

INDUSTRY-SPECIFIC METHODOLOGY 1

Framework for
Industry-Specific
Product Impacts

(EXPOSURE DRAFT)

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This Exposure Draft has been produced by the International Foundation for Valuing Impacts (IFVI) in partnership with the Value Balancing Alliance (VBA) as part of the impact accounting system (the Methodology). The Methodology is a globally applicable and comprehensive methodology for the public good for valuing organizational social and environmental impact that is designed for incorporation into financial analysis and organizational planning and decision-making.

The Methodology is governed by the Valuation Technical & Practitioner Committee (VTPC), an independent committee comprising 18 members, established by IFVI and authorized by its Terms of Reference to direct, validate, and approve impact accounting research and methodology produced by the cooperation of the IFVI and VBA.

VTPC members are global leaders in the fields of impact, sustainability, accounting, business, and finance. Members provide advice in their individual capacities as experts, with composition and procedures designed to ensure independence, balance, and the avoidance of conflicts of interest. Please refer to the full Terms of Reference for information regarding membership, voting, and approval processes.

Methodology development aims to follow a rigorous and credible due process balanced with the urgent and dynamic needs of stakeholders in the face of great social and environmental challenges. The development process is outlined in the Due Process Protocol and designed to be impact-focused, stakeholder-informed, collaborative, and transparent. As detailed in the Due Process Protocol, formal methodology statements undergo public exposure prior to final approval by the VTPC.

The IFVI Board of Directors provides oversight to the Due Process Protocol through its Due Process Oversight Committee. More information about the VTPC and Due Process Protocol are available in the [VTPC Terms of Reference](#) and [Due Process Protocol](#).

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Explanatory Note

Background

The Exposure Draft of the *Framework for Industry-Specific Product Impacts* is a set of proposals exploring the concepts, definitions, methods, and principles that can be applied to measure and value impacts that result from the use of an entity's products. The Exposure Draft is publicly available as part of a public comment period to solicit feedback on the proposals.

This statement is an Industry-Specific Methodology published as part of the impact accounting system (the Methodology) being developed by the partnership between the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA). Industry-Specific Methodologies are designed to provide guidance on the measurement and valuation of impacts at an industry level. As the first Industry-Specific Methodology to be developed, this statement introduces a repeatable and systematic framework (the *Product Framework*) to measure and value product impacts across industries.

The Exposure Draft builds on the vision for impact accounting presented in *General Methodology 1: Conceptual Framework for Impact Accounting* by describing key conceptual themes unique to products impacts and builds on the Exposure Draft of *General Methodology 2: Impact Measurement and Valuation Techniques* by applying the methods developed in that statement to the unique context of product impacts. This statement is further designed to guide preparers of impact accounts to develop impact pathways for industries and products in the absence of official Industry-Specific Methodologies.

This statement was developed by the technical staff of IFVI and VBA beginning in June 2024. The development process involved a comprehensive literature review of frameworks, protocols, and standards for measuring and valuing the impacts of corporate entities, including those of the Capitals Coalition, Impact Economy Foundation, Impact Management Platform, Impact Weighted Accounts project at Harvard Business School, ISO standards, Social Value International, Task Force for Nature-related Financial Disclosures, Transparent Project, the Value Balancing Alliance, and the World Business Council for Sustainable Development. The technical staff also sought expert consultation on key questions surrounding product impacts and their relationship with other aspects of the Methodology. The disclosures of the European Sustainability Reporting Standards (ESRS), Global Reporting Initiative (GRI), and International Sustainability Standards Board (ISSB) of the IFRS were also reviewed as this statement seeks to establish connections to sustainability-related disclosures.

After small-group discussions and formal presentations during the year, this statement was originally distributed to the Valuation Technical and Practitioner Committee (VTPC) as a Pre-Exposure Draft in October 2024. The members of the VTPC provided feedback, and this

Exposure Draft was approved on November 14, 2024, for public distribution to solicit comments and feedback.

Exposure draft summary

The following is a section-by-section summary of key proposals made in the Exposure Draft of the *Framework for Industry-Specific Product Impacts* and is not an exhaustive overview of the statement. The summary is included to support the public comment questions by highlighting key points and decisions made in the development of the Exposure Draft.

Section 1: Introduction

Section 1.1 outlines the purpose of the statement, which is to inform and explain the development of Industry-specific Methodologies by detailing the key concepts, definitions, methods, and principles used to measure and value impacts that result from an entity's products. The statement also serves to guide preparers of impact accounts in developing impact pathways for products when official Industry-specific Methodologies are unavailable. The section emphasizes that product impacts covered in Topic Methodologies are generally not covered in Industry-specific Methodologies and that no content in this statement overrides guidance in other Industry-specific Methodologies.

Section 1.2 stresses the importance of avoiding false claims and the overstatement of product impacts, as methodologies for measuring product impacts are less established than for other sustainability topics. Preparers should apply the qualitative characteristics of impact information to mitigate the risk of misrepresenting product impacts. The section describes how the qualitative characteristics may be useful in avoiding false claims and overstatements of impact.

Section 2: Conceptual foundations for product impacts

Section 2.1 establishes definitions for foundational terms such as product, final product, intermediate product, end-user, business customer, consumer, and use-phase to ensure clarity and consistency across the *Product Framework*. Importantly, this section establishes key language that is useful to describe the measurement boundaries for product impacts, setting up the topics explored in section 2.3. The system of relating products to different types of customers, such as business customers and consumers, and to different types of entities across the value chain, such as entities that produce intermediate products versus final products, is primarily adapted from the GHG Protocol for consistency with existing corporate sustainability frameworks.

Section 2.2 proposes the definition of a product impact. The definition is nearly the same as the definition of an impact in the Methodology; however, a distinction is made as product impacts typically result not from any activity of an entity but from the use of a product by end-users. As

such, a product impact is defined as a change in one or more dimensions of people's well-being directly or through a change in the condition of the natural environment that results from using a product. The statement clarifies that a product impact may be actual or potential, intended or unintended, and positive or negative.

Section 2.3 introduces the idea that while product impacts generally occur during the use phase of final products, all types of entities are in scope for product impacts. In the case of entities that sell intermediate products, their impacts can generally be traced through the value chain to final products. The section also describes several key measurement boundaries that help to ensure the comparability of impact information across industries. The measurement boundaries described relate to the types of products, the idea of absolute or gross impact, the affected stakeholders for product impacts, different aspects of product use, and temporal boundaries.

Section 2.4 makes a conceptual distinction between the economic concept of utility and the concept of a product impact. While the two are not equivalent concepts, the *Product Framework* stresses that the concept of product impact includes all types of value associated with a product in economic theory, including market price, consumer surplus, externalities, and internalities. Appendix B provides further clarification. This section is based on the *General Methodology 2: Impact Measurement and Valuation Techniques Exposure Draft*, whose consultation period ended on January 31. The content in this statement is subject to change based on potential revisions to that document.

Section 2.5 indicates that to prepare impact accounts, each product or cluster of products should be assessed to determine whether its impacts are material from an impact materiality perspective. The three perspectives for assessing the materiality of an impact are adopted directly from General Methodology 1, which include the significance of the impact, its ability to influence decisions, and the need for transparency and accountability.

Section 2.6 introduces in the Methodology the idea of an evidence-based approach to validating that an impact actually results in a material change to people's well-being. This section provides guidance to ensure that any claims of impact are evidence-based, including that the significance of the impact and the causal relationship with the entity's activities are corroborated.

Section 2.7 addresses how to understand the process of attributing impacts to the entities responsible for them in the context of product impacts. In alignment with other sustainability frameworks like the GHG Protocol, the statement proposes that entities that sell final products should typically receive full attribution due to their influence over the factors that contribute to the impact, while entities that sell intermediate products should receive attribution for impacts based on a partitioning of the inputs provided to final products based on either physical relationships, economic relationships, or industry-specific practices. Inputs should be partitioned in a way that best reflects the causal relationship between the inputs and the activities of entities across the value chain.

This section reiterates an idea in General Methodology 1 that impacts, including product impacts, should not be aggregated across entities to determine the total impact in a value chain as the result may overcount impact due to double counting. Appendix C provides a non-comprehensive list of attribution techniques.

Section 3: The measurement and valuation of product impacts

Section 3.1 confirms that the process for measuring and valuing product impacts is aligned with the three steps articulated in General Methodology 2 and that using an impact pathway is the default approach for measuring product impacts. Any deviations from this approach in Industry-specific Methodologies should be explicitly stated. Preparers developing novel impact pathways should follow the default approach and disclose any potential deviations to users of impact information.

Section 3.2 clarifies that impact drivers in the context of product impacts serve the same role as throughout the Methodology, namely, to establish connections between the entity and the impacts being assessed. In the case of product impacts, impact drivers typically describe characteristics of a product, such as its composition or use scenarios.

Section 3.3 breaks down the process for creating well-defined outcomes and measuring product impacts into sub-sections. Section 3.3.1 outlines how to develop a value chain model that can be used to identify final products and their use scenarios. Section 3.3.2 proposes considerations for identifying the use scenarios of a product. Section 3.3.3 articulates how to create a well-defined outcome for a product impact. Consistent with General Methodology 2, a well-defined outcome is articulated by naming the well-being dimensions and affected stakeholders for any impact. Section 3.3.4 describes the process for measuring a product impact, which requires that the well-defined outcome is measured against the default reference scenario in the Methodology. The section provides step-by-step guidance for setting the reference scenario and establishes that the default reference scenario results in the measurement of absolute impact. The measurement of absolute impact aims to ensure the comparability of impact information across applications of impact accounting.

Finally, section 3.4 indicates that the concepts and techniques for monetary valuation of product impacts are the same as for other impacts in the Methodology. The section stresses the iterative process for determining the most appropriate valuation technique for an impact, noting that decisions taken in one step may result in limitations in others.

Request for Public Comment

Instructions to comment

The VTTPC invites comment letters on the proposals in this Exposure Draft, particularly on the questions below. Feedback from stakeholders will be incorporated impartially. Comments are most helpful if they:

- a) address the questions as stated;
- b) specify the paragraph(s) to which they relate;
- c) contain a clear rationale;
- d) identify any wording in the proposals that is ambiguous in its interpretation; and
- e) include alternative proposals the VTTPC should consider, if applicable.

In providing comments, not all questions need to be addressed. When addressing a question, please provide sufficient detail and context for the comment. Comments should also be included when there is strong support for the proposal in the Exposure Draft. The VTTPC only requests comments on matters addressed in the Framework for Industry-specific Product Impacts Exposure Draft.

Please note that comment letters are a matter of public record and will be published on the IFVI website. Comments can be submitted using the Framework for Industry-specific Product Impacts [public comment form](#). Alternatively, comment letters could be sent to the technical staff via e-mail at research@ifvi.org with “Framework for Industry-specific Product Impacts” in the subject line.

Questions for feedback

Each box contains a series of questions related to a specific topic. For more context on each question, please refer to the corresponding sections of the Exposure Draft mentioned in the boxes below.

Question 1 – Overall usability of the Framework for Industry-specific Product Impacts
1a. Is the statement clear and understandable? Is it possible to be implemented by practitioners without an advanced level of expertise?

- 1b.** Does the statement sufficiently align with and build on existing frameworks, protocols, and standards that assess the impact of products specifically? How could the statement be revised to enhance alignment?
- 1c.** Would use of the *Product Framework* and subsequent industry specific methodologies add value to your organization’s impact management and/or reporting practices? Why or why not? What would improve its usefulness?

Question 2 – Relationship between an impact to well-being and value in economic theory (sections 2.4 and 2.6)

- 2a.** The *Product Framework* proposes that the mere fact that a product exists and is purchased by a customer is not sufficient evidence to claim that an impact to well-being results from its use. Simply put, not all products generate an impact on its end-users. Do you agree with this proposal? Why or why not? Under what circumstances does a product have an impact on its end-users, and in what circumstances does it not?
- 2b.** Section 2.4 and Appendix B describe the types of value that are related to a product in economic theory. The statement proposes that product impacts may relate to these types of value but that impact is not the same as economic value. Do you agree with this proposal, why or why not?

Question 3 – Attribution of product impacts (section 2.7)

- 3a.** The statement proposes an approach to attribution whereby the amount of an impact attributed to an entity is dependent upon whether the product is an intermediate or final product. This approach is consistent with the GHG Protocol and helps to ensure consistency with Topic Methodologies. Do you agree with this approach, why or why not? Would a different approach improve the usefulness of the Methodology?
- 3b.** Is Appendix C useful in providing a non-comprehensive overview of attribution methods? If not, what additional attribution methods should be considered?

Question 4 – Reference scenario for industry-specific product impacts (section 3.3.4)

- 4a.** The *Product Framework* indicates that product impacts should be measured using a reference scenario that results in the measurement of absolute impact. Is the description of the default reference scenario as outlined in paragraphs [45, 46, and 47] clear and understandable? If not, what would be useful to clarify?
- 4b.** Box 1 provides the steps for selecting the reference scenario for a product impact. Do the steps and examples included provide adequate guidance and are helpful to clarify the process? Are there any general or industry-level aspects that should be considered for additional guidance or clarification?

Question 5 – Top-down approaches (section 3.3.4)

- 5a.** Table 2 outlines top-down approaches, such as the estimation of consumer surplus and the aggregation of industry assessments, to complement an impact pathway approach. Does the inclusion of these approaches seem reasonable and provide value to the statement? Are there other relevant top-down approaches that should be mentioned?

Question 6 – Additional feedback

- 6a.** Do you have concerns with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on definitions, the purpose of the *Product Framework*, references made to other sources, and/or the structure of the statement, among other areas. If so, what are they and what do you see as viable alternatives?

Due Process Provisions Applicable to the Exposure Draft

The Due Process Protocol of IFVI establishes an independent committee, the Valuation Technical and Practitioner Committee (VTPC), to direct, validate, and approve the impact accounting methodology produced by the partnership between IFVI and VBA. The VTPC oversees and is supported by the work of the technical staff of IFVI and VBA.

Public exposure is a vital step in the Due Process Protocol to ensure the development of high-quality methodologies that reflect stakeholder input. When the VTPC has reached general agreement on a methodology statement, the VTPC votes on whether to proceed with releasing a proposed methodology statement. An approval by a simple majority of the VTPC is required to release an exposure draft of a proposed statement.

The Exposure Draft herein reflects feedback provided by members of the VTPC and is a proposal of a statement that has been approved for public exposure.

After the public comment period concludes, the VTPC reviews the received comment letters. To support the VTPC's considerations, the technical staff will prepare a summary of the comment letters. The summary provides an overview of the significant issues raised in the letters and any additional related research and/or consultations. Comments are published on the IFVI website, and significant matters are deliberated at a VTPC meeting.

1 Introduction

1.1 Document purpose

1. The purpose of this document is to introduce the *Framework for Industry-Specific Product Impacts (Product Framework)* of the impact accounting system (the Methodology) being developed by the partnership between the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA). The Product Framework is meant to inform and explain the development of Industry-specific Methodologies by outlining the key concepts, definitions, methods, and principles useful for measuring and valuing impacts that result from an entity's products. The impacts of products may be just as significant to an entity's societal value creation and/or erosion as impacts related to sustainability topics. The *Product Framework* helps ensure that impact accounts include all relevant impacts and provide a comprehensive assessment of an entity's impact.¹
2. Product impacts are idiosyncratic, with goods and/or services varying significantly across industries and entities. This statement also aims to guide preparers of impact accounts in developing impact pathways for products in the absence of official Industry-Specific Methodologies. The *Product Framework* introduces a repeatable and systematic framework to measure and value product impacts across industries.
3. The *Product Framework* builds on, and should be read in conjunction with, *General Methodology 1: Conceptual Framework for Impact Accounting* and *General Methodology 2: Impact Measurement and Valuation Techniques*. The *Product Framework* also builds on frameworks and protocols published by leading organizations in the impact management ecosystem, including Capitals Coalition, Impact Economy Foundation, Impact Management Platform, and Social Value International, as well as legacy work on product-related impact frameworks published by the Impact-Weighted Accounts project at Harvard Business School and Value Balancing Alliance.^{2,3}
4. The Methodology of IFVI and VBA is developed through a system of interrelated statements organized as General Methodology, Topic Methodologies, or Industry-Specific Methodologies. This statement is the first Industry-Specific Methodology statement. No content in this statement overrides guidance in other Industry-Specific

¹ For a full description of a comprehensive assessment see IFVI and VBA. (2023). *General Methodology 1: Conceptual Framework for Impact Accounting*.

² See bibliography for a full list of documents that were influential in the development of this statement.

³ See Harvard Business School. (2021). *Impact Accounting for Product Use: A Framework and Industry-specific Models* and Value Balancing Alliance. (2022). *Impact Statement, Downstream – Industry-Agnostic Guidance*.

Methodologies and certain guidance in Industry-Specific Methodologies may depart from aspects of the *Product Framework*.

5. Whereas Topic Methodologies cover impacts that relate to sustainability topics and can be applied across industries, the idiosyncratic nature of product impacts requires industry-specific impact pathways. Product impacts affect the well-being of people directly or through a change in the condition of the natural environment. As a general rule, product impacts that directly affect the well-being of people, such as consumers or society in general, are covered in Industry-Specific Methodologies. Industry-Specific Methodologies identify the types of products produced by entities in an industry or entities operating in a value chain connected to one or several industries, describe stakeholders affected by those products, and develop standardized impact pathways for measuring impacts.
6. Product impacts that affect the well-being of people through a change in the condition of the natural environment at any stage of the value chain are generally covered in Topic Methodologies. For example, impacts caused by GHG emissions released during the use phase of a product are categorized as Scope 3, Category 11 emissions in the GHG Protocol and a standardized impact pathway is provided in the *Greenhouse Gas Emissions Topic Methodology*.^{4,5} Product impacts covered in Topic Methodologies are generally not covered in Industry-Specific Methodologies; however, Industry-Specific Methodologies may provide novel or supplementary guidance on environmental topics, for instance when the products of entities in an industry primarily serve to change the condition of the natural environment, such as with remediation or restoration services, or when entities in an industry generate impacts that are not covered with sufficient granularity in Topic Methodologies.

1.2 The risk of misrepresenting product impacts

7. Considering that methodologies and standards for measuring product impacts are less established, claims of product impact may be used in an entity's marketing or sales functions, and the magnitude of product impacts measured in monetary terms may be significant depending on the entity and industry, among other considerations, ample caution should be taken to avoid false claims and the overstatement of the social and/or environmental impacts that result from an entity's products. To avoid misrepresenting product impacts, impact information related to products should consider both the negative and positive impacts of an entity. This is especially critical when the external publication of impact information is anticipated to ensure alignment with applicable

⁴ See GHG Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

⁵ IFVI and VBA. (2024). *Greenhouse Gas Emissions Topic Methodology*.

legal requirements.⁶ Equally important, the faithful representation of impact information must be maintained for internal purposes, as misleading impact information can adversely affect decision-making within an entity.

8. The qualitative characteristics of impact information should be applied to mitigate the risk of misrepresenting product impacts.⁷ Preparers of impact accounts should ensure that the presentation of impact information is faithfully represented, meaning that impact information is complete, neutral, and free from error. To be complete, product impacts should be presented with information related to assumptions, data, evidence, and methods so that users of impact information understand what is measured. Product impacts should not result in emphasizing positive or negative impacts disproportionately to ensure that impact information is neutral, and positive impacts should not be used to offset negative impacts.
9. The enhancing qualitative characteristics of comparability, verifiability, and understandability should also be considered to prevent the likelihood of false claims or the overstatement of product impacts. For instance, impact information that is comparable allows impacts to be benchmarked across entities operating in the same industry, making it harder for entities to overstate impacts. Disclosing assumptions, data, evidence, and methods used to measure and value impacts ensures that impacts are supported by verifiable information and can be corroborated by users of impact information. Explaining the context and relationships between assumptions, data, evidence, and methods, as well as technical terminology as applicable in a clear and concise manner enhances the understandability of impact information, where vague or incomplete information may increase the risk of false claims or the overstatement of product impacts.

⁶ For further guidance on reducing the risk of false claims and the overstatement of impact see applicable regulations, such as the *Directive of the European Parliament and of the Council amending Directives 2005/29/EC and 2011/83/EU on empowering consumers for the green transition through better protection against unfair practices and better information*, and the proposed *EU Green Claims Directive*, which seeks to ensure that 'green' corporate claims are reliable, comparable and verifiable by consumers.

⁷ For a full description of the qualitative characteristics of impact information, see section 3 in IFVI and VBA. (2023). *General Methodology 1: Conceptual Framework for Impact Accounting*.

2 Conceptual Foundations for Product Impacts

2.1 Definitions of terms

10. The production and sale of products occur across diverse value chains, each with unique characteristics, including the number of stages, the types of activities performed in each stage, the end-user of the final product, and the duration of the use phase of the final product. Definitions for foundational terms for product impacts are established in this section so that the unique characteristics of industries may be described clearly and consistently throughout the Methodology.
11. A product is a good or service sold by an entity. A product may be an intermediate product or a final product. A final product is a product that is used by an end-user during its use phase without further processing, transformation, or inclusion in another product. Final products include products used by consumers, products sold to retailers for resale to end consumers, and products consumed by business customers in their current form.^{8,9} Intermediate products are inputs to the production of other goods or services that require further processing, transformation, or inclusion in another product before use by the end consumer. The end-user does not consume intermediate products in their current form.¹⁰
12. An end-user is a business customer or consumer who ultimately uses or intends to use a particular good or service during its use phase.^{11,12} Business customers and consumers are the two categories of end-users described in the *Product Framework*. While business customers and consumers are both customers of entities, a distinction is drawn throughout the Methodology because the concepts and methods that apply to each are not always the same.
13. A business customer is an organization that acquires or uses goods and services as part of its activities. A business customer is not always a for-profit enterprise engaged in commercial or trade activities, and may be an academic institution, government, or non-governmental organization, among other types of business customers. A consumer is an individual or group of people who acquire, consume, or use goods and services for

⁸ GHG Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

⁹ Examples of final products consumed by business customers include commercial real estate used as office space and enterprise software.

¹⁰ GHG Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

¹¹ Adapted from ESRS. (2023). *ESRS S4 Consumers and End-users*.

¹² See GHG Protocol for a description of end-users as inclusive of both consumers and business customers. <https://ghgprotocol.org/sites/default/files/2022-12/Chapter11.pdf>

personal use, either for themselves or for others, and not for resale, commercial or trade, business, craft, or professional purposes.¹³

14. The use phase of a product refers to the entire lifetime of a final good or service at the end of a value chain, from the moment an entity transfers the good or service to an end-user until its end-of-life treatment. The use phase is distinct from the processing of intermediate goods, which occurs prior to the use phase, and the end-of-life stage, which occurs after the use phase and refers to waste disposal and treatment methods, including landfill, incineration, and recycling.¹⁴

2.2 The definition of product impact

15. The concept of a product impact is the same as for other impacts in the Methodology. Entities have positive and negative impacts on people and the natural environment and those impacts can be measured from the perspective of the well-being of people. The only distinction for product impacts is that while impacts in general result from any of an entity's activities and business relationships across its value chain, product impacts result from a specific activity, the sale and provision of products, and their ultimate use by end-users.
16. The definition of a product impact is, therefore, a change in one or more dimensions of people's well-being directly or through a change in the condition of the natural environment that results from the use of a product.¹⁵
17. A product impact can be actual or potential, intended or unintended, and positive or negative. A product impact is potential in nature when its effects have a degree of uncertainty and are subject to a degree of likelihood, such as with impacts that occur in the future. A product impact does not have to be directly observed to be included in impact accounts. A product impact is unintended when its effects are not the aim or expected result of an entity's products.

2.3 Measurement boundaries of product impacts

18. For the *Product Framework*, entities may be categorized as either those that sell final products to end-users or those that sell intermediate products to downstream entities in a value chain, leading to the production of final products. Product impacts are generally understood as occurring during the use phase of final products. The impacts of entities

¹³ Adapted from ESRS. (2023). *ESRS S4 Consumers and End-users*.

¹⁴ Greenhouse Gas Protocol. (2013). *Technical Guidance for Calculating Scope 3 Emissions*.

¹⁵ For a complete description of the definition of an impact in the Methodology, see section 4.2 in IFVI and VBA. (2023). *General Methodology 1: Conceptual Framework for Impact Accounting*.

that do not sell final products may be traced through the inputs they sell to the end of the value chain to identify the most relevant products to prepare impact accounts. All entities may generate product impacts, whether they sell final products or intermediate products.

19. Product impacts should adhere to the specific measurement boundaries described below to promote the comparability of impact information across industries and over time.
- a) *All products are in-scope*: The products of entities in all industries are in-scope for impact accounting. To prepare impact accounts for product impacts, each product of an entity should be assessed to determine whether it causes or contributes to impacts that are material from an impact materiality perspective.
 - b) *Absolute impact*: The default reference scenario in the Methodology results in the measurement of absolute impacts or gross changes in well-being that result from the use of a product.^{16,17} The default reference scenario uses a counterfactual in which the entity's products and comparable substitutes do not exist.
 - c) *Affected stakeholders*: Entities themselves are not affected stakeholders of product impacts. Changes to the financial performance of an entity, such as an increase in sales or a reduction in costs that result from the use of a product, should not be considered as impacts in and of themselves. For example, if an entity sells a service, such as software, that results in cost savings for a business customer, the cost savings should not be identified as impact. To be considered an impact, the cost savings would need to be measured and valued from the perspective of the well-being of people.
 - d) *Aspects of product use*: All aspects related to a product's use phase are in-scope, including potential impacts derived from or related to access to quality information, antitrust, data security, human health, non-discrimination, personal safety, privacy, and social inclusion.¹⁸ Thus, a product impact may result from

¹⁶ See definition of absolute impact in Impact Economy Foundation. (2022). *Conceptual Framework for Impact-Weighted Accounts*.

¹⁷ Assessments of product impact should consider that the monetary price paid by a consumer in exchange for a product influences their *Income & Wealth* well-being dimension. Approaches for performing a comprehensive assessment of impact that includes the impact of the monetary price paid by a consumer is a topic being considered for future methodological development.

¹⁸ Adapted from ESRS. (2023). *ESRS S4 Consumers and End-users*.

any aspect of the use phase of a product as long as the aspect results in a change in the well-being of people.¹⁹

- e) *Temporal boundaries*: Product impacts materialize over time and may materialize at any point after the product has been transferred to the end user. Even though product impacts result from the use phase, they may not materialize during the use phase. Irrespective of when product impacts materialize, they should be depicted in impact accounts in the period the product is sold. This rule should be applied regardless of whether an entity sells final or intermediate products. This approach allows consistency between when impact is recognized in impact accounts and when revenues and costs for a product are recognized in financial accounts.

2.4 Relationship between utility and impact on well-being

20. A conceptual distinction exists between the economic concept of utility, which refers to the value an individual or group derives from a product given the constraints, information, and available resources, and the concept of a product impact.²⁰ In economic theory, the value connected to a product is represented by consumer surplus, externalities, internalities, and market price, as described in Appendix B. Product impact, on the other hand, is based on the well-being of people, which is a more dynamic and encompassing concept than utility and is affected over time by the benefit and/or harm derived from products. The scope of a product impact includes the types of value connected to a product in economic theory, and each type of value should be considered when identifying product impacts. In economic theory, product impact is not assumed to be the same as any or all of the types of value.

2.5 Application of impact materiality in the context of product impacts

21. To prepare impact accounts for product impacts, each product of an entity should be assessed to determine whether it causes or contributes to impacts that are material from an impact materiality perspective. A product may result in more than one material impact. Impact materiality is an entity-specific aspect of the qualitative characteristic of

¹⁹ The product impact framework developed by the Impact-Weighted Accounts, see Harvard Business School. (2020). *A Framework for Product Impact-Weighted Accounts*, categorized aspects of product use into a framework that served to help identify impacts. The *Product Framework* does not categorize aspects but instead considers all aspects as within the measurement boundaries of product impacts.

²⁰ See page 10 of New Economics Foundation. (2008). *Measuring Well-being in Policy: Issues and Applications*.

relevance. The three perspectives of relevance, described below in the context of product impacts, are used to determine whether an impact is material.²¹

- a) *The significance of the impact:* The significance of an actual impact is based on its severity, while the significance of a potential impact is based on its severity and likelihood. Severity is based on the scale, scope, and irremediable character of an impact. A product impact is more relevant as its significance increases.

The significance of a product impact is typically understood from the perspective of the use phase of a good or service. Affected stakeholder categories commonly impacted by product impacts include end-users and society in general. Entities that provide inputs to downstream entities in a value chain may need to trace the inputs they sell to the end of the value chain to identify relevant product impacts and assess their significance.

- b) *The capacity of the impact information to influence the decisions of users:* Impact information informs the decisions of users of impact accounting, including managers of an entity and investors. In the case of product impacts, impact information may influence product-specific design decisions or capital allocation between product lines for managers or investment allocation decisions for investors who are focused on specific impact or investment themes.

Impact information is more decision-useful if the entity has influence over the factors contributing to the underlying impact. An entity has influence if it can make decisions that result in different outcomes for affected stakeholders. For product impacts, influence may be established by activities such as providing inputs to a final product, providing distribution or transportation services, and selling or marketing a final product to customers.

- c) *The need for transparency and accountability towards affected stakeholders:* Impact information is more relevant if an expectation for transparency and accountability to affected stakeholders exists. For product impacts, such expectations begin with stakeholder engagement, which enables an entity to hear, understand, and respond to the interests and concerns of affected stakeholders.²² Preparers may determine that impact information related to less significant impacts is relevant if affected stakeholders express a desire for

²¹ For more information, see section 3.2 and paragraph 26 in IFVI & VBA. (2023). *General Methodology 1: Conceptual Framework for Impact Accounting*.

²² Adapted from European Commission. (2023). *Annex II Acronyms and Glossary of Terms, European Sustainability Reporting Standards*.

increased accountability or transparency. Expectations for transparency and accountability are also set out in authoritative intergovernmental instruments.²³

2.6 Evidence-based approach to validate product impacts

22. To reduce the risk of misrepresenting product impacts, an evidence-based approach should be applied to validate that a product impact does in fact result in a material change in the well-being of people.²⁴ The development of standardized impact pathways relies on identifying causal relationships between an entity's activities and impacts on the well-being of people. Evidence should corroborate the significance of a product impact and the causal relationship with an entity's activities as part of establishing that a product impact is material from an impact materiality perspective. The fact that a product exists and is purchased by a customer is not sufficient evidence by itself to establish that an impact on well-being exists.
23. In practice, an evidence-based approach employs thorough research, relying on scientific, analytical, and diverse sources of credible information to identify positive and negative impacts. Further, an evidence-based approach provides demonstrable support for any claim that a product results in a specific impact. The information used to support an evidence-based approach should be drawn from credible, independent sources such as academic studies, databases of government agencies and non-governmental organizations, and research institutions, among others.²⁵
24. If a preparer develops an impact pathway for an as yet undeveloped product impact, an evidence-based approach should be applied and evidence to support product impact claims should be disclosed to users of impact information.

2.7 Attribution of product impacts across the value chain

25. The attribution of a product impact refers to the portion of an impact that is reflected in an entity's impact accounts. Product impacts are generally understood as occurring during the use phase of final products; however, entities that produce intermediate

²³ Examples include the International Labor Organization (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy; the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises; the United Nations (UN) Framework Convention on Climate Change (FCCC) Paris Agreement; and the UN Guiding Principles on Business and Human Rights.

²⁴ For applications of evidence-based approaches see European Commission. (2023). *Annex I European Sustainability Reporting Standards*; Global Reporting Initiative. (2021). *GRI 1: Foundation 2021*; IFRS. (2024). *Resources for academics - Evidence-based Standard-setting*; and Sustainability Accounting Standards Boards (SASB). (2017). *SASB Conceptual Framework*.

²⁵ Sustainability Accounting Standards Boards (SASB). (2017). *SASB Conceptual Framework*.

products also contribute to product impacts through their activities and decisions. Product impacts should be attributed across the value chain when more than one entity contributes to or causes an impact.

26. The attribution of a product impact depends on whether a product is a final product or an intermediate product.²⁶ Entities that sell final products likely receive full attribution for a product impact as the entity typically has influence over the factors that contribute to the underlying impact.²⁷ The fact that an entity that sells a final product receives full attribution does not prevent the full or partial attribution of the same impact to another entity. For instance, when a manufacturer sells a final product to a retailer and the retailer sells the same final product to a consumer, the manufacturer and the retailer may receive full attribution for the product impact.
27. Entities that sell intermediate products likely do not receive full attribution for a product impact, and should partition the inputs of a product and determine the portion linked to the entity's own operations.²⁸ Inputs to a final product may be partitioned based on the underlying physical relationship, an economic relationship, or an industry-specific practice. Inputs are partitioned in a way that best reflects the causal relationship between the inputs and the activities of entities across the value chain.²⁹ If specific allocation rates have been agreed upon by entities in a value chain through any formal agreement, those allocation rates should be considered.
28. The full amount of an impact is typically attributed to entities in a value chain without consideration of enabling infrastructure or goods and services provided by adjacent value chains.³⁰ Accordingly, entities that sell final products typically receive full attribution for a product impact despite the fact that other entities, and factors external to the entity's value chain may have contributed to the impact. Entities that sell intermediate products typically partition the inputs of a final product amongst entities in

²⁶ The approach to attribution in this section is adapted from and consistent with the Greenhouse Gas Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*.

²⁷ This approach is consistent with direct impacts that are caused by an entity's own operations, see paragraph 77 (a) in General Methodology 1.

²⁸ This approach is consistent with indirect impacts that occur downstream from the entity, see paragraph 77 (d) in General Methodology 1.

²⁹ Adapted from Greenhouse Gas Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Supplement to the GHG Protocol Corporate Accounting and Reporting Standard*.

³⁰ Adapted from Greenhouse Gas Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Supplement to the GHG Protocol Corporate Accounting and Reporting Standard*.

the same value chain, including beyond the first tier, without consideration of other entities or factors that are external to the value chain being considered.

29. The double counting of a product impact may occur when attempting to aggregate the impacts of entities across the value chain. For instance, double counting occurs when more than one entity is involved in the production, retailing, and/or sale of a final product. Double counting also occurs when an entity that produces an intermediate good receives partial attribution for a product impact, and an entity that sells a final product receives full attribution for the same product impact. This approach allows for complete information on value chain responsibility at the entity level; however, product impacts should not be aggregated across entities to determine the total product impact in a value chain as the result may overcount impact.
30. Industry-Specific Methodologies provide guidance on the attribution methods that should be applied for an industry. See Appendix C for a table of attribution methods that may be applied when developing an impact pathway for an as yet undeveloped product impact.

3 The Measurement and Valuation of Product Impacts

3.1 Overview

31. The process to measure and value a product impact is consistent with the three steps articulated in *General Methodology 2* and shown in Figure 1 below. The first step relates to the impact drivers stage of the impact pathway, the second step relates to the outcomes and impact stages of the impact pathway, and the third step sits outside of the impact pathway and covers the monetary valuation of impacts. This section provides supplemental guidance specific to measuring and valuing product impacts for each of the three steps.
32. A product may result in more than one impact. When a product results in more than one impact, a decision must be made whether to use a single impact pathway, or separate impact pathways. If product impacts share the same impact driver, they may be included in the same impact pathway by designating a well-defined outcome for each impact. When impacts do not use the same impact driver, they are typically measured using separate impact pathways. When a product results in more than one impact, an Industry-Specific Methodology may include more than one impact pathway to provide a fair presentation of the impacts of entities in that industry.
33. Using an impact pathway to measure impacts is foundational to impact accounting. Any deviations from the approach described in this section used to develop standardized methodologies for measuring product impacts shall be specifically established in Industry-Specific Methodologies. If a preparer develops an impact pathway for an as yet undeveloped product, industry, or value chain, the approach described in this section should be the default approach, and any deviations should be disclosed to users of impact information.

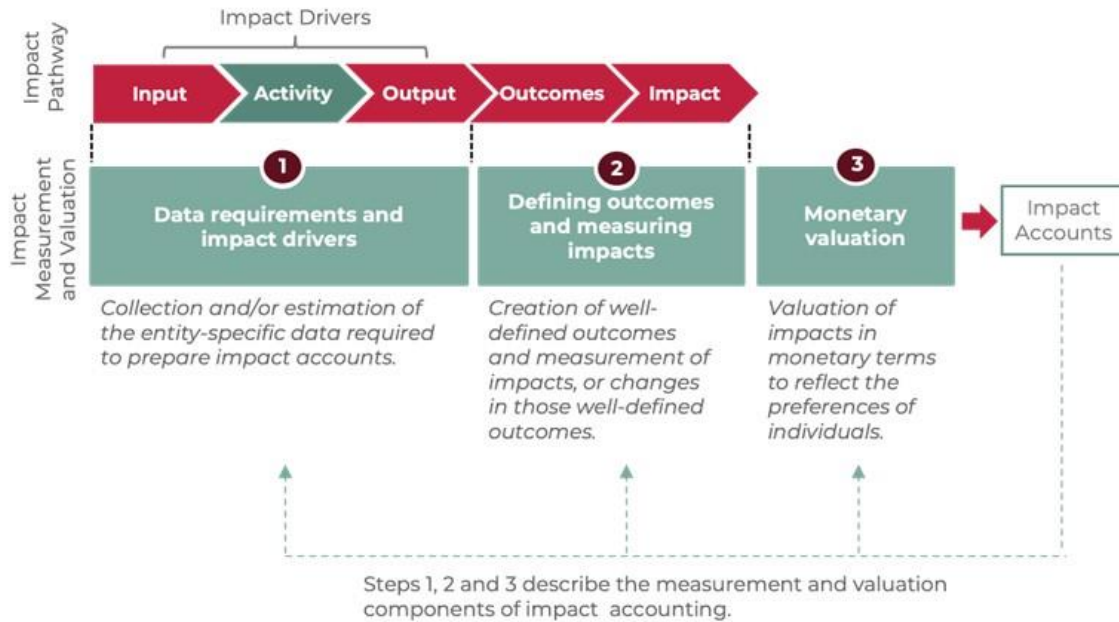


Figure 1. Process to measure and value an impact

34. Measuring and valuing a product impact requires making choices between data sources, methods, and techniques at each step. Decisions made in one step may result in limitations in others. The qualitative characteristics of impact information should be applied for all steps in measuring and valuing product impacts to inform trade-off decisions. A full description of each qualitative characteristic can be found in *General Methodology 1* and detailed descriptions for how to balance the qualitative characteristics for each step in the measurement and valuation process are included in *General Methodology 2*.

Table 1: Product clusters

Entities with diverse product portfolios and/or products that are similar in nature but not identical may find it impractical to measure impacts for each individual product. To prepare impact accounts, an entity may need to organize products into clusters. Products may be clustered by any shared characteristic, including input or output data, raw material composition or manufacturing process, use scenarios of the product, and well-being dimension(s) affected by the product. Preparers should consider existing divisions, product groups, or segments as a starting point when clustering products.

In many cases, a cluster is defined by a representative product and a specific use scenario. Identifying a representative product and a specific

use scenario can help to define each cluster effectively and model downstream activities. When a cluster centers on a representative product and a specific use scenario, the results may be extrapolated to the entire cluster.

Product clusters may be established in Industry-Specific Methodologies as appropriate. Preparers developing impact pathways for as yet undeveloped industries or products should disclose the characteristic used to cluster any products. Preparers should consider using consistent product clusters over time to enhance the comparability of impact information.

In the *Product Framework*, any reference to a product is meant to refer to either a specific product, or a cluster of products.

3.2 Data requirements and impact drivers

35. Data specific to a product are required to establish connections between the product and its impacts on affected stakeholders. Impact drivers in the Methodology link the activities of an entity to impacts. Impact drivers in the context of product impacts refer to data that describe the characteristics of a product, such as its composition or use scenarios. An impact driver for a product impact may simply be the number of units sold in a time period. Examples of impact drivers include the nutrients in packaged food, the number of patients reached for prescription drugs, or the number of housing units in a residential housing complex. Modeling techniques to estimate impact drivers are described in *General Methodology 2*.³¹
36. Impact drivers for product impacts are identified through an iterative process of understanding the measurement methods and valuation techniques available to measure and value a particular impact and drawing connections to product-specific data. An impact driver may be determined by reviewing academic research on measuring changes in well-being and understanding what product characteristics may be used as an input in that method. An impact driver may also be based on product-specific data that are commonly available within entities in an industry.
37. Impact drivers for a product impact typically relate to and describe characteristics of final products in a value chain. Entities that sell intermediate products may have limited access to primary data related to final products and may need to source data from external sources or estimate data using modeling techniques. To identify impact drivers,

³¹ See section 2.3 in IFVI and VBA. (2024). Exposure DRAFT, *General Methodology 2: Impact Measurement and Valuation Techniques*.

upstream entities should model their value chains to establish connections between intermediate products and final products.

3.3 Defining outcomes and measuring product impacts

3.3.1 Modeling the downstream value chain

38. As described throughout this statement, product impacts typically affect business customers or consumers during the use phase of a final product. For entities that sell products directly to end-users, the final product is typically easy to identify. For upstream entities that sell intermediate products, the value chain should be modeled to identify final products at the end of the value chain.
39. A value chain model identifies and describes various stages involved in a product's life from cradle to grave. At a minimum, a value chain model should consider the gate to grave stages with a special focus on the use phase of products. For intermediate products the processing phase should be considered to clarify how these contribute to specific final products. A value chain model may also include additional information such as economic and/or physical attributes of intermediate and final products, which is useful for the attribution of product impacts across the value chain. The complexity of value chain models varies, and a value chain model does not necessarily need to be complex to provide for a faithful representation of a product impact.
40. When modeling downstream activities for entities that provide intermediate products to diverse end-markets, final products may be identified by representative products and specific use scenarios as described in Table 1. Entities across an entire value chain may use the same standardized impact pathway to measure the impact of a final product; however, the attribution of the impact to the entities will likely differ depending on each entity's contribution to the impact.

3.3.2 Product impact identification

41. To identify product impacts, the use scenarios of the product throughout its entire use phase should be assessed. The intended use scenarios of a product and any unintended applications or use scenarios, including by-products, should be considered. Descriptions of use scenarios may come from industry-recognized specifications, product category rules, previous impact studies, and consumer studies, among other sources.³² Intended and unintended use scenarios should be validated through stakeholder engagement with customers. The impacts and uses of a product may differ considerably from the

³² GHG Protocol. (2013). *Technical Guidance for Calculating Scope 3 Emissions*.

impacts and uses intended by the entity that produced the product. If a product has multiple use scenarios, each should be considered separately.

42. When identifying product impacts, impacts included in applicable industry or sector requirements of sustainability-related disclosure standards or sector publications by recognized organizations should be considered. At the entity-specific level, materiality assessments should inform the identification of impacts. Experts within an entity, such as those in compliance, marketing, operations, and/or sustainability functions, should be consulted along with external experts.

3.3.3 Well-defined outcomes

43. For each product impact, a well-defined outcome should be created. A well-defined outcome identifies two components, the affected stakeholder and dimensions of well-being that change for that affected stakeholder as a result of the use of an entity's product. The qualitative characteristic of relevance should be applied to determine whether a dimension of well-being or an affected stakeholder is material from an impact materiality perspective and should be included in impact accounts. An evidence-based approach should be followed and the guidance below should be considered.

- a) *Well-being dimensions*: A product impact may affect one or more dimensions of well-being. The OECD Framework for Measuring Well-being should be used as the default for describing these dimensions as part of a well-defined outcome.³³ A product impact may affect dimensions of current well-being, resources for future well-being, or both.³⁴ A dimension of well-being is more relevant as the significance of the impact increases.
- b) *Affected stakeholders*: Product impacts result from the use of products. Accordingly, affected stakeholders of a product impact should in some way either interact with or be connected to a product.
 - i. The degree of separation between the product and an affected stakeholder should be considered. Degree of separation refers to whether an affected stakeholder directly uses a product or is indirectly linked to a product. A greater degree of separation may reduce the relevance of an affected stakeholder.

Entities that produce intermediate products typically consider the degree of separation from the perspective of a final product and the affected

³³ OECD. (2020). *How's Life? 2020: Measuring Well-being*.

³⁴ See section 3.4 in IFVI and VBA. (2024). Exposure Draft, *General Methodology 2: Impact Measurement and Valuation Techniques*.

stakeholder. The degree of separation is therefore not necessarily increased by the fact that an entity is upstream from the final product. In any instances in which the impacts of intermediate products are directly measured, the degree of separation should be established from the reference point of the intermediate product.

- ii. Whether the affected stakeholder is society in general should also be considered when determining whether a stakeholder is relevant from an impact materiality perspective. Products may result in diffuse effects on the well-being of society, reducing the reliability with which the significance of an impact and its attribution to an entity can be established. In some instances, impacts that affect society in general may be clearly linked to an entity's products, increasing the relevance of those impacts.

3.3.4 Measuring product impacts and the default reference scenario

- 44. Product impacts are measured similarly to other impacts in the Methodology. The process includes measuring the extent to which a well-defined outcome has changed against the default reference scenario using objective and/or subjective well-being indicators.³⁵ Attention should be given to which indicators are commonly used and accepted in an industry and, more broadly, to promote the comparability of impact information.

Table 2: Top-down approaches for measuring product impacts

The default approach for measuring impacts in the Methodology is to use an impact pathway to describe the consecutive, causal relationships that start with an input into an entity's activities and ultimately end with a change in the well-being of people. This approach is bottom-up in nature as it assesses each individual linkage between an entity and affected stakeholders.

Alternative approaches exist for estimating impact that can be characterized as top-down approaches. Top-down approaches use a range of methods. Some top-down approaches use large data models that utilize academic literature, industry data, and publicly available financial information to infer product use patterns and evaluate overall impact profiles. An example of a top-down approach is to estimate the aggregate impact in an industry and attribute the impact to specific actors or products within the industry based on physical or economic data. Results of these models may be presented as a system of ratings that compare the impact profiles

³⁵ See section 3.6 in IFVI and VBA. (2024). Exposure Draft, *General Methodology 2: Impact Measurement and Valuation Techniques*.

of entities, or as ordinal scales that compare performance against policy targets, such as the Sustainable Development Goals (SDGs) of the United Nations.

One top-down approach that is specific to product impacts is to estimate the consumer surplus realized by customers in a market who purchase a product. In theory, consumer surplus can be measured by calculating the sum of the difference between the willingness to pay of each buyer of a product in a market and the market price. In practice, estimating consumer surplus relies on advanced economic modeling and may be technically challenging. Further, the results may only provide generalized insights at an industry level rather than at the product specific level and may exclude externalities and internalities of products.

Top-down approaches may be used to complement impact information that is generated using an impact pathway approach. In some situations, top-down methods, such as the estimation of consumer surplus, may serve as a reasonable proxy of product impact; however, any deviations from an impact pathway approach should be clearly disclosed to users of impact information.

45. The default reference scenario assumes that an entity's products and comparable substitutes do not exist and is designed to ensure the comparability of impact information across applications of impact accounting.³⁶ A comparable substitute refers to any substitute product that has overlapping use scenarios with the product being assessed. Comparable substitutes may provide only a subset of the use scenarios of the product being considered. Identifying comparable substitutes requires an examination of intended and unintended use scenarios.
46. The default reference scenario should be set so that any material impacts resulting from the product's most common use scenarios are captured. The default reference scenario does not measure product impacts against the next best alternative product because such a reference scenario may not consider impacts linked to the most common use scenarios but only use scenarios that are in addition to the next best alternative. The default reference scenario does not assume that enabling infrastructure or goods and services provided by adjacent value chains disappear. When applying the default reference scenario, the risk of misrepresenting product impacts, particularly overstating positive impacts, should be considered.
47. Applying the default reference scenario to product impacts requires additional guidance regarding the determination of comparable substitutes. Industry-Specific Methodologies shall clarify the default reference scenario that is used to measure any product impact in an industry. If a preparer develops an impact pathway for an as yet undeveloped product

³⁶ See section 4.6 in IFVI and VBA. (2023). *General Methodology 1: Conceptual Framework for Impact Accounting*.

impact, the reference scenario applied should be disclosed to users of impact information.

Box 1: How to set the reference scenario for a product impact

This box summarizes the approach to determining the reference scenario for a product impact. The steps are outlined below.

1. Identify a final product at the end of a value chain.
2. Identify and describe the most common use scenarios for the product.
3. For each use scenario, determine any substitute products with overlapping uses. Include those substitutes as products that do not exist in the reference scenario.

The table below provides illustrative examples of reference scenarios for three products by examining select common use scenarios. The use scenarios shown are not meant to be exhaustive for each product. Reference scenarios are typically set for each use scenario.

Final Product	Industry	Use scenario	Reference scenario
Car	Automotive	Point-to-point personal mobility	Private and public transportation are unavailable
Apple	Food & Beverage	Nutrient intake as part of a balanced diet	Nutrient dense foods are unavailable
Smartphone	Information, Communication, & Technology	Instantaneous verbal communication	Smartphones and landline phones are unavailable

This approach is not the only approach to determining the reference scenario. The reference scenarios shown should not be assumed to be official reference scenarios for the purposes of the Methodology. Industry-Specific Methodologies should be consulted for guidance on any particular product impact.

3.4 Monetary valuation

48. The concepts and techniques for monetary valuation are the same for product impacts as other impacts in the Methodology.³⁷ The process includes translating changes in well-being that result from the use of a product into monetary terms to reflect the value of

³⁷ See section 4 in IFVI and VBA. (2024). Exposure Draft, *General Methodology 2: Impact Measurement and Valuation Techniques*.

the impact to affected stakeholders. Attention should be given to which valuation techniques promote the comparability of impact information.

49. For the avoidance of doubt, the monetary valuation of a product impact is meant to reflect individuals' preferences by revealing the relative importance, worth, or usefulness of a change in well-being resulting from the use of a product. The monetary value of a change in well-being is a distinct concept from the market price of a product.
50. The steps to measure and value a product impact are iterative, and decisions made in one step may result in limitations in the others. When selecting a monetary valuation technique, implications on data requirements and the indicators used to measure changes in well-being should be considered. The valuation techniques most suitable for particular product impacts shall be established in Industry-Specific Methodologies.

Appendix A: Glossary

Term	Definition	Source³⁸
Activities	Everything that an entity does, including operations, the procurement of inputs, the sale and provision of products and/or services, as well as any supporting activities. Activities span a large number of different actions that altogether contribute to outputs and ultimately, outcomes and impact.	Impact Management Platform
Affected stakeholders	Affected stakeholders are individuals or groups whose well-being is affected or could be affected, positively or negatively, by the entity's activities and its business relationships across its value chain.	N/A
Business customer	An organization that acquires or uses goods and services as part of its activities. A business customer is not always a for-profit enterprise engaged in commercial or trade activities, and may be an academic institution, government, or non-governmental organization, among other types of business customers.	N/A
Business relationships	The relationships the entity has with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services. Business relationships are not limited to direct contractual relationships. They include indirect business relationships in the entity's value chain beyond the first tier, and shareholding positions in joint ventures or investments.	European Sustainability Reporting Standards
Capitals	The resources and relationships affected and transformed by an entity.	Impact Management Platform

³⁸ Some definitions are adapted from the original source.

Comprehensive assessment	A comprehensive assessment evaluates the societal value created and/or eroded as a result of the entity's activities and business relationships across its value chain	N/A
Consumer	An individual, or group of people, who acquire, consume, or use goods and services for personal use, either for themselves or for others, and not for resale, commercial or trade, business, craft, or professional purposes.	European Sustainability Reporting Standards
End-user	A business customer or consumer who ultimately uses or is intended to use a particular good or service during its use phase. Business customers and consumers are the two categories of end-users described in the <i>Product Framework</i> .	European Sustainability Reporting Standards
Final product	A product that is used by an end-user during its use phase without further processing, transformation, or inclusion in another product. Final products include products used by consumers, products sold to retailers for resale to end consumers, and products consumed by business customers in their current form.	GHG Protocol
Impact	A change in one or more dimensions of people's well-being directly or through a change in the condition of the natural environment.	Impact Management Platform
Impact drivers	Refer to the sequence of an entity's inputs and outputs that may have positive and/or negative impacts on people's well-being.	Impact Management Platform
Impact information	Impact information is derived from impact accounts and informs decision-making related to an entity's effects on sustainability. Impact information includes, but is not limited to, impacts that have been classified and aggregated for the purpose of presentation, supplemental notes that describe the assumptions, data, or methods used to measure and value	N/A

	impacts, and qualitative commentary that contextualizes impacts.	
Impact pathway	The series of consecutive, causal relationships, ultimately starting at an input for an entity's activities and linking its actions with related changes in people's well-being.	ISO
Indicator	Indicators are used to measure the state of something at a point in time. The words indicator and metric are often used interchangeably. Repeated measurement of an indicator makes it possible to determine changes in well-being over time.	Impact Management Platform
Input	The resources and business relationships that the entity draws upon for its activities.	Impact Management Platform
Intermediate product	Inputs to the production of other goods or services that require further processing, transformation, or inclusion in another product before use by the end consumer. Intermediate products are not consumed by the end-user in their current form.	GHG Protocol
Outcome	The level of well-being experienced by people or condition of the natural environment that results from the actions of the entity, as well as from external factors. Outcomes are used to describe the one or more dimensions of people's well-being that are affected by an input, activity, and/or output.	Impact Management Platform
Output	The direct result of an entity's activities, including an entity's products, services, and any by-products.	Impact Management Platform
Primary data	Data collected by the entity or an externally contracted party specifically for the purpose in which it is used.	N/A
Product	A good or service sold by an entity. A product may be an intermediate product or a final product.	N/A

Product impact	A change in one or more dimensions of people’s well-being directly or through a change in the condition of the natural environment that results from the use of a product.	N/A
Reference scenario	The set of activities and related outcomes that is assumed to happen in the absence of the entity’s activities.	Impact Economy Foundation
Stakeholder	Stakeholders are defined as those who can affect or be affected by the entity.	European Sustainability Reporting Standards
Secondary data	Data originally collected and published for a different purpose.	N/A
Social discount rate	A social discount rate measures the rate of change over time of costs and benefits to society. The social discount rate is embedded in the economic theory of how to measure intertemporal trade-offs and is used to analyze individual’s preference for optimizing between savings today and consumption in the future.	N/A
Sustainability topic	A term used broadly to denote aspects of stakeholder well-being (e.g. health, wealth, safety), or business activities or practices that are evidenced drivers of well-being (e.g. employment, diversity and inclusion). This term is synonymous with ‘sustainability matters’, ‘impact areas’, or ‘general issue categories’ which are similar terms used by different standard setters.	Impact Management Platform
Use phase	The entire lifetime of a final good or service at the end of a value chain, from the moment an entity transfers the good or service to an end-user until its end-of-life treatment.	GHG Protocol
Use scenario	Applications in which a product is used over its lifetime. Use scenarios may come from sources such as industry recognized specifications, product category rules,	GHG Protocol

	previous impact studies, or consumer studies, among others.	
Value chain	The value chain of an entity is the full range of activities and business relationships related to the entity’s business model(s) and the external environment in which it operates. A value chain encompasses the activities and business relationships the entity uses and relies on to create its products or services from conception to delivery, consumption, and end-of-life.	European Sustainability Reporting Standards
Value factor	A value factor translates the information that an entity collects across its operations into insights on the relative importance, worth, or usefulness of an impact.	Value Commission
Well-being	Well-being can be defined as the state of being or doing well in life; happy, healthy, or prosperous condition; moral or physical welfare.	Impact Management Platform
Well-defined outcome	A well-defined outcome identifies the affected stakeholder and the dimensions of well-being that change for that affected stakeholder as a result of the entity’s activities.	Social Value International

Appendix B: The Value of a Product in Economic Theory

B1. In economic theory, the foundational supply and demand model, which depicts the preferences of buyers and sellers in a well-functioning market for a good or service, and concepts related to market failures help to explain the types of value that relate to a product. In a well-functioning market, the value connected to a product is represented by consumer surplus and market price.³⁹ In markets that are not well-functioning, market failures may result in externalities and internalities. A description of each type of value is included below.

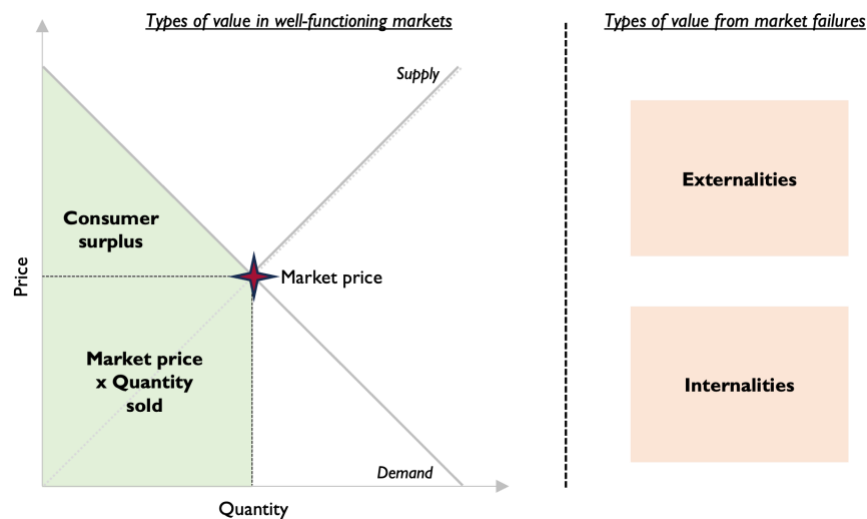


Figure 2. Types of value connected to products in economic theory

B2. The market price of a product represents the willingness to pay of the marginal customer.⁴⁰ The marginal customer is the customer in the market who would not pay any amount above the market price for the product. The market price is, therefore, lower than the willingness to pay of all non-marginal customers. The difference between the willingness to pay of non-marginal customers and the market price is known as consumer surplus.^{41,42}

³⁹ A market is well-functioning when buyers and sellers have equal access to information, barriers to entry and exit are limited, and no single seller, or concentrated group of sellers, influences the market price. A market should not be assumed to be well-functioning.

⁴⁰ See section 4.2 in General Methodology 2 for a complete description of willingness to pay.

⁴¹ OECD. (2013). *OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth*.

⁴² To be consistent with economic theory, the technical term consumer surplus is used; however, a surplus is realized by any non-marginal customer, including business customers and consumers.

B3. An externality is a benefit or cost to a third party that results from an entity's activities, including the use of an entity's products, for which the entity is neither paid in the case of benefits nor charged in the case of costs. An internality is a benefit or cost to a customer that is not considered when the purchase decision is made. Externalities and internalities are related in that they occur when market prices do not reflect all of the benefits and costs of corporate activities.

Appendix C: Attribution Techniques

Category	Allocation technique	Definition	Allocation rate formula ⁴³
Pre-defined allocation	Legal allocation	Agreed upon by partner entities that jointly deliver an impact as specified in a legal agreement.	$r = w_e / \sum_{i=1}^n w_i$
	Industry allocation	Designated at value chain assessments where the role of each actor in the value chain is quantitatively defined. They may be designated by specific industry standards or practices, adapted to the unique characteristics and requirements of a particular industry.	
	Collaborative allocation	Agreed by the different actors that participate in the value chain.	
Quantitative economic allocation	Value-added allocation	Based on the proportion of added value of each entity relative to the total value added of the industry.	$r = VA_e / \sum_{i=1}^n VA_i$
	Revenue-based allocation	Allocated based on the revenues or market prices of each entity in the value chain.	$r = R_e / \sum_{i=1}^n R_i$

⁴³ Where r refers to the allocation rate, e to the entity, n to the number of entities in the value chain, VA to value added, R to revenues, C to costs, A to total assets, E to the number of employees, V to a volume metric such as tonnes, U to units, T to a time variable such as minutes, and AuM refers to the assets under management related to the entity's financial position.

	Cost-based allocation	Allocated based on the costs incurred by each entity in the value chain.	$r = C_e / \sum_{i=1}^n C_i$
	Asset value allocation	Based on the value of the assets of each entity within a value chain.	$r = A_e / \sum_{i=1}^n A_i$
	Employee-based allocation	Determined by the number of employees or the labor input contributed by each entity.	$r = E_e / \sum_{i=1}^n E_i$
Quantitative physical allocation	Underlying physical relationship allocation	Allocated based on the physical mass, volume or energy of goods or services produced, distributed, or sold by each entity in the value chain; or on the mass, volume or energy, of the goods produced by each entity with respect to the total volume of the final product.	$r = V_e / \sum_{i=1}^n V_i$
	Units-based allocation	Based on the total number of units produced, distributed, or sold by each entity; or on other measurable units related to the product usage.	$r = U_e / \sum_{i=1}^n U_i$
	Use-based allocation	Based on the number of uses or the proportion of time spent of a product related to the entity's activity relative to the total uses or time	$r = T_e / \sum_{i=1}^n T_i$

		spent using the product.	
Quantitative control allocation	Financial control allocation	Allocation determined by the level of financial control over the value chain activities.	$r = AuM_e / \sum_{i=1}^n A_i$
	Operational control allocation	Allocation based on the degree of operational control an entity has over the processes or activities within the value chain.	Variable
Qualitative Allocation		Allocates resources or impacts based on qualitative assessments, such as expert judgments or descriptive evaluations, rather than quantitative measures.	Variable

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