documents/english/gri-3-material-topics-2021/.

9 For an extensive and classic discussion of the differences between "deontological" versus "virtue-based" ethics, see Rosalind Hursthouse, *On Virtue Ethics* (Oxford University Press, Oxford 1999) and Immanuel Kant, Grounding for the Metaphysics of Morals, trans. James W. Ellington (Indianapolis: Hackett Publishing, 1993). See also Alison Taylor, *Higher Ground: How Business Can Do the Right Thing in a Turbulent World* (HBR Press, Boston 2024), ch. 6, discussing the nexus of business and human rights.

10 https://sasb.ifrs.org/about/.

11 https://www.ifrs.org/groups/international-sustainability-standards-board/.

12 Draft European Sustainability Reporting Standards, ESRS 1 (November 2025), available at https://www.efrag.org/sites/default/files/media/document/2025-12/November_2025_ESRS_1.pdf.

13 The IFRS has developed interoperability guidelines for the ISSB and ESRS, for example. See https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf.

14 For a rich discussion of these issues and potential alternatives, see Hart, Oliver D. and Zingales, Luigi, "The New Corporate Governance," The University of Chicago Business Law Review: Vol. 1: No. 1, Article 7. Available at: https://chicagounbound.uchicago.edu/ucblr/vol1/iss1/7.

15 See *eBay Domestic Holdings, Inc. v. Newmark*, 16 A.3d 1, 34-35 (Del. Ch. 2010); *Paramount Commc'ns, Inc. v. Time, Inc.*, 571 A.2d 1140, 1154 (Del. 1989).

16 An insightful and expansive discussion of the challenges that arise from moving away from shareholder maximization can be found in Professor Stephen M. Bainbridge, *The Profit Motive: Defending Shareholder Value Maximization* (Cambridge University Press, Cambridge 2023).

17 See Crouhy M., Galai D. and Mark R., "Essentials of Risk Management," McGraw Hill (Third Edition 2023).