Public Comment Letters
General Methodology 1: Conceptual Framework for Impact Accounting

IFVI in partnership with the Value Balancing Alliance released the exposure draft for *General Methodology 1: Conceptual Framework for Impact Accounting* for public comment from August 16 to October 31.

Comment letters are public and can be accessed below. Views expressed in any comment letter represent those of the relevant respondent. They do not represent the views of IFVI, VBA, the VTPC, or any of their representatives or directors. Comment letters are presented without revision, with adjustments only made as necessary for formatting purposes.

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1. Alianca Pelo Impacto - GSG Brazilian NAB

COMMENTS ON IFVI's PUBLIC CONSULTATION ON GENERAL METHODOLOGY 1 (EXPOSURE DRAFT)

By ARON BELINKY (ON BEHALF OF ALIANCA PELO IMPACTO - GSG BRAZILIAN NAB)

OCTOBER, 31st, 2023

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity.

A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions.

The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22.

1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

I agree with the separation between preparers of impact accounts and users of impact information, as proposed. I believe that this distinction allows us to recognize the different roles, responsibilities and interests involved in the production and use of information about the impacts caused by an entity. It is an important distinction because preparers of impact accounts – both internal and external to the entity – must follow clear, well-founded and transparently communicated principles, so that users – whatever their interests – know how they were produced and what the impact information they are using represents to support their assessments and decisions. The impact accounts presented may have been planned with a certain type of user or purpose in mind, but they should be understandable by any stakeholder who is interested in them, even if he/she is not the type of user originally imagined. That is why it is so important that the criteria, methods and assumptions used in the production of impact accounts are explicit, consistent and clearly communicated. The examples of user types provided in the document are adequate, and clearly show some of the important differences that may exist.

Question 2 – Conservatism in faithful representation (paragraph 32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts."

For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 *General Requirements* or IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's *The Impact-Weighted Accounts Framework*.[9]

The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

I agree with the inclusion of the principle of conservatism as proposed. In addition to the reasons presented above (to legitimize impact accounting and counter-balance impact washing), I add that this principle is justified depending on the criticality and severity of the phenomenon that impact accounts seek to measure. The proposed conservatism bias is important because it means that the consequences of possible errors tend to be net positive, that is, the error would be in the sense that the evaluated practice would generate more benefit (or less harm) than expected. It is a mistake that benefits society as a whole, which would be “a good mistake”. The lack of this principle leaves room for potential immobility, which could result from the adoption of a principle of prudence. (Not to say the opposite, that could lead to errors worsening the problem that should be solved or mitigated).

It is also worth remembering that the principle of conservatism can be understood as a type of application of the widely used precautionary principle, which establishes that the lack of scientific certainty regarding the risk posed by a practice, product or technology cannot be used as an argument for the authorization of such practices, products or technologies.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.[10]

The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity.

1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

The proposed impact pathways logic seems appropriate to me. In fact, there will be practical challenges in defining the limits, both of each stage, as well as the set of stages and the difference between one stage and others. However, for a general methodology, this should be the starting point, to be refined according to each context and application case.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance.

Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows:

a. the capacity of the impact information to influence the decisions of users;
b. the need for transparency as a public good and accountability towards affected stakeholders; and
c. the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?
2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?
3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

1. The paragraphs in question seem clear and objective to me. The distinctions between the types of materiality presented are correct and very important. The text is also good with regard to the practical and conceptual implications of these distinctions and is correct in saying that for impact accounts it is essential to consider impact materiality. It is predictable that there will be criticism about the difficulty of evaluating and standardizing impact accounts, due to the difficulties and complexity and variability of impact materiality. Even though this is a challenge, it cannot be a reason for an undue simplification from the materiality perspective, in favor of greater ease in using the impact accounts methodology. Simplification – when possible – can come from a good and well-justified definition of relevance, as discussed in the next question.

2. The proposed perspectives for determining relevance seem appropriate to me, as they are consistent with the proposal to create a public good, aimed at improving the contribution of organizations to society and the environment. They are also consistent with the concept of impact materiality adopted. The final sentence of paragraph 75 recognizes this challenge and indicates the path to be adopted: "Ultimately, the process of identifying impacts, measuring and valuing them to understand their significance, and assessing them from an impact materiality perspective is an iterative and ongoing process".

3. Despite its being a very challenging proposal, I agree with the definition of impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting, as this is, in fact, the nature of impact materiality. I also agree that, for this reason, the methodology should not contain mandatory impacts. That said, I understand that it will be necessary to offer users practical guidance (and as standardized as possible) to help categorize the types of impact and their possible materiality, according to the different contexts in which the entities operate. Evidently, it is impossible to produce an exhaustive or complete list, and therefore some degree of generalization will be necessary, complemented by practical principles that guide and support account preparers in the task of defining what should or should not be considered in the materiality analysis.

Question 5 – Additional feedback

1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

In general, I agree with the proposed methodology, in all its aspects. I found the reference to the evolutionary perspective of the methodology and the recognition of its limits, placed in paragraphs 1 to 10, very important.

As a suggestion for improvement, I believe that one of the main points of debate and possible criticism could be more worked on. I refer to the attribution of monetary values to goods that cannot be bought, sold or replaced. This is a very big conceptual (and ideological) obstacle when it comes to the monetized valuation of goods that are not commodities. The document shows that the Methodology does not propose to make this type of judgment, but does so implicitly. I recommend that you be more explicit, recognizing and explaining more directly the philosophy you adopt on this, and how it presents itself in practice.

When I refer to the implicit message about this issue, I am referring to some excerpts from the Methodology: Right at the beginning (paragraph 6), the Methodology says that "Impact information informs decision-making by interpreting impacts in comparable and understandable terms, specifically monetary units. Impact information is useful for considering trade-offs between different sustainability topics and between sustainability topics and financial topics". This statement implicitly establishes that monetization is not to define the value of goods/capital created or destroyed, but only to support comparisons and decision-making, establishing a common reference. This is also reinforced in footnote 11. In paragraphs 9 and 10 this point is also touched upon, for example in the final sentence: "The Methodology is intended to provide a credible and standardized approach that promotes the comparability of sustainability-related data at scale through monetary valuation. Additional approaches may nonetheless complement the impact accounting system developed in the Methodology".

Although a careful and willing reader can get the message of "not putting a price on nature and on people's well-being" from such text, that won´t be always the case. Therefore, I would suggest that you should be much more explicit and didactic about this sensitive topic.

An interesting source for inspiration in this field is the discussion of the controversies that arose when the insurance industry began offering life, disability, and personal accident insurance policies. About this, I recommend consulting the book "What Money Can't Buy: The Moral Limits of Markets", by Michael Sandel.

2. American Evaluation Association (AEA)

Dear Members of the VTPC:

On behalf of the the American Evaluation Association (AEA), we welcome the opportunity to provide feedback on the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA)'s Exposure Draft for General Methodology 1: Conceptual Framework for Impact Accounting.

The AEA is a professional association with 6,000 members from across the United States. AEA's mission is to improve evaluation practices and methods, increase evaluation use, promote evaluation as a profession, and support the contribution of evaluation to the generation of theory and knowledge about effective human action. The social impact measurement thematic interest group (SIM TIG) is a subset of AEA members who are interested in the topic of social impact measurement and management and exploring the interplay between the social and financial return of investments. Our group comprises evaluators, evaluation commissioners, investors, grantees, and intermediary bodies who have experience in the social impact measurement space from across the private sector, public sector, and non-profit arenas.

After careful review and internal discussion, our group would like to offer the following feedback on the Exposure Draft.

Question 1 – Preparers of impact accounts and users of impact information

Our group supports the separation of preparers of impact accounts and users of information, and we are in agreement that separation is both practical and necessary. However, we offer some considerations for organizational structure and feasibility for IFVI to consider:

- We agree that strong definitions for roles, responsibilities and expectations are needed but find that existing definitions could be improved and made more distinct. Acknowledging that the impact measurement field is still in development, this separation may not be feasible until there are more established and clear expectations and expertise to support role separation. In theory, preparers are likely to have more objectivity than users. But to be effective, preparers must be sufficiently versed in the nuances of the users' specific impact that they can viably assess it.
- Based on our collective experience, and previous experience with SROI calculations, we believe it is essential that an independent third party be involved in the valuation methodology, and, for the process to be done well, preferably someone trained in social science research, evaluation or impact measurement.

We recognize that independent third-party evaluation, as well as the cost of implementing this methodology, may be cost-prohibitive to companies. Our concern is that a heavy methodology may drive companies to simplify their impact processes to surface-level, invalid approximations in order to keep costs down. Such approaches can contribute and exacerbate impact washing. However, technological advancement and experienced evaluation practitioners can provide efficient solutions for an impact measurement strategy.

- Additionally, we disagree that an investor could prepare impact information based on their own expertise and contextual knowledge.
- The proposed definition could pose some limitations for organizations that are structured as separate entities but exist in partnership through institutional and/or enterprise-wide initiatives and directives. For instance, academic medical institutions often comprise a "standalone" university system and a separate clinical hospital system, which may comprise one or more hospital authorities, as well as another entity comprising affiliated private practices. Together, they are charged with advancing biomedical discoveries that impact health outcomes. The definition as applied would need to clarify what would constitute "external" as applied to these organizational structures to avoid conflicts of interest.
- Additional considerations by paragraph/reference:
    - What is meant by “external perspective”? This must be clarified, as it is not clear if this is referring to investors preparing an impact account on behalf of an investee, or a third party consultant preparing on behalf of an investor.
    - Paragraph 20: be more explicit about the need for entities to measure their own impacts. This is an opportunity to push companies to build and fund the missing impact assessment infrastructure.
    - Paragraph 21: Not clear as a bridging paragraph for the reader.
    - Paragraph 22: Should include “understanding progress of corporate philanthropic actions and impact investing programs.”
    - Paragraph 22c: Could include “general public.”

Question 2 – Conservatism in faithful representation

We agree that it is important to include this principle because impact washing is prevalent and undermines the credibility of the field. Given the nature of when impact happens vs. when investments are made, investors cannot predict impact with certainty. Our concerns are that: (1) the principle of conservatism is difficult to prove, and (2) it may not be sufficient to reduce impact washing. In general, all claims about impact are uncertain and have a certain degree of bias (negative or positive). We try to minimize bias in research by validating data points across different perspectives, acknowledging and mitigating selection bias, and other approaches. In this case, ensuring conservatism requires a trustworthy point of comparison to know whether impact claims reflect reality.

As stated in response to Question 1, we think there is a need for a trained and competent independent third party to faithfully represent the data. This is also a problem we face in the evaluation field, and one we have struggled with over the years. To date, we have developed evaluator competencies and principles established as “guardrails” to support individuals and organizations responsible for compiling assessments and evaluation of impact.

Question 3 -- Impact pathways

The Exposure Draft uses one of the two Impact Management Platform (IMP) definitions for "outcome": that "outcome" is the level of well-being or condition of the natural environment. There is, however, a second consensus definition of outcome (as used by IRIS+/the GIIN) wherein outcomes are the change. The Exposure Draft’s definition of "impact" does not align with the current IMP consensus definition, which conceives of impact as "the effects of an organization on people and the natural environment" -- not the change as described in paragraph 52e. Alternatively, authors may want to remove reference to IMP consensus for the impact pathway.

The Exposure Draft relies on what we understand as a linear logic model approach but confuses terminology and visual representation among two distinct conceptual frameworks (called *models* here):

1. Potential outcome models use the term “outcome” as used in the document: it is a “state of the world” that depends on actions taken by an organization -- if an organization acts one way, we get a particular state of the world; if the organization acts differently, we get a different state of the world. The difference between the two is impact.
2. Logic models divide differences between states of the world into three progressive categories of change called outputs, outcomes, and impacts. The difference between the three is timing, level of direct influence, and (often) level of importance.

We recommend instead choosing one conceptual framework, evaluating whether it advances the intended users’ purpose, and applying it. Such a distinction would improve clarity in paragraph #52 especially. As well, since the environment is included in this impact accounting method, we would recommend a systems-based approach, which would allow feedback loops between impacts, outcomes, and outputs, which should be included where necessary.

In addition, we find paragraphs #53 and #54 difficult to parse. Evaluators usually use the term “drivers'' to describe those factors that help or hinder the inputs, activities, outputs and outcomes from occurring. Evaluators normally speak about assumptions underlying the links between the elements of the pathway and the contextual factors or drivers. If, let’s say, the entity is a firm with multiple locations, it means that contextual factors, including environmental conditions, will be very much at play.

Question 4 -- Impact materiality and the qualitative characteristic of relevance

We respond to the three sub-questions below:

1. As written, we find that the second sentence of paragraph 74 is not clear: "Irrespective of the financial materiality of an impact, impact materiality serves as a sufficient basis to prepare impact accounts. The process of "application of impact materiality perspective" as illustrated in Figure 3 in preparing impact accounts is unclear. This step is to be undertaken after impacts are identified, measured and valued. Otherwise, the approach implies that the impact materiality perspective is concerning only to impacts that are to be included in impact reports of the entity requiring or requesting the report. Paragraph 84 could be more directive around how direct and indirect impacts are included, and whether they should be identified as such. Others are clear.
2. We find that paragraph 26, with the three criteria for relevance, may lead to the over-inclusion of impact (which is perhaps the intent). The first criterion in 26a, the *capacity of the impact information to influence the decisions of users*, suggests that capacity can be predetermined, which depends on whether users are requesting this information. The distinction between perspectives in 26b (need for transparency and accountability) and 26c (significance) could be improved. Paragraph 27 could be further clarified by splitting up according to potential and actual impact, as well as positive and negative impact (in a table format or similar). Also, in section 3.2, paragraph 27c, we are not clear on how one would measure "irremediable character" for entities where effects are unknown or can take years to become apparent.
3. We agree that materiality is entity-specific. However, aligning with other reporting protocols would be helpful for the practitioner. Regarding mandatory impacts, we find that it is a good idea to include under the comparability characteristic but difficult to judge without more information.

We believe that it is extremely important to consider materiality, especially in regards to affected stakeholders. However, asking a preparer to estimate the "scale and scope" of impact for affected stakeholders is problematic. What specific factors could a preparer consider to viably and consistently address this? There also is an element of hubris in the proposed approach because it assumes that preparers can speak for affected stakeholders, which is contrary to principles of equity and representation in evaluation. As shown in Figure 3, what is material to include is decided after it has been valued, which creates the risk of highly relevant, highly valuable, but potentially unfavorable data to be excluded. We would be interested to know why a materiality assessment isn't a first order of business, ideally through engagement with targeted stakeholders. Outside assumptions about what communities and populations are likely to find material also are likely to be inaccurate. Even with the best of intentions, when we speak for others, we often get things wrong.

There are materials from Social Value International that would be useful to consider in the design of this approach.

Question 5 -- Additional feedback

Overall, we find that this specific framework is situated in an ecosystem of different impact investment measurement frameworks and proposals, but for which the motivation, context, and purpose of this framework are unclear at present. We implore the authors to learn from the evaluation field's mistakes and promising practices, where the evaluation field went through a similar genesis and debate around the role of neutrality, independence, internal vs. external evaluators, the value of participatory research designs, and so on. We at AEA are happy to support the authors on this journey and share our practitioner perspective gained over time, by providing external objectivity to address the problem of standardization as an industry.

In particular, we would point the authors to:

- Guiding Principles for Evaluators, which are foundational for evaluators and the field of evaluation.
- AEA Evaluator Competencies and the AEA Statement on Cultural Competence in Evaluation, which guide evaluation principles and ethics.
- Program Evaluation Standards, which help define what high-quality evaluation entails.
- Equity-centered evaluation resources, such as We All Count and the work of Heather Krause, Jara Dean-Coffey, and others.

We deeply appreciate the effort to quantify and standardize impact because this will catalyze greater investment in impact-driven ventures. This approach may be a useful tool for impact measurement specialists to adopt, alongside the use of qualitative and contextual data. We fully agree that those affected by an entity are relevant users of impact data and we applaud the authors in recognizing the importance of data as a public good as a tool for accountability. As written, the Exposure Draft raises serious concerns regarding valuation methodologies that will create a monetization and verification industry that encourages measurement of things that are easy to measure but are not truthful or actual representations ofimpact, leading to potential impact washing. Additional related risks include:

- Too much emphasis on valuation practices may become cost-prohibitive and burdensome to mission-driven investors, and ultimately take resources away from actual impact investments, especially when there are needs for impact-first investments or investments that deliver financial returns but at lower-than-market-rates.
- Entities may not be forthright in preparing impact accounts, and thus present positive results only. Audits may not be able to address such issues because the analytical framework assumes that impact, whether negative or positive, can be categorically valued and compared in monetary terms. In our experience, human behavior and wellbeing are not easily captured in monetary terms as a unit of measurement. Furthermore, environmental externalities are especially difficult to attribute.
- Regardless of intent, investors may impact-wash their investments by using models that do not sufficiently reflect context and assumptions.

Additional suggestions for clarity and cogency are below.

- The term potential impact is used to refer to uncertain impacts. Impact claims are always uncertain to some degree, so how does one distinguish between potential and actual impacts? And why use the adjective potential when the meaning seems closer to “an impact claim with a significantly lower level of credibility”? We think that evaluative concepts of potential negative impacts, unintended consequences and downstream effects would be useful here.
- Paragraph 68: how can impacts materialize in a period prior to the activity that caused them?
- Paragraph 69 states, “The attribution of an impact refers to the portion of an impact that is reflected in an entity’s impact accounts.” This appears to address the problem of multicausality—that many entities may collectively contribute to or create an impact, and in some cases the impact may be overdetermined (multiple entities are sufficient to create the impact independently). However, given that an impact is described as the difference in states of the world between the impact pathway and a reference scenario, additional details in how to address this in sector-specific contexts would be necessary. We understand additional publications from VTPC/IFVI may address this issue.

We appreciate the opportunity to elevate the field of social impact measurement and enhance rigor in the impact investment field. We look forward to the publication of this methodology and the additional sector-specific information you are planning to share.

Sincerely,

AEA SIM TIG group

Morgan Buras-Finlay - External Relations Co-Chair
Lala Kasimova - External Relations Co-Chair
Elizabeth McGuinness - Member
John Gargani - Member
Catherine Dun Rappaport
Courtney Bolinson - Past Chair
Slavica Stevanovic - Member

(Direct any follow-up to External Relations Co-Chairs)

3. Business for Societal Impact (B4SI)

Conceptual Framework for Impact Accounting – General methodology 1 (Exposure draft)

Comment letter from Business for Societal Impact

Business for Societal Impact (B4SI) www.b4si.net is a global network uniting close to 200 mid to high cap global corporations in managing & measuring their shared value & intentional approach to positive social impact.

The B4SI Framework and standards provide for effective social impact management & measurement across an Input/Output/Impact Framework spanning Community Investment, Business Innovation, and Social Procurement. Originating as LBG in the 1990s, materials are co-created across the network of companies by practitioners, with support from B4SI teams in EMEA, the Americas & APAC. B4SI has long aided corporations in assessing positive intentional social impact, positioning us at the forefront of business-driven societal solutions.

Corporations in the network gain rigour in the management of their programmes and confidence in their external reporting provided by the comparability of data and application of standards. Each year B4SI benchmarks data across the universe of B4SI members to provide additional management information. As benchmarking is provided for management purposes, it is not shared as a method of public ranking although top level trends and changes are shared publicly.

Our global experience and role in supporting social impact practitioners around the world offers valuable input to the Impact Accounting Framework. We trust our responses to the questions in the Exposure Draft will provide meaningful insights and pave the way for a productive dialogue on the framework's development.

Question 1: Preparers of impact accounts and users of impact information (5, 20, 22)

The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity. A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions. The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information.

QUESTION: Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

- B4SI agrees in principle to the proposal to separate the preparers of impact accounts and user of impact information. We firmly believe that the entity itself should be the preparer, primarily due to its direct access to vital data that can provide deep insights, in addition to the entities' ownership of the overarching strategy and accountability to deliver upon that strategy's goals.
- The Methodology draws heavily on financial accounting concepts and in doing so, adds considerable weight to investors as a key user of impact information.

- We believe that the Methodology would benefit from identifying the importance of the impact information as critical management information to enable informed and evidence-based decision making to increase positive impacts and (presumably) to reduce potential negative impacts.
- The entity themselves should therefore be clearly identified in the Methodology as a key primary user of the information, prior to its distribution to other stakeholders such as investors.
- At B4SI, we support entities with identifying the intended beneficiaries of the positive impacts resulting from intentional social investments, and therefore we believe it important for this methodology to consider stakeholders of impact as an important party to provide feedback and to substantiate impact reporting.
- Drawing a parallel to financial accounting, if impact accounting aspires to achieve a similar stature, it must be held to the same standards of rigor and precision. Allowing users of the information to also be preparers could introduce conflicts of interest and result in incomplete or biased accounts.
- Furthermore, the still-developing nature of the institutional infrastructure for impact management underscores the importance of a clear delineation between preparers and users. To ensure the correct application of methodologies, all B4SI corporate members use our framework to compile their input, output, and impact data for external reporting based on guidance we consistently update. We also have measures in place for additional assurance to ensure correct application, injecting rigor into the process.
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Question 2: Conservatism in faithful representation (32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts." For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 General Requirements or IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's The Impact-Weighted Accounts Framework.9 The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general-purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

- B4SI firmly supports the inclusion of the principle of conservatism in the impact accounting methodology. This aligns closely with our foundational belief, encapsulated by our maxim: "If in doubt, leave it out." This emphasizes the importance of erring on the side of caution, especially when there is insufficient information. This approach is crucial to counteracting the risk of "social washing".

- Building on this foundation, the B4SI framework introduces a feature that highlights the proportion of company activities reported. This transparency provides stakeholders and impact information users a clearer view of the reported data's breadth and potential omissions, fostering more informed decision-making, and building trust in the reported impacts.

Question 3: Impact pathways (51, 52, 53, 54)

Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.10 The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity. *1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.*

- Our concern is where outcome and impact elements in the proposed impact pathway are contingent on being modelled in monetary valuation. Financial valuation is not the only way to measure change in terms of impact, particularly when dealing with social themes. We would recommend that the pathway be expanded to reflect this and a distinction between monetising impact and articulating impact as a change that has happened.
- Theory of change aims & objectives tend to underpin KPI's in social impact programmes and articulation of change in monetary valuation is not a suitable measure of impact in these cases.
- Clear guidance may also be required within the impact accounting framework, especially when reporting isn't based on monetary valuation and B4SI has defined positive impacts in terms of changes to individuals, organisations, and the business in the short or longer-term, because of a social impact activity or intervention which can then be counted in a quantitative fashion.
- From our experience with companies globally we are seeing a greater demand for impact measurement expertise within entities due to an entities' social sustainability being deemed a financial risk by regulators and standard setters and the entities broader audiences and impact information users.
- Within the B4SI framework, we have streamlined the outcome and impact components in response to the balance between corporate resource constraints and the need for meaningful impact measurement. Our methodology does not hinge on monetary valuation. Instead, it sets a crucial stage for defining the activity's outcome and streamlines the reporting process in terms of impact type and depth. We believe our approach can complement the proposed impact pathway, particularly when entities opt for non-monetary valuation reporting.
- Our view is that it will be important to expand the methodology relating to the impact pathways to include considerations relating to the different types of impact, the users of the

information, and the varying risk appetites. For example, one audience cohort may have a low threshold of risk regarding the extent to which there are assumptions built into a model to enable arriving at a monetary valuation of a particular impact, as compared to another.
- Caution is advised regarding the risk of oversimplifying impact to arrive at a monetary evaluation. Very specific guidance, and with an industry lens applied is recommended to enable comparable reporting of impact accounts.

Question 4- Impact materiality and the qualitative characteristic of relevance (25, 26, 27, 73, 74, 83, 84)

To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance. Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows: a. the capacity of the impact information to influence the decisions of users; b. the need for transparency as a public good and accountability towards affected stakeholders; and c. the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. *Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?*
2. *Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?*
3. *Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?*

- We believe it's important to take account of the extensive research globally on the very real concept of an entities 'social license to operate' when developing the methodology further. Due consideration should be given to the risks inherent in limiting an entities' social investments to activities with a clear link to a company's material topics. An acceptable level of flexibility should be advised, depending on the specifics of the entity's industry, operations and footprint to allow for social investments beyond a company's identified material topics which were defined at a point in time which may not account for the entity's expansion/ evolution into new markets or products and services.
- The B4SI guidance and impact measurement methodology is broadly complementary to the fundamental qualitative characteristics of impact information outlined in chapter 3 of the exposure draft, with a few differences to note.
  - The B4SI impact framework and reporting methodology deals exclusively with positive impacts.
  - Our guidance guides practitioners to report on actual impacts where a measurable change has occurred over the course of a year or years.
  - The B4SI impact framework is designed to enable entities to report changes on an annualised basis.

   - The B4SI impact Framework allows for common depth/type impact KPI's to be bult into partnership programmes with external parties. This then allows for comparability across multiple projects and programmes.
- There is strong alignment with B4SI and the enhanced qualitative characteristics of impact information, namely comparability (standardised methodology and language for measuring impact), verifiability (through standardisation, we can verify and benchmark impact information) and understandability.

Question 5 – Additional feedback

Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Part of the work we do at B4SI includes guiding companies on the preparation of impact reporting as it relates to the entity's voluntary contributions to community, ensuring alignment to the B4SI impact framework. Approximately 40% of our membership report some impact measures annually and a percentage of those have their impact data formally assured. B4SI therefore already plays a role in the 'future state' described in the preamble to question 1, 'in which entities prepare and publicly disclose audited impact statements.'

Thank you for the opportunity to contribute the above feedback.

The B4SI network is governed by its members so I make this submission on their behalf as Global B4SI Director. I'd be delighted to have a further discussion about how the network can be involved in this project moving forward bringing our valuable perspective to the development of this methodology.

Regards,

Clodagh Connolly

Global B4SI Director

clodagh.connolly@corporate-citizenship.com

4. Common Approach to Impact Measurement

Hello IFVI,

Congratulations on this Methodology. It is a great step forward. I answer each of your questions below, starting with Question 5.

Everything that I say below can be summarized as follows: The Methodology looks good and reasonable, except that stakeholders, and their perspectives, must be plural.

Best,

Kate

Question 5 - Additional feedback

1. Stakeholder perspective should be stakeholder*s'* perspective*s*

The Methodology repeatedly refers to the affected peoples or places as a singular stakeholder with a singular perspective. For example, "The section sets out that impacts are valued from the perspective of the affected stakeholder as opposed to the perspective of financial risk or opportunity to the entity" (p. 8).

While it does happen that the affected people (or place) can be reasonably grouped as a single coherent stakeholder group with a shared perspective on value; it is much more common that several peoples and places are affected and that each holds a different perspective on the value of the impacts.

> Consider making stakeholder plural throughout the document (page 8, paragraphs 57, 58,59).
>
> Consider making perspectives plural throughout the document (page 8, paragraph 7, 58, 59 and two instances in paragraph 57)
>
> The text on page 8, for example, should read, "The section sets out that impacts are valued from the perspective***s*** of the affected stakeholder***s*** as opposed to the perspective of financial risk or opportunity to the entity" (p. 8).

It is important to acknowledge this complexity.

- Naming the plurality better reflects reality. Anyone doing this work has encountered the diversity of perspectives and has struggled with how to manage it. They will not be surprised to read "perspective***s*** of the affected stakeholder***s***" instead of "perspective of the affected stakeholder". Naming the plurality will validate their experience and lend greater credibility to the Methodology.

- Naming the plurality creates the space to address the complexity using our current methods. People doing these valuations need guideance. The Methodology could simply acknowledge that selecting a valuation requires judgment and invite valuators to disclose the stakeholders' perspectives that they considered and how they selected a valuation. The Methodology could create a table similar to Figure 4 (section 5.4) inviting users to list the affected stakeholders and each one's valuation of the impact.
- Naming the plurality avoids the erasure of minority viewpoints; whereas denying the plurality builds erasure into the Methodology. Minority populations with distinct perspectives become lost in averages when stakeholders' viewpoints are not disaggregated. For example, Indigenous voices make up 5% of Canadians. Queer voices make up about 4% of Canadians. Unless there is disaggregated valuation, the distinct values that these groups place on certain outcomes will appear as nothing more than outliers - part of a tail on a normal distribution. The Methodology already makes space for an aggregated "society in general". By not leaving space for a more disaggregated valuation, the Methodology risks creating/reifying an economic system that systemically overlooks these viewpoints. There are better ways! Disaggregated polyvocal approaches are not yet ready to be written into the Methodology but acknowledging the diversity of perspectives is a start in the right direction.

2. Consider adopting the language that Impact Frontiers used to define stakeholders in order to distinguish "those most affected" from other stakeholders. In particular, the Methodology may consider using the last sentence, which I have emphasized.

> "**Stakeholder:** An individual or aspect of the natural environment that can reasonably be expected to be significantly affected by the entity's activities, products, and services, or whose actions can reasonably be expected to affect the ability of the entity to successfully implement its strategies and achieve its objectives. [1] These include (but are not limited to) clients/end-beneficiaries, entity management and staff, suppliers, affected local people and communities (including marginalized and vulnerable groups), non-governmental organizations, civil society organizations, governmental entities, and other groups.[2] In this context, the entities' capital providers are not included as stakeholders, as it would be inappropriate for the entity to report on its impacts on capital providers to those same capital providers. For the avoidance of doubt, the term 'stakeholder' is intended to emphasize reports' inclusion of *stakeholders that are experiencing outcomes below socially or environmental thresholds (i.e., below acceptable levels), and stakeholders that have relatively little power, status, or voice, and whose interests are thus at greatest risk of not being taken into account in users' decision-making*." (emphasis added).

3. Strive to be very precise about what this Standard contributes to the ecosystem of standards. There is good reason to have different standards for different aspects of impact measurement

and valuation. The sector will be best served by each standard clearly stating what it does and does not standardize.

The Methodology states this well on page 5: "...valuing with monetary techniques the impacts of corporate entities" is precise and clear.

The Methodology overclaims on page 3: "globally applicable and comprehensive open-source methodology for valuing organizational social and environmental impact".

- Globally applicable could be interpreted to mean "universal" or "broadly" applicable/ Consider clarifying to emphasize that globally refers to geographic areas.
- There are other types of valuing that this standard does not cover, and thus the "comprehensive methodology for valuing .... Impact" over claims.

  Consider using the language from page 5 throughout.

4. Small point: Page 3: The link Due Process Protocol leads to a 404 error.

Question 1:
The separation of preparers and users is reasonable given the state of the ecosystem.

I find the language of "external perspective" odd. It could use some definition. I suggested some language below.

I wonder if the term "primary data" is being used correctly. I think the Methodology intends to use "primary data" to refer to the entity's own records, rather than a statement on who gathered the data. The entity's data could be primary data if the interview conducted surveys or interviews. It will have operational data that is primary data. However, the entity is likely to use a considerable amount of secondary data, such as operational data collected by suppliers, or the results of surveys conducted by a partner. More to the point, I don't think the Methodology needs to wade into the topic. I offer a rephrasing that bypasses the question.

Paragraph 5: Consider replacing

> "To produce impact accounts, it may be advantageous to have access to primary data of the entity; however the Methodology is flexible enough to be applied, with potential limitations ...., by investors to prepare impact accounts from an external perspective"
>
> with
>
> "The Methodology can be used to value an entity's impact either by the entity itself (internal perspective) or by those seeking to assess the entity from the outside, such as prospective investors, fund managers, analysts and activists (external perspective). There are limitations to the latter, which are noted throughout the Methodology."

As an aside: If Common Approach is able to implement the Common Impact Data Standard to the degree that we envision it being implemented; it will give funds and funds of funds access to the impact reports of all the underlying assets. This will simplify the valuation.

Question 2:
Seems reasonable to me.

In general, I would argue that impact-washing is not the threat that it is made out to be. I would lean toward inviting companies along the impact measurement journey is more important than warding off impact-washing. Too much warding off impact-washing will discourage entities from wading in.

In the history of standard setting, as I have read and interpreted it, it is preferable to have more people on board doing things poorly than it is to enforce rigour before the practice is widespread. Many standards have been proposed. Those that last and become widespread (like accounting!) started off very inclusive and loose. Those who moved quickly toward rigour are more likely to have been short-lived or used by only a small community.

Question 3:
The Methodology is reasonable for now.

In the future, this is going to be a gnarly knot. Impact Pathways are not nearly as linear as depicted. Impact Pathways describe causal, sequential relationships. However, there are other types of relationships, like circular, conditional, and nested relationships. The simplification into a linear Impact Pathway is an effective way to articulate an organization's theory of change. However, as a generalized valuation methodology, the simplification is going to present challenges. I think for a system of valuation, the Methodology may need to wade into more formalized ontologies, which can represent the complexity of relationships. (For example, SMASH ontology, described in this paper, can be viewed using this tool). Excited to work on that with you!

Question 4:
Seems reasonable to me.

1. I found the paragraphs clearly written.
2. I agree with the three perspectives. My preference would be to order the three perspectives differently so that the significance of the impact on affected stakeholders is first. It is good that the word 'stakeholder***s***' is plural here.
3. I agree that impact materiality is an entity-specific aspect of relevance. I fully, completely and emphatically support not including mandatory impacts in the Methodology. The ecosystem is going to need different standards for different things. Let this be a standard for valuing impacts. This is IFVI's unique superpower. Let some other group determine if certain business activities must disclose certain impacts. The Methodology invites preparers to refer to other relevant frameworks, initiatives and reporting standards. Perfect.

5. Common Good Marketplace

IFVI Draft Framework Comments

Thank you to the IFVI team for the depth of thought and rigor in developing this framework and for the opportunity to comment on its content and proposed methods.

Question 2: Conservatism

While we broadly agree with the principle of conservatism to reduce the risk of overstatement where detailed information is unavailable, we have concerns that this approach could result in a distorted representation of net impacts, both for the entity and more broadly for the overall impacts within the value chain. The principle of conservatism as stated in the final sentence of paragraph 32 seems to be in direct conflict with the principle of prudence as stated in the preceding sentence. We suggest that the principle of prudence is more appropriate for the broad project of impact-weighted accounting.

One concern with applying conservatism to some elements of impact reporting but not others, based on available information, is that it may result in giving more weight to some positive or negative impacts based on the ability to quantify their value, thereby distorting their materiality (as cautioned against in paragraph 21).

In distinction, one area where would like to see a more conservative approach is in section 4.10 Attribution of Impacts, notably paragraph 71. There is a conflict between the principle of conservatism or prudence and the proposed treatment of attribution that could lead to greater distortion in the disclosed information.

We favor the conservation of impact approach outlined in the Impact Economy Foundation's *Conceptual Framework for Impact-Weighted Accounts*. Specifically, the analogy with Scope 3 emissions and greenhouse gas reporting protocols proposed in the Explanatory Note (page 9) and paragraph 62 might not be appropriate for the context and intentions of impact information. Because greenhouse gas accounting focuses on a negative impact (emissions), the overstatement of Greenhouse Gas emissions aligns with overall reporting intentions and leads to a greater call to action in response to climate change (i.e., reducing emissions). On the other hand, because impact accounts address both positive and negative impacts, the overstatement of positive impacts, as a result of multiple entities reporting on the same impacts, could lead to a socially unfavorable response (underwhelming impact-driven initiatives, for example). Broadly, the practice of separating impacts between those directly and indirectly impacted by the organization's activities is a recommended practice leading towards the faithful representation of impacts.

To provide further guidance on prudent and comparable impact accounting, we suggest that further guidance be provided around elements of calculating and presenting valuations, such as risk-based weighting, principles of discounting (especially relevant for section 4.9 on accrual impact accounting) and sensitivity analysis that accounts for the materiality of impacts and discloses how uncertainty may result in misstatements of impacts. Rather than applying conservatism to areas of uncertainty, reporting should strive for faithful representation of impacts for the company as a whole and in relation to its broader context.

Question 4: Impact Materiality

In our understanding, the listed paragraphs do not offer enough guidance in determining which impacts to include and exclude and do not clearly outline the process and disclosures for determining materiality. General benchmarks, examples, and more prescriptive language may be needed, including a risk-based approach, to determine materiality.

There is a general lack of clarity and inconsistency between the stated goal of reporting on impacts in primarily monetary units (paragraphs 44, 45, 47 and 75) and the additional guidance in section 3.3 (paragraphs 29-32) on faithful representation, paragraph 36 on comparability and paragraph 40 on understandability. It is not clear if IFVI recommends and believes that monetary valuation is sufficient to capture and represent impact information.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

The definition of “scale” in paragraph 27.a seems to be different from how leading organizations are using it[1] and could be misleading (the term “Depth of impact”[2] seems to be a better fit here). Further guidance around benchmarks for "scale" and “scope” would be helpful, as their materiality can be interpreted variably depending on the context. It is also unclear how and to what extent each dimension of impact would be accounted for within the valuation of impacts or should be disclosed separately based on risk, severity or other components of materiality.

Pertaining to the introductory paragraph 7 and section 5.2 (paragraphs 73-77) regarding the preparation of impact accounts, the language used seems to indicate that materiality should be determined based on the financial valuation of impacts. This indicates an undesirable reduction of materiality to financial materiality and also could lead to an inefficient and burdensome process of valuing all (material and minor) impacts, often the most time-consuming and challenging aspect of determining impact valuation. Rather, we would suggest more detailed guidance on assessing and reporting impact materiality in natural units and following impact pathways, assessing which impacts should be included in valuation analysis based on scale, risk, severity and likelihood of occurrence.[3]

We propose that, in the interest of cost-efficiency and scalability, the assessment of materiality should be completed first and the monitoring and valuation be determined for those impacts deemed material in the period. Where an impact is determined relevant through stakeholder engagement and risk-based assessment, it should be monitored to determine the scale and depth of impact in order to determine materiality prior to attributing a valuation. Greater clarification could be provided on the assessment of relevance in order to set the framework for impact pathways and monitoring activities, with materiality directly pertaining to the scale and depth of impacts that should be included in summary reporting.

Further, we would like to recommend that the reporting and valuing of impacts take into account a notion of materiality that is broader than financial materiality considered from the perspective of monetary impacts. Broadly, the process of identifying and valuing various impacts should be constructed with the recognition that giving a financial value to

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[1] E.g., the IMP considers it “the number of people experiencing the outcome” - which is defined as “scope” in IFVI’s Methodology.
[2] IMP: “the degree of change in the outcome level experienced by the stakeholder”
[3] Our understanding is that this approach is applied by other relevant organizations, such as Social Value International, e.g., “measure what matters”.

non-financial goods may result in a distorted perspective of social goods or harms if not accompanied by broader contextual information and justification, especially where different valuation methodologies and available information are used.[4] Moreover, the use of monetary valuation as a primary criterion of materiality indicates a unified underlying value system. While financial accounting materiality is grounded in the unified value of financial profit, sustainability and impact are grounded in multiple goals and values that may not be captured or adequately represented in monetary valuations.[5]

2. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

Although we agree that an entity-specific approach makes sense in this context, we suggest that, rather than identifying mandatory impacts at a broad level, guidance should be given on mandatory disclosures related to the determination of impact materiality for the entity and reporting period, specifically strengthening the language in paragraph 6 to specify the disclosures and supplemental information that is required in impact reporting.

We believe that the definition of relevance of materiality is not sufficient to ensure that all stakeholders are accounted for or that the definition of materiality would more broadly encompass the relevance of certain impacts to these groups. One approach would be to include a public comment period as part of reporting requirements that would enable key stakeholders to address the included impacts and their valuation. Another approach would be to include benchmarks for materiality both at a broad and methodological level.

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[4] For purposes of comparability and faithful representation, the furtherance of impact weighted accounts will likely rely on clear guidance and methodologies for financial valuation of impacts, as indicated in paragraph 9.

[5] Some examples of this are valuation through a human capital approach that results in greater valuation of impacts affecting people in early adulthood (especially when brought to present value, as is the current practice and recommendation) or Value of a Statistical Life or other Willingness to Pay approaches that largely rely on prevailing local economic conditions to determine valuations.

6. Dr. Wei Wu

Comment letters on the proposals in the Exposure Draft

By Dr. Wei Wu

Shenzhen University

weiwu@szu.edu.cn

16th Oct 2023

Question 1 – Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

I agree with the separation between the preparers of impact accounts and the users of impact information. In paragraph 2.2.20 (Page 18), the draft explains 'Any entity … can use the Methodology to measure and value its impacts and prepare impact accounts.' Could I assume the intermediate aggregators one part of the preparers? In another words, can the aggregators or preparers be consulting firm, legal advisory or a digital tech start-up?

I am asking because I have identified a few financial/management software companies are interested in this filed. I am interested to know if they can be identified as preparers of impact accounts.

I would also inquire the specific explanation about the 'sustainability-related information' which is quoted in this question (page 10).

Question 2- Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

I agree with the principle of conservatism. I would suggest to include institutional mechanisms, such as tools and trainings, that can be used in the future to verify the degree of conservatism and to dissolve the potential disputes from inside or outside of the community.

Question 3- For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

The description of impact pathway is clear and logical but somehow still subjective. Microfinance movement in Bangladesh, for example, has been discussed over decades on the positive impacts to the poor people. Supporters of microfinance can hardly justify casual relationships between the provision of microfinance the improve of well-beings of local poor people. How does the impact pathway can provide an alternative argument?

Question 4- Are the paragraphs noted above (page 12, the three perspectives) in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

I think the paragraphs are clearly written but not able to provide clear guidance on how to determine an impact from impact accounts. I would argue case studies might help me better.

Question 5- Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?

I might suggest to include a case study in this section to help the wider audience to better understand the determination of relevance. Previous documents from IWA has shown interesting case studies on some industries.

Question 6- Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

I have to think about it in details and come back to you in the next round of Call for Comments.

Question 7- Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Page 13, 1.3.b – Can you provide some examples to further explain the difference between the topic methodology and the industry-specific methodology?

7. Emily Rhodes

Hello IFVI Technical Staff,

Congratulations on publishing your draft of the "General Methodology 1: Conceptual Framework for Impact Accounting." It was a really interesting read and made me excited for the future of impact accounting.

I had so many thoughts on it. I have organized my feedback according to your framework, so I hope it is helpful.

1. I agree with separating the preparers of impact accounts and users of impact information in this way. It is logical to delineate them in the ways you have.

2. Although I don't believe that including a principle of conservatism in this Methodology will stop every bad actor, it does seem worthwhile to include. It both legitimizes impact accounting and gives preparers of impact accounts a clear direction in times of uncertainty. (See notes on the wording of this sentence in 5.)

3. The "Impact" portion of the impact pathway is defined as a "change," which I interpret as requiring a time frame. Defining this time frame creates an opportunity for an entity to state their Impact in a way that is not accurate or even reasonable. It would be beneficial to add a sentence about setting a relevant time frame for measuring the "change and evolution in this state or condition" to limit impact-washing.

4-1. The paragraphs are clearly written.
4-2. I don't disagree with the first perspective outright, but I do think that determining "the capacity of the impact information to influence the decisions of users" could be difficult because decision-making is unique to individuals. This point could benefit from more specific verbiage.
4-3. There may one day be room for defining impact materiality more broadly, but for this stage it is smart to define it as entity-specific. This adds credibility and increases usability to the Methodology. Similarly, adding mandatory impacts could decrease the adoption of the Methodology; I agree with the decision to exclude these.

5. In order to improve the readability of the document for people whose first language is not English, you could consider changing the following passages:

pg. 21, paragraph 32
"*In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts.*"
This could be more clear as: "... preparers of impact accounts should avoid the overstatement of positive impacts and the understatement of negative impacts."
Or you could eliminate the double-negative and say, "In cases of uncertainty, preparers of impact accounts should default to understating positive impacts and overstating negative impacts," though this could undermine your intended tone.

pg. 24, paragraph 45
"*Whereas general purpose financial reporting is grounded in the concepts of assets and liabilities, to report an entity's financial position, and income and expenses, to report an entity's financial performance, impact accounts are grounded in the concept of impact.*"
This could be more clear if it was broken up. For example, "General purpose financial reporting is

grounded in the concepts of assets and liabilities as well as in income and expenses. These serve to report an entity's financial position and financial performance, respectively. Impact accounts, however, are grounded in the concept of impact."

Additionally, I would have preferred to see points 4.1-4.3 (paragraphs 44-50) earlier in the document. These could have come after Section One - Introduction. This would have let the document begin with its most engaging aspect - the portion that sets it apart from other impact accounting frameworks. Following this thesis segment with the Purpose and Applications, Qualitative Characteristics, and Concepts would have made these sections more engaging as one would have the context for them.

Once again, congratulations! And thank you for letting me be a (small) part of bringing this wonderful document to the world. I am so looking forward to seeing your final product.

All the best,
Emily Rhodes

8. futurevalue

futurevalue

16 October 2023

To: The Technical Staff @ IVFVI

Sent via email to: research@ifvi.org

General Methodology 1 Public Comment

We appreciate the opportunity to comment on the exposure draft and while broadly supportive, have two general concerns regarding the overarching methodology as outlined below.

How will the Impact Accounts and Financial Accounts interoperate?

We wonder how the global accounting bodies are responding to Impact Accounting - we do not see any of them in the Impact Eco-System mapped out by the Impact Management Platform, Impact Economy Foundation and IFVI/VBA. As a (potentially critical) stakeholder, their input and engagement will be fundamental to the normalisation of the proposal.

How will Impact be measured?

Whilst reference to measurement is provided in para 76,82 we are interested in what systems organisations will use in which to measure impact. So, how will these measurements be comparable across organisations, topics and industries if users are implementing bespoke systems of impact? [FutureValue is currently working on such impact measurement systems and is aware of and collaborating with other global organisations working on the same].

In addition to the above, our specific responses to the 5 Questions in the ED are outlined as follows:

Question 1 - Preparers and Users of Impact Information

Perhaps clarification would help as to whose needs are being served with the impact accounts? The Investor (user) and the business entity (preparer) often apply different lenses to the output of an organisation's financial reporting which would carry through to Impact Accounts. Whether the user or preparer prepares the Impact Accounts would likely result in different outcomes, and the challenge then as to how to reconcile these differences.

Investors are currently doing this with ESG reporting, although this information is not being integrated into standards, and comes with varying degrees of assurance and review, given the current lack of mandatory reporting [about to change with adoption of ISSB 1 and ISSB 2].

We see that Impact Accounting can support the Enhanced Enterprise Risk Management Tool of an entity. Impact Accounts have the potential to become the internal reporting tool by which a risk and its impact can be measured and mitigated.

Therefore, it is logical that preparers of Impact Accounts should be the internal teams of an entity, whether that be the finance, internal audit and /or risk teams.

These Impact Accounts will then be available to external stakeholders, providing transparency for investors and society when making investment and/or purchasing decisions.

Investors will continue to apply a financial risk/impact lens to financial statements and, once Impact Accounts are prepared by an entity and shared publicly, the investor community will likely apply a further lens to make their own determination of risk profile with the enhanced transparency of risk management.

This leads to a potentially bigger issue of how Impact Accounting will be audited and by whom. Will this audit fit within the scope of a financial audit or would it become a potential conflict for an entity's auditors to review both statements? What will the auditors base their review on? Further to this point, has guidance and/or comments been sought from IIA and the Big 4 Auditing Firms to this exposure draft?

Question 2 – Conservatism in faithful representation (paragraph 32)

We generally support using the principle of conservatism, however, how will IFVI be able to develop the standards and frameworks of auditing Impact Information in order to support legitimization?

How will conservatism be able to identify and minimise existing bias in structures and frameworks?

Question 3 – Impact pathways

How is the baseline established, meaning that change over time can be tracked? The model has gone straight to impact drivers. How does the organisation measure a null hypothesis (55. Reference scenario)? This requires an explicit reference to the Impact Economy Foundation's conceptual framework, but it is not provided here.

How do you record normative standards for capitals (thresholds, such as planetary and social boundaries now becoming normalised)? Where will these come from?

Activities capture the actions of an organisation - what about the inactions of an organisation? The cost/impact of NOT doing something that is related to an activity - eg. waste recovery, which has a huge impact on the community/environment etc. A company not offering a way to return/reuse/recycle an end of life product is potentially causing a huge impact on the environment so, how will this nil activity be accounted for in the Impact pathway model?

Conversely when an entity does recover its EOL products, does this activity feature in the green arrow below or as a post output activity?

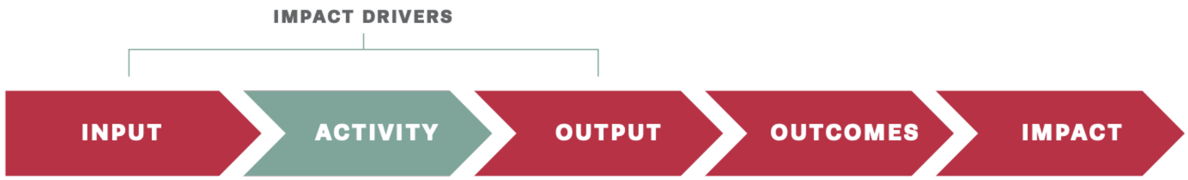

Figure 1: Impact pathway

Question 4 – Impact materiality

What is the format of the Impact Accounts - what statements will be included i.e., profit impact, cash flow impact, liquidity/balance sheet impact.

Does impact materiality suggest that a business may be negative, and therefore, unsustainable in both a financial and impact sense? How will the concept of unsustainability impact the business - in what circumstances would a business report on its own *unsustainability*? How is trust factored into reporting requirements and disclosure?

Question 5 – Additional feedback

Integration with Financial Accounting/Reporting

Given the nature of users of Impact Accounts in decision making, the level of assurance will need to meet a high level of rigour similar to that of financial accounts.

How will Impact Accounts integrate with financial reporting, or does IA sit outside the organisation's balance sheet?

Wellbeing

While nature is recognized by the exposure draft (and the inherent challenges of valuing nature), wellbeing is fundamentally linked to Human Beings and their outputs rather than their place within the ecology, including the commons. Perhaps the definition of the stakeholder could be made clearer as in para 84 the wellbeing of humans [only] is referenced. The Environment could be considered as a 'personhood' in and of itself, given the international precedents being set legally in New Zealand, Ecuador, Bolivia and even the United States. Over time, focus has evolved from human interests in exploiting nature, to protecting nature for future human generations, to conceptions that allow for nature to be protected as intrinsically valuable. It is perhaps advisable now to consider how this concept will be treated given the mandate for authentic sustainability and impact accounting developing concurrently.

Double Counting

Given the reality that within ecosystems everything is interconnected, what is the intention of double counting? Is the triangulation process to assess/calculate a comprehensive impact early on in the adoption of Impact Accounts? Fundamentally, we agree with this approach, however the *proportionate impact* reference in paras 70-72 seems to point to an either/or scenario which may lead to a choice or what to include, and this would seem disingenuous (see point on trust in question 4 response). More prescriptive counting (which may lead to double counting through comprehensiveness) should be included in order to capture the gross impact of actions and non-actions.

Contact: Paula Kensington FCCA
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This response has been collated by and for:

FutureValue Global: an Australian-based group (Australia, Papua New Guinea, New Zealand) focused on delivering regenerative development to enhance economic, natural, and social value, using a systems approach to provide total return. FutureValue's human resource capital includes international experts in project finance, nature-based solutions, sustainable business models, social impact, Indigenous landowner consultation, communications, finance, risk, and governance.

Selar Henderson: Founder and Managing Director, with 20+ years' social sector experience in Asia-Pacific. Selar has raised more than $200 million in future income growth to cornerstone clients, delivered ESG framework development including impact investment criteria, and formed an innovative $100 million impact fund.

Paula Kensington: a member of FutureValue's global advisory team. Paula is a finance professional with 30+ years' experience as CFO across the UK and Australia with a passion that lies beyond the numbers, engaging the finance and business community to do better, exploring ways beyond sustainability. This includes a series of roundtables, disruptive conversations, and thought-provoking white papers addressed to other CFOs asking *what is sustainable business*?

Andrew Lamont: intern. Andrew has a double degree in Social Anthropology and International Development, and was previously employed in the Office of the Prime Minister, New Zealand. Andrew is primarily focused on the application of AI to support and streamline process flows to help address wicked problems, including reporting on authentic sustainability.

9. GIST Impact

Comments on
"General Methodology 1:
Conceptual Framework for Impact Accounting"

Basic Information

The Comments submitted by GIST Impact for "General Methodology 1 Public Comment"

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

Response: This separation is desirable, but may not be easy to enforce, due to a few reasons:

- **Challenges in Defining and Enforcing "Preparers":** In the absence of an Impact Accounting Standards ("Standards") body, this separation may not be easy to codify or enforce, due to a lack of Standards and related governance architecture.
- **Nascent "Impact Accounting" Infrastructure:** Institutional infrastructure for impact measurement, accounting and reporting remains to be institutionalized. Thus, roles and responsibilities of diverse stakeholders (including preparers & assurers of impact accounts, and users of impact information) will for now remain at best aspirational.
- **Path Dependence:** The approach to separating/ not separating preparers and users will depend on the evolutionary path of impact accounting practices, the introduction of Standards to govern these practises, and the evolution of statutory reporting for stakeholder impacts. Furthermore, regulatory enforcement will play a crucial role. Path dependency is significant, and the jury is still out on whether governments and accountancy regulators respectively have the political will and public conscience to make the transition from shareholder (P&L) accounting to stakeholder (Impact) accounting.

In summary, the practical implementation of such a separation may depend on the maturation of impact accounting practices, evolution of Standards for these practises, and the mandated adoption thereof as part of future statutory reporting by the relevant regulatory authorities.

Question 2 – Conservatism in faithful representation (paragraph 32)

Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

Response: The principle of conservatism in impact accounting should be made considering the objectives of impact accounting standards as well as potential unintended consequences. Striking the right balance between conservatism whilst also providing incentives through the means of reporting positive impact is essential to achieve the intended goals of impact accounting while countering impact washing. It is also important to ensure that impact accounting principles are aligned with broader global standards and best practices in accounting and reporting.

The benefits of Including the Principle of Conservatism are:

- **Prevents Impact Washing:** Conservatism can help prevent enterprises from overestimating positive impacts, a common concern with impact accounting. Requiring a more cautious and realistic approach to impact measurement reduces the risk of "impact washing," where organizations exaggerate their social or environmental contributions for marketing or public relations purposes.
- **Fosters Credibility and Trust:** Conservative reporting can enhance the credibility and trustworthiness of impact data. Stakeholders, including investors, customers, and regulators, are more likely to believe and rely on impact information when they perceive it as reliable, unbiased, and cautiously estimated.
- **Comparability:** Conservatism can also i comparability between different organizations' impact reports. If all organizations adopt a more conservative approach to impact accounting, it becomes easier to compare and benchmark their performances, thus allowing for more informed decision-making.
- **Sensitivity analysis** - Incorporating a principle of prudence into the Exposure Draft for impact accounting can bolster its credibility and serve as a safeguard against impact washing, as discussed earlier. Sensitivity analysis plays a pivotal role in evaluating potential consequences across various scenarios. Nevertheless, it is vital to strike a well-balanced approach to prevent hindering beneficial progress, and clear and open disclosure of assumptions is imperative to maintain the credibility of impact accounting. Emphasis on Sensitivity analysis is missing in the methodology document.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

Response: We would like to appreciate that in methodology "impact is defined as a change in one or more dimensions of people's well-being" and "In section 4.6, an important proposal is made concerning the perspective of monetary valuation. The section sets outs that impacts are valued from the perspective of the affected stakeholder as opposed to the perspective of the financial risk or opportunity to the entity. This approach is consistent with the vision of impact accounting to understand how entities create value for all stakeholders".

The boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the driver, and certain components of the pathway may be implicitly modelled in the monetary valuation in some cases, while in others, certain components are not relevant. Therefore, there may be scenarios in which the proposed impact pathway may not be applicable, and the logic of the impact pathway may need to be changed depending on the specific sustainability topic or industry of the entity. Impact pathways may be different for drivers from natural and social sustainability topics.

In these paragraphs, the impact pathways are oriented towards an "impacts-based" approach, which prioritizes identifying the recipients of these impacts, with a strong emphasis on people's well-being.

Although the document outlines the categorization of four capitals (as noted in footnote 26), it does not explicitly acknowledge or provide flexibility for adopting a "drivers-based approach" to impact measurement. A drivers-based approach is conducive to corporate management and stakeholder reporting, aligning with the document's intended purpose, as it empowers companies to identify, measure, and manage the effects of their business activities across all four capital categories.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

1. **Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?**

Response: Disclose materiality thresholds is provided in paragraph 84. The methodology suggests that entities should disclose their materiality thresholds and the rationale for including or excluding impacts from impact accounts. It also suggests that entities should consider disclosing any changes to their materiality thresholds over time and the reasons for those changes. However, the guidance on defining materiality threshold is missing and require a detailed direction.

2. **Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?**

Response: Yes, the relevance of impact information may be highly relevant in its own right as a public interest activity, and that the significance of the impact is based on the severity of the impact for actual impacts, while for potential impacts, it is based on the severity and likelihood of the impact. Severity is based on the scale of how grave the negative impact is or how beneficial the positive impact is on people's well-being, including the duration over which an impact lasts.

3. **Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?**

Response: Yes, however, the guidance on defining materiality and whether it's required at entity level, peer level or industry level also need clarity.

Question 5 – Additional feedback

Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Response:

(a) **Data sources and assurance:** General methodology does not provide guidance on data limitations or data sources. Impact calculations perforce require not only entity-level data to be standardized, accurate and assured, but also systemic data (ecological, environmental, economic, social, demographic, etc) to be sourced in a uniform, reliable and cost-effective manner. Guidance on company as well as public data sources and data assurance needs to be addressed in future statements.

(b) **Leveraging support by referring to prior work:** Value recognition frameworks that have, in the past, emphasized the importance of multiple-capitals performance thinking and are at present being followed by thousands of companies (eg: Natural Capital Protocol, 2016; Social and Human Capital Protocol, 2018) need to be referenced and integrated. This will encourage and help the thousands of companies who follow these frameworks to transition more readily to IFVI-VBA Methodology.

(c) **Integrated Reporting:** The presentation of impact information or integrated assessment of the relationship between financial and sustainability information can and should be addressed in future methodological statements.

(d) **Evaluating interoperability** and advising how to optimize data classification and use across IFVI and diverse other reporting frameworks (SFDR, ESRS, TNFD, PBAF, PCAF, SBTI, etc) will add value to IFVI Methodology guidance.

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10. Institute for Energy Economics and Financial Analysis (IEEFA)

Institute for Energy Economics and Financial Analysis
IEEFA.org

The International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) – Consultation on (Exposure Draft) General Methodology 1: Conceptual Framework for Impact Accounting

IEEFA Submission

16 October 2023

Dear Sir/Madam,

The Institute for Energy Economics and Financial Analysis (IEEFA) welcomes the opportunity to respond to the consultation entitled "(Exposure Draft) General Methodology 1: Conceptual Framework for Impact Accounting" and appreciates the significant effort that has gone into developing this consultation.

IEEFA is a not-for-profit think-tank providing publicly available evidenced-based market analysis in regions around the world, with the clear mission of accelerating the global transition to a diverse, sustainable and profitable energy economy. IEEFA examines issues related to energy market trends and policies.

Please reach out to discuss any part of this submission in further detail.

Kind regards,

Kevin Leung
Sustainable Finance Analyst, Debt Markets - Europe
kleung@ieefa.org

Institute for Energy Economics and Financial Analysis
IEEFA.org

IEEFA's Response to Consultation on General Methodology 1

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

1. *Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?* Agreed.

Question 2 – Conservatism in faithful representation (paragraph 32)

1. *Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?* Agreed. IEEFA would like to emphasise the importance of legitimising impact accounting and tackling impact washing.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

1. *For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.* IEEFA agrees that the proposed logic of the impact pathways is a useful way to understand the process of impact creation or change. Further application guidance would be welcomed.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

1. *Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?* The concept of relevance is somewhat clear, but the paragraphs lack guidance on how the concept translates into the determination of whether to include or exclude an impact from impact accounts—whether the conclusion is based on a binary assessment of 'relevant' and 'not relevant'. Thresholds are not clearly defined, which would raise the risk of misconception. Also, how the time horizon of impact materiality is considered is insufficiently covered, which may not be effective in addressing any short-term thinking around materiality. For future development, a comprehensive and well-defined implementation guidance for a materiality assessment is essential to ensure comparability and transparency. IEEFA would like to emphasise that the approach to materiality assessments should reflect the level of rigour needed to match the role these assessments play[1], as bias can occur especially when the accounts are prepared by the entities themselves.

2. *Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?* The three perspectives for determining relevance are plausible, but the interrelation between these perspectives may be noted. For example, greater significance of the impact may imply greater influence of the impact information and greater needs for transparency. Thresholds can help contextualise the three perspectives.

3. *Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?* While impact materiality can sometimes be subject to entity-specific

[1] IEEFA. IEEFA welcomes the European Commission's adoption of the first set of sustainability reporting standards. 1 August 2023.

circumstances, several impact factors may exhibit common characteristics such that cross-cutting and sector-wide standards should apply for comparability. For example, by applying the materiality perspectives, one may argue for universal requirements of impact accounts for all fossil fuel companies as they inherently have the potential to impose irreversible and irremediable climate impacts. Given the currently observed externalities related to carbon costs across the value chain, relevant mandatory impact accounts are important for stakeholders to aggregate impacts and systematically internationalise risks. A similar argument can be applied to topics when minimum safeguards[2] standards and criteria are considered.

Question 5 – Additional feedback

While IEEFA appreciates the ongoing work around guidance on attribution, the exposure draft does not seem to sufficiently cover the concept of 'additionality', which is commonly adopted by impact investors[3]. Risks related to 'impact-washing' usually lie around claims of positive impacts—a prudent approach would be to differentiate the fundamental concepts between negative and positive impact accounting in this instance, providing further definitions around positive and negative impacts and guidance between 'value creation' and 'reduction of negative impacts'.

[2] European Commission. Final Report on Minimum Safeguards. October 2022
[3] European Investment Bank. Measuring the EIB Group's impacts – Methods and studies pg 9. October 2021

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

About the Author

Kevin Leung
Kevin Leung is Sustainable Finance Analyst, Debt Markets, Europe.

Prior to IEEFA, Kevin worked for roles in Credit Ratings and Sustainable Finance at Moody's. As an experienced fundamental analyst, he has developed his expertise into ESG integration in credit analysis and comprehensive ESG assessments adopting a double materiality approach.

Kevin holds a Master's Degree in Finance from HEC Paris and a Bachelor of Science Degree from the University of Warwick. kleung@ieefa.org

11. Jack Philips

Good evening,

Thank you for the opportunity to comment on this important and impressive framework. I had thoughts on question 2 and 3 which I have provided below:

Q2. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?
I agree with the inclusion of a principle of conservatism that is include in the Exposure Draft. A similar approach is taken in economic appraisal and evaluation by UK Government. From experience its important to be clear as to where conservatism is built in, for example any secondary research may already build in conservatism as well as the estimation of flows. Unacknowledged compounding of conservatism should be avoided.

Q3. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.
I support the use of a stocks and flows approach used in the impact pathways. Generally, the focus seems to be on sustainability however I would like to see appreciation of the wider social and wellbeing impacts and inclusion of more types of capital for example cultural and heritage capital. These would all work within the existing impact pathway structure.
Additionally, the approach needs greater focus on accounting for the quality of flows and how this links to social value. For example, more sustainable use of environmental capital would allow for higher quality flows of social value for longer. I did not get the sense that this degradation of quality was captured in section 4.9 "TIME PERIODS AND ACCRUAL IMPACT ACCOUNTING".

Please do feel free to contact me with any questions.

Best regards,

Jack

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GAME CHANGERS

12. Joint Initiative on Accounting Reform (JIAR)

16th October 2023

The Joint Initiative on Accounting Reform (JIAR) welcomes the opportunity to comment on the Exposure Draft (ED) “General Methodology 1 – Conceptual Framework for Impact Accounting” issued by the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) partnership.

The JIAR comprises four organisations:

- Association of Chartered Certified Accountants (ACCA)
- Professional Risk Managers’ International Association (PRMIA)
- Risk Accounting Standards Board (RASB)
- Durham University Business School (DUBS).

The JIAR’s mission is to conclude, based on empirical evidence, whether Risk Accounting provides a viable accounting-based foundation on which ‘financial profitability’ can securely transition to ‘corporate sustainability’ as the primary accounting measure for corporate performance.

Risk Accounting is a next generation standardised and integrated risk management and management (cost) accounting framework. Risk Accounting identifies, quantifies, aggregates, values and reports all forms of non-financial risk and accounts for the associated expected losses including the positive offsetting impacts of corporations’ environmental, social and governance (ESG) attributes.

The non-financial risk quantification technique that underpins the Risk Accounting method and system was first pioneered and widely deployed in the Chase Manhattan Bank (now JPMorgan Chase) as an operations management solution. In a research collaboration formed eight years ago between RASB and DUBS, the technique was expanded and upgraded to constitute the method and system we now call Risk Accounting. The method has been independently reviewed by leading practitioners and academics and has also been the object of extensive laboratory testing in academia. A schedule of selected research papers and other publications is included in the appendix.

JIAR’s definition of accounting-based sustainability is:

> An organisation’s capacity to provide investors with reliably predictable returns on their investment in financial, environmental and social terms. Sustainability is an organisation’s financial profit or loss – *the backward-looking or ‘historic’ perspective* – adjusted for the expected losses associated with accepted non-financial risks including the positive offsetting impacts of environmental, social and governance (ESG) attributes – *the forward-looking or ‘future’ perspective.*

We note the ED proposes a *de novo* corporate reporting framework wholly independent of extant financial and management accounting and reporting frameworks. The new framework is termed "impact accounting" while the ED refers to financial and management accounting and reporting as "general purpose financial reporting".

As set out in the ED, impact accounting, "builds on frameworks and protocols published by leading organisations in the impact management ecosystem and sustainability-related disclosures required by governing jurisdictions and international standard setters" (p15). Impact accounting is defined as, "the system for measuring and valuing the impacts of corporate entities" (p7). The ED states, "The use of monetary valuation techniques is not required by standard-setters that develop sustainability-related disclosure requirements, nor is it a requirement in most frameworks focused on impact management, marking a critical point of distinction between the (impact accounting) methodology and extant systems for assessing corporate performance" (p6). The resulting impact information, "Informs decision-making by interpreting impacts in comparable and understandable terms, specifically monetary units" (p15).

This positioning of impact accounting and information as set out in the foregoing paragraph raises the following concerns:

1. Accounting is universally understood to be the application of accounting standards to transactions that results in the representation of corporate performance and condition through composite and comparable accounting measures such as profit or loss and shareholders' equity reported in audited financial statements. Thus, the ED's use of the term "impact accounting" and "impact accounts" relative to disclosures made exclusively outside audited financial statements is potentially misleading.

2. In the banking sector, despite two decades of investment and endeavour, stochastic models designed to monetarily value exposures to operational risk, collectively termed "advanced measurement approaches", were withdrawn from the Basel II[1] regulatory framework by the Basel Committee on Banking Supervision (BCBS) citing their inherent complexity and lack of comparability (BCBS 2016)[2]. The ED does not explain how this failure to monetarily value non-financial risks in the banking sector will be overcome when impact accounting is applied to all sectors.

3. Implicit in the ED is a claim that comparable and verifiable monetary values can be assigned to non-financial impacts. Arguably, true corporate accountability is only achieved if such impacts are accounted for in financial statements. Imagine a company that reports $1 billion of financial profits but $1 billion of negative impact disclosures. The outcome will be a company that is likely to be catastrophically polluting the planet but, counterintuitively, will pay substantial shareholder dividends, executive compensation, discretionary bonuses, income taxes and share buybacks on the basis of a $1 billion profit. This begs the question, "where is the corporate accountability if monetarily valued impacts are reported as disclosures outside the financial statements?"

[1] BCBS (2006). Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework, Bank for International Settlements (BIS), June 2006.
[2] BCBS (2016), Standardised Measurement Approach for Operational Risk, Bank for International Settlements (BIS), June 2016.

Exposures to non-financial risks such as environmental, cyber, manufacturing, transaction processing, conduct, fraud, model, legal & compliance and many more have grown exponentially in recent decades. In these circumstances, audited financial statements lose their meaningfulness and relevance if they do not consider the likely future impacts of accepted risks on reported profits and shareholders' equity. Similarly, independent auditors' credibility is potentially compromised if the object of their opinions is backward-looking financial statements. Hence the need for accounting reform.

The essential characteristics of environmental and social impacts are the same as any type of non-financial risk; they can be quantified, aggregated and valued. This affirmation is at the core of both the ED and Risk Accounting whereby the former calls for the creation of a *de novo* corporate reporting framework focused on disclosure whereas the latter leverages existing risk management and management (cost) accounting infrastructures.

We note the statement made prominently on the Value Balancing Alliance's home page, "We trust in a new idea of corporate value that unifies accounting for people and the planet"[3]. A 2021 open letter to the organs of the European Union signed by 56 leading European organisations representing €8.5 trillion of assets states, "Sustainability needs to be integrated into accounting and reporting systems"[4]. A 2020 Harvard Business Review article titled, "The Future of ESG is ... Accounting?"[5] included the observation, "While most companies today issue sustainability reports, these are divorced from their financial reports, making it difficult to see the relationship between financial performance and sustainability performance."

Implicit and explicit in the quotations included in the foregoing paragraph is a call for the unification and integration of sustainability and financial accounting and reporting. However, the ED is proposing the total separation of sustainability reporting. The ED should explain why this apparent directional change is deemed necessary.

We are on the cusp of committing to sustainability reporting requirements that will have monumental implications for corporations, the planet and social well-being for decades, maybe centuries to come. This requirement comes at a time when financial statements need to incorporate a forward-looking perspective through accounting for the expected losses associated with all forms of accepted non-financial risks, not just environmental and social; without it, as exposures to non-financial risk escalate, so will audited financial statements grow in meaninglessness and irrelevance.

It should be of deep concern to investors and other stakeholders in corporate reporting that shareholders' dividends, executive compensation, discretionary bonuses, income taxes and share buybacks are based on financial statements that are focused exclusively on historic financial performance and condition without considering what is likely to happen in the future. In this scenario, there seems little justification in differentiating the reporting treatment of one risk type "environmental risk" by removing it from a risk-adjusted financial

[3] https://www.value-balancing.com

[4] https://www.value-balancing.com/en/press/open-letter-on-sustainability-reporting-to-the-european-commission-the-european-parliament-and-the-council-of-the-european-union.html

[5] https://hbr.org/2020/12/the-future-of-esg-is-accounting

reporting framework particularly if its proponents claim the respective impacts can be monetarily valued.

In our view, the ED should be structured to recognise that corporate reporting must incorporate valuation standards applied to all forms of non-financial risk in order to produce relevant and meaningful audited financial statements focused on backward- and forward-looking sustainability in place of today's exclusively backward-looking accounting profit.

Looking to the future, corporate reporting will become increasingly dominated by new-age technologies, primarily AI/ML. A prerequisite of AI/ML applied to corporate reporting is the availability of a single, authoritative source of highly curated accounting data that enables real- or near-real time reporting, auditing and regulatory supervision. Such a source of accounting data already exists in corporations' general ledgers that requires extension to incorporate the risk values inherent in transactions. This is the essence of Risk Accounting that will create the AI/ML enabled platform by which corporate tangible and intangible value will be reported, audited and regulated. Indeed, the advent of AI/ML will cause the historic auditing adage to invert; "the auditor is a watchdog, not a bloodhound" will be rewritten as, "the auditor is a bloodhound, not a watchdog".

The JIAR has conducted robust and well documented research over many years on the longstanding conundrum of how to quantify, value and account for non-financial risks producing a method that leverages extant risk management and management (cost) accounting infrastructure and overcomes the shortcomings of the stochastic modelling techniques adopted by the banking sector in Basel II that were subsequently withdrawn.

The JIAR urges the IFVI/VBA partnership to consider our research and proposition prior to formalising the approach set out in the ED. The JIAR is ready to commit all the time and resources an in-depth comparison and assessment of our respective methodologies requires to ensure that the sustainability reporting demands placed on corporations relative to all forms of non-financial risk are comprehensive, meaningful and cost-effective.

Yours sincerely,

For and on behalf of the Joint Initiative on Accounting Reform

Steve Bailey

Steve Bailey FCCA
Chair

Peter Hughes

Peter Hughes FCA
Senior Advisor

Publications

Book

- Hughes, P J (2023), *Risk Accounting – The Complete Guide to Quantifying and Accounting for Non-financial Risks*, Grosvenor House Publishing.

Journal Articles

- Butler, T (2023), *Time for a Paradigm Change: Problems with the Financial Industry's Approach to Operational Risk*, Journal of Risk Analysis (forthcoming).

- Butler, T and Brooks, R (2023), *The wicked problem of quantifying and managing non-financial risks: The role of digital technology in providing solutions,* Journal of Risk Management in Financial Institutions, (forthcoming).

- Hughes, P & Marzouk, M (2021), *A Test of the Inherent Predictiveness of the RU, a New Metric to Express All Forms of Operational Risk in Banks*, Journal of Risk Management in Financial Institutions.

- Hughes, P & Williams, J (2018), *A Test of the Feasibility of a Common Risk Accounting Metric for Enterprise Risks*, Journal of Risk Management in Financial Institutions.

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- Grody, A, Toms, J S & Hughes, P (2010), *Risk Accounting - A Next Generation Risk Management System for Financial Institutions*, Journal of Financial Transformation

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- Grody, A, Mark, R & Hughes, P (2008), *Operational Risk, Data Management and Economic Capital*, Journal of Financial Transformation.

- Hughes, P (2007), *The Direct Measurement of Exposure and Risk in Bank Operations*, Journal of Risk Management in Financial Institutions.

Book Chapters

- Grody, A & Hughes, P (2009), *Transaction Based Cross-Enterprise Risk Management,* in *Risk Management in Finance – Six Sigma and Other Next-Generation Techniques*, Tarantino, A & Cernauskas, D John Wiley & Sons.

- Hughes, P (2005), *Using Transaction Data to Measure Operational Risk*, in *Operational Risk – Practical Approaches to Implementation*, Davis, E, Incisive Media.

13. Korea Impact Valuation Institute (KIVI)

17 October, 2023

Comment Letter by Korea Impact Valuation Institute (KIVI)
to the IFVI and Value Balancing Alliance 's Exposure Draft on General Methodology 1: Conceptual Framework for Impact Accounting.

Dear VTPC Committee Members,

It is our deepest honor and delight to be able to assist you and your team's remarkable efforts to publish the exposure draft. We at Korea Impact Valuation Institute (KIVI) view the draft as a land-marking milestone in the history of global impact and sustainability movement. We truly appreciate your outstanding work and also the opportunity for us to provide you with feedback to the draft.

Overall, we conclude that the Methodology presented in the Exposure Draft shows strong relevance in integrating the past impact valuation conceptualizations, sheds lights on the future directions of impact accounting, poses very relevant areas of questions and challenges that need to be solved for us to move forward. Thank you so much for the job well done. More specific responses are provided in the below.

About KIVI

In support of the efforts led by such global impact economy initiatives as the Impact Task Force, KIVI is committed to promoting the impact transparency and impact valuation agenda in South Korea. With more than 20 expert members from Korean investors, corporations, accountancies, standard-setters, ESG rating agencies, public sector organizations, and academics, we aim to represent the voices of diverse stakeholders to make the impact accounting and valuation efforts as implementable as possible.

Participants of KIVI

Kang Myung-soo, President of the Korean Standards Association
Na Jae-cheol, Former Chairman of Korea Financial Investment Association
Moon Chul Woo, Professor at Sungkyunkwan University *(Chair)*
Paek Tae-young, Board Member, the ISSB
Lee Yang-hee, Director, International Center for Children's Human Rights, Former Ambassador for Children's Rights to the United Nations
Do-jin Chung, Professor at Chungang University
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Kim Dong-yang, Director at NH Investment
Nam Wook, CEO of Korea Technology Credit Rating
Seungjae Oh, Managing Director at Sustinvest
Yoon Chan-sik, Researcher at Korean Standards Association
Lim Chang-kyu, Managing Director at Ark Impact Asset Management
Hwang Jeong-hwan, Senior Vice President at Samjeong KPMG

Authors of the Feedback

The following authors contributed equally in this feedback, reflecting the expert opinions of the members of the KIVI.

Chul W Moon, Professor at Sungkyunkwan University
Do-jin Chung, Professor at Chungang University
Changyu Lim, Managing Director, Ark Impact Investment
Mi-hyun Kim, Managing Director, SK Investment

Structure of the Feedback

General Comment
Reponses to Questions 1 through 4 as provided in the Exposure Draft
Separate Document File for line-by-line comments (attached to this document)

To close, we would like to conclude by praising your efforts once again, and by thanking you for giving us this important opportunity to comment on the exposure draft. We very much look forward to seeing your team's further developments, including new exposure drafts subsequent to the General Methodology. We will be happy to be a part of this journey. Please let us know for any further assistance that you may need.

Respectfully submitted,

Chul Woo Moon, Chair, KIVI

General Comment

We believe that, for the General Methodology to become the solid foundations for establishing impact accounting globally, the following conditions should be met satisfactorily in the future amendments:
(1) clearly define terminologies and concepts so that future preparers who are not familiar with the jargons that have been used in impact and sustainability spaces can understand and adopt,
(2) more concretely present the end goals or visions of the impact accounting in view of the financial reporting systems that are already institutionalized and the other transparency standards being developed such as the ISSB, ESRS, GRI, et cetra,
(3) if possible, develop an encompassing logical framework, similar to the TCFD framework that was used as the linking syntax or backbone of the ISSB Standard 1 (S1), to which this General Methodology seems to be equating,
(4) impact pathways idea: it needs to be reformed to become more practical guidelines, perhaps more fine-tuned to meet the demands of the topic and industry methodologies that are to be developed at later stages, in a way we should not treat it as an inductive principle from which other subsequent methodologies would radiate,
(5) perhaps in lieu of the impact pathways concept as presented in the Methodology, develop an impact tree idea that best captures the logic of delineating the best possible scenarios (or most representative) scenarios of how important sustainability issues (carbon emissions, gender diversity) defined in terms of topics as well as industries will go through the steps to towards creating impacts
(6) solve the concerns as to who will decide the monetary conversion coefficients; can people agree on and adopt the conversion formula that are to be developed by the IFVI? We may need a lot of evidence building and test marketing across countries for this purpose,
(7) address the issues of impact on people versus impact on environment then people indirectly, we need a logical explanation as to what we mean by “indirect”
(8) clarify the difference between impact accounting and integrated financial accounting where non-financial items such as sustainability values or social values are supposed to be converted into existing financial entries using the common financial accounting systems.
(9) ensure how comparability among firms with respect to a particular impact can be achieved; address the deficiencies as rigorously as possible; and perhaps an idea is to develop a methodology to suit for one or two of the most comparable topics across firms to increase market adoptability, and expand the methodology as we further progress. In that case, the current General Methodology 1 should remain as a minimal guideline or principles.

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity.

A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions.

The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22.

1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

(Response from the 1st author)[1]

The most appropriate entities for impact accounting are the entity that is the direct party to the impact accounting, followed by the investor group that needs and actively wants to use the information and content of the entity's impact accounting. However, both companies and external investors have advantages and disadvantages as impact accounting preparers. Companies have direct access to and understanding of internal data on impact information and a single output of impact accounting. On the other hand, external investors have the disadvantage of limited access to internal data on impact information and the disadvantage that the output of impact accounting may vary depending on the nature of the investor, but they have the advantage of having a more objective and impartial perspective on impact information than party companies.

If external investors are the preparers, each investor will bring a different perspective to the table, and in the extreme, there may be as many different impact accounting results as there are external preparers. In addition, there will be many

[1] When we have different opinions among the authors, we decided to present all the opinions as they are.

external investors who only want to use the impact accounts but are unlikely to spend time and effort to prepare the impact accounting of companies that are or may become their investment targets. Therefore, rating agencies and securities research firms whose clients are investors who are users of impact accounting may be more realistic preparers. In this case, there will be several different impact accounting outputs for the same company, but this is unavoidable in the current situation.

If the determination of materiality is made by the preparer, it may be more objective and less distorted for an investor with an external perspective than for the direct entity itself. If the entity is the preparer, it may underestimate and exclude negative impacts with high materiality, and overestimate and include positive impacts with low materiality. However, as mentioned in the draft, it is true that external investors have limited access to internal data, so there are limitations to being a preparer. However, if the disclosure of impact information and data is systematically carried out, it will be possible to create a more objective and fair impact accounting result if the material impacts that are subject to impact accounting are determined and prepared by investors from an external perspective. Nevertheless, limited access to and lack of understanding of internal data is an inherent obstacle.

In terms of categorizing the users, we agree with the draft.

(Response from the 2nd author)

We agree on separating the impact accounts and users of impact information and the impact accounts and the information should be handled by the company. First, the disclosed ESG data and assumption included in the ESG report should match the data reported on the financial report (business report), and it is critical that the company should be able to convince the users of impact information (investors) on the company's ESG narrative. Financial data is a proven figure confirmed by external audit, so it is reasonable for the company to write the ESG data based on the financial data, rather than creating a different set of data for ESG disclosure to maintain data consistency and reliability.

Also, the purpose of ESG disclosure is not only to comply with regulation, but more to promote genuine change towards sustainability. To further improve the quality and complimentary balance of both the financial and sustainability disclosures for the users to fully and easily comprehend, the company's goal should be to write the ESG data and information to the level of financial disclosure.

Question 2 – Conservatism in faithful representation (paragraph 32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts."

For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 General Requirements or IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's The Impact-Weighted Accounts Framework.

The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

(Response from the 1st author)

Conservatism is not a concept that aligns with the faithful representation of expression. This is because faithful representation avoids both overestimation and underestimation. Therefore, if reporting is based on the faithful representation of expression, the concept of conservatism should be removed. For reference, conservatism is a concept designed to avoid over-reporting profits in past income statement-centered financial reporting. Currently, under IFRS, the focus is not on the income statement but on the balance sheet, with fair value assessment as the principle.

(Response from the 2nd author)

Conservative Accounting allows the company to accurately deliver the bad news on time. The risk triggered by the information asymmetry basically translates to 'indivisible investment risk' for investors, impacting the cost of equity to increase. While the conservatism is expected to impact the decrease of the cost of equity, it did not have the desired benefit as 1) the users cannot distinguish the integrity of the disclosed information and 2) the challenge of distinguishing the difference between negative 'future impact' suggested by the conservatism and the fiscal deficits in a short-term performance remain as either uncertainty or inaccuracy.[2]

Therefore, including conservatism does not help nor contribute to ESG disclosure or impact accounting as it can mislead and negatively influence the disclosure narrative.

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[2] Francis, LaFond, Olsson & Schipper (2004). Costs of Equity and Earnings Attributes**. The Accounting Review**. 79(4): 967-1010.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform. The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

Analysis

Input and activities are more difficult to define and we do not see too much value of identifying those. On the other hand, outputs and outcomes are areas to be emphasized for the firms to report in impact accounting.

For instance, in the case of carbon emissions (Table 1), the input would be daily operations that end up resulting in the emissions. We do not see too much value in stating that fact in impact accounting. Similarly in the case of workforce diversity, the concepts of input and activity are not the same as those in carbon emissions in terms of the nature of what we are discussing - they seem to be on different dimensions. Hence the input and activity are the concepts that are not consistently defined at the same level or dimensions – it will depend on sustainability topics one deals with.

Table 1. Illustrative Examples of the Impact Pathway for Analysis Purposes

	Input	Activity	Output	Outcomes	Impact
Carbon emissions produced	Ongoing operations	Car production?	X amount of CO2 tonnes	(e.g.) the quality of expected life (X year/%) - difficult to define who the major stakeholders are and the	(e.g.) Changes in quality of expected life by X year/% - difficult to define who the major stakeholders are

				indicators of outcomes	and the indicators of outcomes
Workforce diversity	Difficult to define	HR decisions and practices?	(e.g.) X % of female workers at managerial level	Income by female workers? Or economic benefits to her family? - difficult to define who the major stakeholders are and the indicators of outcomes	Changes in Income by female workers? Or other economic benefits to her family? - difficult to define who the major stakeholders are and the indicators of outcomes
Competitive behavior	Difficult to define	FTC compliance efforts	X dollar amount of FTC penalties	Amount of legal expenses?	Changes in legal expenses?

Suggestions

It would be better to leave the impact pathway graph as a reference at the end for conceptual understanding rather than asking the firms to report on those steps one by one. It will be a very difficult exercise without adding much practical values. We view, however, that defining the outputs, outcomes, and impacts in consistent ways and asking the firms to report would add value once proper guidelines on each topical areas and industries are provided by the later Methodologies.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance.

Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows:

a) the capacity of the impact information to influence the decisions of users;

b) the need for transparency as a public good and accountability towards affected stakeholders; and

c) the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

(Response from 1st author)

We generally agree with the three perspectives presented as a guide to determining which impact items should be included or excluded from impact accounting. However, we have a few comments to clarify this guidance.

The meaning of "capacity" in a) the capacity of the impact information to influence the decisions of users the three perspectives, is ambiguous. The size of the capacity of impact information to influence the decisions of users varies considerably depending on the nature of the users. Rather than referring to users collectively, it would be more practical to refer to the entity's top management or external investor group, since they are the preparers of the impact accounting (even if the investors commission a third-party organization to do the impact accounting).

Under the three perspectives, b) significance of an impact is suggested in paragraph 27, but there should also be guidance on what impact information constitutes a public good. For example, it would be helpful to specify which impact items affect the community or the ecosystem.

In the three perspectives, b) and c), "accountability towards affected stakeholders" and "the significance of the impact on affected stakeholders" mean almost the same thing. It is recommended that "accountability towards affected stakeholders" in b) be omitted because the degree of accountability towards affected stakeholders will be very closely related to the significance of the impact on affected stakeholders.

(Response from 2nd author)

Since each company has its unique characteristics and priorities, a clear guideline and examples are critical and should be provided as reference, if not standard, especially for the disclosure elements that have high uncertainty and low measurability. It creates bigger burden on a company to disclose without specific guideline and/or requirement, and will eventually become less valuable to produce disclosure data/information that are not logically comparable to peers.

The disclosure topics such as ‘Capacity', 'Transparency', 'Significance' are all hard to measure and each company will end up using different approach and method to report on such areas, which then leads to uncomparable disclosure between companies. This conflicts with the very idea of allowing users to make reliable and rational investment decisions based on the disclosed information. Therefore there should be a clear guideline for each specific disclosure element.

Question 5 – Additional feedback

1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

(Response from 1st author)

I would like to propose three additional points:

1) In impact accounting that aims for monetization, the most crucial aspect is monetary unit conversion. Depending on who undertakes this conversion, the definition of the report's preparer or user might also change.

2) The clarity of the criteria to judge whether the three perspectives for identifying an impact item are adequate is insufficient. To answer the provided questions, a more specific set of criteria needs to be presented concurrently.

3) To report impact in monetary terms in the financial statements, it's essential to consider the concept of financial statements from the beginning. For instance, positive impacts can be treated as assets while negative impacts can be viewed as liabilities, and based on this, profit and loss assessments are also possible. This can be referred to as 'integrated financial reporting'."

(Response from 2nd author)

Line-by-line comments are attached as a separate file.

END OF DOCUMENT

Attachment: KIVI Line-by-line Response Letter_Exposure_DRAFT_General Methodology 1

Exposure Draft

Comments to be received by October 16, 2023

This translation has been provided by [organization name]. The official statement is available in English [here](#).

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General Methodology 1:

Conceptual Framework for Impact Accounting

The International Foundation for Valuing Impacts, Inc. (IFVI) is a section 501(c)(3) public charity dedicated to building and scaling the practice of impact accounting to promote decision-making based on risk, return, and impact.

The Value Balancing Alliance (VBA) is an independent and not-for-profit member association organized under German law founded with the ambition of changing the way company performance is measured and valued so as to enable decision makers to act consciously.

Information contained in this publication does not constitute financial or legal advice and is not a substitute for the services of an appropriately qualified professional. IFVI and VBA disclaim all liability whatsoever arising from this publication or any use thereof.

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Exposure Draft

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 open-source methodology 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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Questions or comments about IFVI governance or methodology can be submitted to the VTPC at VTPCLeadership@ifvi.org, the Chair of the DPOC at DueProcessOversight@ifvi.org , or directly to technical staff at research@ifvi.org.

For instructions on how to provide comment, go to pg. 12.

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Explanatory note

Background

In January 2023, the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) announced that they had formed a partnership to develop a globally applicable impact accounting methodology (the Methodology) that would be published as a public good. The ambition of the partnership is to advance the use of impact management, and in particular, the practice of measuring and valuing with monetary techniques the impacts of corporate entities. The purpose of the Methodology is to generate impact information that enhances the decisions of managers and investors related to sustainability topics. Further, impact accounting lays a foundation for the disclosure of impact information that addresses how and to what extent corporate entities create and/or destroy value for non-financial stakeholders.

This document, the Exposure Draft for *General Methodology 1: Conceptual Framework for Impact Accounting* (Exposure Draft) is the first methodological statement published jointly by IFVI and VBA. The Exposure Draft introduces the system of impact accounting that will be developed throughout the Methodology. The Exposure Draft also establishes key concepts, principles, and definitions for the Methodology.

The Exposure Draft was developed by the technical staff of IFVI and VBA, with the project commencing in January 2023. *General Methodology 1: Conceptual Framework for Impact Accounting* is the first statement in a series of statements that will describe the generalizable, or cross-cutting, components of the Methodology. The research workplan of IFVI and VBA has been organized to set out the most fundamental elements of the Methodology in the Exposure Draft, prior to developing more specific impact pathways at the sustainability topic and industry-specific level. See section 1.3 of the Exposure Draft for a description of how the Methodology will be developed through interrelated statements including the General Methodology, Topic Methodologies, and Industry-specific Methodologies.

The Exposure Draft was prepared after a comprehensive literature review of frameworks, guidance, and protocols in the impact management ecosystem, general requirements and topic-specific disclosures required by relevant standard setters and governing jurisdictions, and conceptual frameworks for general purpose financial reporting. A pre-exposure draft was shared with VTPC members and expert stakeholders for feedback. IFVI and VBA would like to acknowledge Jeremy Nicholls for providing feedback during this pre-exposure stage.

A critical focus for the development of the Methodology is to build on the global baseline of sustainability-related disclosures that is being established by standard setters. The Methodology is being designed to be pragmatic and scalable. To achieve these objectives, the core of the Methodology will consist of common or standardized impact pathways. Standardized impact pathways will also enhance the comparability of impact information across time and between entities in the same industry. To the extent feasible, standardized impact pathways will utilize data that are already collected by entities as well as metrics and targets that are reported publicly through sustainability-related disclosure requirements. While the methodology is not designed to be an official or standalone standard, it is intended for use by

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practitioners and standard setters now and in the future. Use of the word standardized is meant to describe impact pathways that promote comparability across sustainability topics, ensure methodological consistency between entities, and provide for rigor in impact measurement and valuation.

With equal concern, the Methodology is being developed to build on the foundational work of organizations that have published frameworks, guidance, and protocols to build consensus on and advance impact management and valuation. Those organizations, among others, include Capitals Coalition, Impact Economy Foundation, Impact Management Platform, and Social Value International. The Exposure Draft primarily uses concepts and definitions that have been published by organizations in the impact management ecosystem, all of which are referenced throughout the statement. Publications that were foundational to the development of the Exposure Draft are listed in the Bibliography.

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 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 proceed with releasing 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 conclusion of the public comment period, 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. The summary is published on the IFVI website and significant matters are deliberated at a VTPC meeting.

Per the Due Process Protocol, after review and deliberation of the received comments, the VTPC will make a determination to:

a) Proceed with a vote to approve the methodology as proposed in the exposure draft;
b) Evaluate and proceed with a vote on a revised methodology with limited modifications based on public input and/or piloting; or
c) Direct technical staff to conduct additional research and consultation on issues raised through public comments and/or piloting.

The VTPC may determine that an additional public comment period may be appropriate if the extent of modifications and evidence considered is fundamentally different compared to the

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proposed methodology in the exposure draft. In some circumstances, the VTPC may consider removing a project from the work plan based on its deliberations.

Upon an affirmative majority vote by the VTPC to issue a methodology statement, the statement will be made available to the public on the IFVI and VBA websites in a timely fashion. The issued statement will be accompanied with a published basis for conclusions containing a rationale for the statement, summary of research and consultation, and other supporting information as determined by the VTPC.

Technical staff may make editorial corrections to issued methodologies to remedy spelling errors, grammatical mistakes, or other drafting errors that do not alter the technical meaning of the statement.

For more information, see the Due Process Protocol.

Exposure Draft Summary

The following is a section-by-section summary of key proposals made in the Exposure Draft and is not an exhaustive overview of the statement. A summary is included to highlight decisions made during the drafting of the Exposure Draft and the basis for those conclusions.

Section 1: Introduction

This section introduces several key definitions, presents the long-term vision for impact accounting, provides the foundational components of the architecture for the Methodology, and set outs how the General Methodology, or cross-cutting methodology, serves as the foundation for Topical and Industry-specific Methodologies that will be developed over time.

This section establishes monetary valuation as a foundation of impact accounting and impact materiality, as opposed to financial materiality, as the basis for impact accounts, focusing on the measurement and valuation of impacts to affected stakeholders. Monetary valuation techniques are used in the Methodology to translate the effects of corporate entities into intuitive monetary units that enhance the decision-usefulness of impact information and facilitate trade-off analyses between sustainability topics and between sustainability topics and financial topics. The use of monetary valuation techniques is not required by standard setters that develop sustainability-related disclosure requirements nor is it a requirement in most frameworks focused on impact management, marking a critical point of distinction between the Methodology and extant systems for assessing corporate performance.

In this section, three terms that are unique to the Methodology, in that the definitions were not adapted from frameworks, guidance, or protocols in the impact management ecosystem, are introduced: impact accounting, impact accounts, and impact information. The three terms form the building blocks for impact measurement and valuation in the Methodology. In short, impact accounting is the system for measuring and valuing the impacts of corporate entities, impact accounts contain the material positive and negative impacts of an entity in monetary terms, and impact information is derived from impact accounts to inform decision-making. See Appendix A: Glossary for complete definitions. The three terms use original definitions because comparable terms have not been defined in impact management resources, at least not for the

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purpose of establishing a resource with the primary objective of measuring impacts in monetary terms.

The section also includes a statement adapted from the IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, which states that while impact accounts are oftentimes based on estimates, judgments, and models rather than exact depictions, the use of reasonable estimates does not undermine the usefulness of the information if the estimates are accurately described and explained. This statement is included to propose that measurement uncertainty alone does not prevent impact information from being useful.[1]

Section 2: Purpose and applications of the Methodology

The purpose and use cases of the Methodology are stated in this section. The purpose serves as the foundation of the Exposure Draft, meaning that the other sections logically flow from the purpose statement and are included to help users of the Methodology achieve its stated purpose. The starting point for the purpose statement was the objective of general purpose financial reporting in IFRS *Conceptual Framework for Financial Reporting.*[2] See section 2.1 for the complete purpose statement.

The purpose statement is grounded in generating impact information to help managers and investors make decisions related to the sustainability performance of an entity. Sustainability performance is defined without reference to existing frameworks, guidance, or protocols. Sustainability performance in the Methodology refers to the effectiveness of an entity in reducing negative impacts and increasing positive impacts. Sustainability performance was defined as such to make explicit why an entity and/ or investor uses impact accounting, similar to how paragraph 1.3 in IFRS *Conceptual Framework for Financial Reporting* describes how decisions made by primary users of financial information depend on the returns of investors.[3]

A definition for sustainability performance was not available in impact management resources reviewed by the technical staff; however, European Sustainability Reporting Standards 1 *General Requirements* states that when determining the usefulness of entity-specific disclosures, the undertaking should consider whether metrics provide insight into "reducing negative outcomes and/or increasing positive outcomes."[4]

This section also delineates the preparers of impact accounts and the users of impact information. Unlike general purpose financial reporting, which has a clear preparer of financial information in the entity itself, the preparers of impact accounts are not clearly established. This is due to the fact that the preparation and disclosure of impact information does not have the institutional infrastructure of general purpose financial reporting. For this reason, the Methodology establishes two potential preparers of impact accounts: entities themselves and

[1] See paragraph 79 in IFRS (June 2023): IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.
[2] See paragraph 1.2 in IFRS (2018): Conceptual Framework for Financial Reporting.
[3] See paragraph 1.3 in IFRS (2018): Conceptual Framework for Financial Reporting.
[4] EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

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investors from an external perspective. The Exposure Draft notes that preparing impact accounts from an external perspective may result in potential limitations due to data availability. The primary users of impact information are set forth as managers of an entity, existing or potential investors, and affected stakeholders.

Section 3: Qualitative characteristics of impact information

The qualitative characteristics of impact information are used to inform all steps related to impact accounting, including the preparation of impact accounts and the disclosure of any impact information derived from impact accounts. The characteristics themselves are adapted directly from European Sustainability Reporting Standards 1 *General Requirements* and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. The timeliness characteristic, which is included in IFRS S1 but not in ESRS 1, was excluded from the General Methodology; however, paragraph 24 in the Exposure Draft describes that impact information may be less useful if it is older.

Qualitative principles included in frameworks, guidance, and protocols within the impact management ecosystem were cross-referenced to ensure that the qualitative characteristics in the Methodology are comprehensive. While many impact management resources utilize different terminology when establishing principles, those resources do not advance any principles that are not captured by the qualitative characteristics in the Methodology.

The Methodology uses an impact materiality perspective to determine which impacts to include in impact accounts. In this section, the qualitative characteristic of relevance, described in section 3.2, defines the various perspectives that should be considered when assessing an impact for materiality, and thereby for inclusion in impact accounts for a particular time period. The definition of relevance is critical to the application of the Methodology and represents a deviation from general purpose financial reporting, which relies on the ability of information to influence the decisions of an investor as the sole basis for materiality.

Section 4: Fundamental concepts of impact accounting

This section defines several fundamental concepts that are necessary to establish a system for impact accounting, including the concept of impact, which serves as the basis for impact accounting.

In this section, impact is defined from the perspective of the well-being of people. See section 4.2 for the definition of impact. An anthropocentric approach is taken when defining impact primarily as a result of the limitations associated with measuring the intrinsic value of nature. The fact that impacts on the natural environment may result from the activities of an entity irrespective of any impact on people's well-being is acknowledged in section 4.2, stating that nature possesses its own inherent value, even if measuring that value is infeasible using available methods. Further, impact is defined as a change in one or more dimensions of people's well-being. In doing so, the Exposure Draft creates space for future methodological statements to consider a comprehensive range of impacts.

The structure of impact pathways in the Methodology is introduced in this section. Impact pathways are the framework for measuring all impacts in the Methodology and describe the causal relationship between an entity's activities and related changes in people's well-being.

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The impact pathway structure is closely adapted from the Impact Management Platform, both to promote harmonization of impact management resources and because the definitions are consistent with how impacts are understood in the Methodology.[5]

In section 4.6, an important proposal is made concerning the perspective of monetary valuation. The section sets outs that impacts are valued from the perspective of the affected stakeholder as opposed to the perspective of the financial risk or opportunity to the entity. This approach is consistent with the vision of impact accounting to understand how entities create value for all stakeholders. If an entity would like to also understand the value of a financial risk or opportunity that stems from an impact, then impact information may be helpful in conducting such an analysis.

The approach taken to attribute impacts to entities is introduced in section 4.10, which establishes that an entity may be wholly or partially responsible for an impact and that all impacts included in impact accounts should be assessed for the appropriate level of attribution to the entity. Two important decisions were made in this section.

First, the section sets forth that the Methodology may result in the double-counting of impact across the value chain. This occurs when the entirety of an impact is included in an entity's impact accounts because the entity is directly responsible for the impact and an entity that is linked to the same impact includes a portion of the impact in its impact accounts. This approach is analogous with the Greenhouse Gas Protocol, which results in double counting in Scope 3 emissions.[6] This approach is in contrast to the "Conservation of impact" principle in the Impact Economy Foundation's *Conceptual Framework for Impact-Weighted Accounts*, which states that the sum of impact contribution of all entities should represent the total impact in society.[7] This approach was taken in the Methodology to allow for complete information on value chain responsibility of an entity and to align with sustainability-related disclosure requirements.

Second, the Exposure Draft states that attribution will be developed further in Topical and Industry- Specific Methodologies as it was decided that guidance on attribution is better informed within the specific context of a sustainability topic and the data infrastructure that exists for that topic. This approach does not preclude future General Methodology statements from developing further the cross-cutting principles related to attribution.

Section 5: Impact materiality and the preparation of impact accounts

This section lays out the steps to prepare impact accounts, including steps related to impact identification and measurement and how to prepare impact accounts at a point in time for a particular period.

In several sub-sections of this section, the concept of impact materiality is developed. In section 5.1, impact materiality is set forth as an entity-specific aspect of the qualitative characteristic of

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[5] See definitions for input, activities, output, and outcome stages of the impact pathway from Impact Management Platform (2023): Key terms and concepts.
[6] See Greenhouse Gas Protocol (June 2022): Scope 3 Frequently Asked Questions, which says "Scope 3 emissions for the reporting company are by definition the direct emissions of another entity."
[7] Impact Economy Foundation (2022): Conceptual Framework for Impact-Weighted Accounts.

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relevance. By describing impact materiality as entity-specific, the Exposure Draft requires entities, or investors from an external perspective, to assess whether certain impacts are relevant to its activities, but it also places the burden on the preparers of impact accounts to ensure that impact accounts are comprehensive, in that they contain all material impacts. As a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

An additional decision made in section 5.1 was to clearly state that impact accounting, in particular the measurement and valuation of impacts, provides a data driven and empirical approach to support an entity's materiality assessment process. Specifically, impact accounting generates information that may help entities to assess the scale and scope of impacts, providing insight into the greatest effects that an entity has on people and the natural environment. This statement, in paragraph 75, was included as a result of feedback from stakeholders.

In section 5.4, the scope of impact materiality is set out, which includes direct impacts caused or contributed to by the entity's activities and indirect impacts that are directly linked to the entity's own operations, products, or services through its business relationships. This reporting boundary is adapted from European Sustainability Reporting Standards 1 *General Requirements.*[8]

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[8] See paragraph 46 in EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

Request for public comment

Instructions to comment

The VTPC invites comment letters on the proposals in the Exposure Draft, particularly on the questions set out below. Feedback from stakeholders will be incorporated impartially. The VTPC is requesting comments only on matters addressed in the Exposure Draft. 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 VTPC should consider, if applicable.

Please note that comment letters are a matter of public record and will be published on the IFVI website after the closure of the public comment period. Comments should be sent to the technical staff via e-mail at research@ifvi.org. Please include "General Methodology 1 Public Comment" in the subject line.

Questions for feedback

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)
The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity. A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions. The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22. 1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

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Question 2 – Conservatism in faithful representation (paragraph 32)
The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts." For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 *General Requirements* or IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's *The Impact-Weighted Accounts Framework*.[9] The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity. 1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)
Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.[10] The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries

[9] See paragraph 2.5.4. in Impact Economy Foundation (June 2022): Impact-Weighted Accounts Framework.
[10] See definitions for input, activities, output, and outcome stages of the impact pathway from Impact Management Platform (2023): Key terms and concepts.

between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity. 1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)
To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance. Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows: a) the capacity of the impact information to influence the decisions of users; b) the need for transparency as a public good and accountability towards affected stakeholders; and c) the significance of the impact on affected stakeholders. For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality. 1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity? 2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?

3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

Question 5 – Additional feedback
1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

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[DRAFT] *General Methodology 1: Conceptual Framework for Impact Accounting* is set out in paragraphs 1–86 and Appendix A. Terms defined in Appendix A are in italics the first time they appear in this statement.

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1 Introduction

1.1 Document purpose

1. The purpose of this document is to introduce the *impact accounting* system (the Methodology) that is being developed by the partnership between the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) and to establish the foundations of its General Methodology, or the component of the Methodology that is generalizable across topics and industries. The General Methodology is to be developed through several methodological statements. This statement, General Methodology 1, establishes key concepts, principles, and definitions for the Methodology.
2. The Methodology is a globally applicable system for measuring and valuing the *impacts* of corporate entities (entities or an entity) on people and the environment. For the purposes of the Methodology, the valuation of an impact is understood to mean the use of a monetary valuation technique, unless otherwise stated.[11]
3. The content of the Methodology builds on frameworks and protocols published by leading organizations in the impact management ecosystem and sustainability-related disclosures required by governing jurisdictions and international standard setters.

1.2 Long-term vision for impact accounting

4. The long-term vision for the Methodology is to develop a system of impact accounting that generates *impact information* that is as foundational to corporate and investor decision-making as financial information contained in general purpose financial reporting.
5. In contrast to general purpose financial reporting, the line between preparers of information and users of information in impact accounting is not clearly defined. The Methodology is designed to be applied by either managers of an entity or investors in an entity to produce *impact accounts*.[12] Impact accounts measure the positive and negative impacts of an entity on people and the environment. To produce impact accounts, it may be advantageous to have access to primary data of the entity; however, the Methodology is flexible enough to be applied, with potential limitations described

Commented [U1]: The link to regulatory disclosure framework is unmentioned in this section on Long-term vision and it is understandable at this early stage. But at least should we guide the public that we have that in mind? Analogy goes to the ISSB's statement in S1 that they have an "intention" to link up to IASB standards through Integrated Reporting as one of their end goals. Further this may be an important draw point for market adoptability especially from the perspectives of listed firms and large investors. We need to be sure to include the listed firms as well as impact entrepreneurs as target groups for impact accounting.

Commented [U2]: Can we have some examples of (prototypes of) impact accounts as they are relatively new concepts to the preparers?

[11] The role and importance of valuing impacts is aligned with the Natural Capital Protocol and the Social & Human Capital Protocol of the Capitals Coalition, the Impact-Weighted Accounts Framework of the Impact Economy Foundation, and Principle 3: Value the Things That Matter of Social Value International. In the case of the Capitals Coalition protocols, valuation is recognized to encompass many different approaches, including monetization. In the case of the Impact Economy Foundation's Impact-Weighted Accounts Frameworks, the principle of commensurability recommends the use of a monetary unit. In the case of Social Value International's Principle 3: Value the Things That Matter, the use of a monetary valuation technique should be considered in light of the audience, types of decisions being made, and the level of rigor required.
[12] Impact accounts is synonymous with and used in place of impact-weighted accounts throughout the Methodology.

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throughout the Methodology, by investors to prepare impact accounts from an external perspective.

6. Impact accounts are used to derive impact information. 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 impacts, and qualitative commentary that contextualizes impacts. The main users of impact information are managers of an entity, investors in an entity, and affected stakeholders of an entity's impacts. Impact information informs decision-making by interpreting impacts in comparable and understandable terms, specifically monetary units. Impact information is useful for considering trade-offs between different *sustainability topics* and between sustainability topics and financial topics.

7. To prepare impact accounts, an impact materiality perspective is applied to determine which impacts to include in an entity's impact accounts.[13] Impacts that are material from an impact materiality perspective are included in impact accounts regardless of whether they trigger or may trigger material financial effects on the entity. The impact information derived from impact accounts can be used to inform an entity's materiality assessment process. The monetary valuation of an impact in the Methodology is performed from the perspective of affected stakeholders, or society in general, as opposed to the perspective of the entity.

8. To a large extent, and consistent with general purpose financial reporting, impact accounts are based on estimates, judgments, and models rather than exact depictions. When impacts can only be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of impact accounting and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent impact accounts from providing useful information.[14]

9. The vision for impact accounting is unlikely to be achieved in the short term because it takes time to socialize, understand, accept, and implement new ways of assessing corporate performance. Further, limitations exist to impact measurement and valuation, including that the valuation of certain impacts in monetary terms may not always produce decision-useful information. Nevertheless, establishing a goal towards which to

Commented [U3]: How is comparability achieved? Without a common set of reporting standards?

Commented [U4]: A possible addition to reference may be the description by EFRAG on double materiality, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.6%20-%20WP%20on%20draft%20ESRG%201.pdf

Commented [U5]: This sentence is unclear as to why stakeholders' views are different from the entity's perspective. What is it exactly trying to say?

Commented [U6]: We may want to stress the use of already existing standard ways of estimation as references, and to ask the entities to disclose the methods they adopted. We may want to even list up the sources for references in the G1 as did the ISSB for SASB, GRI, CDSB, et cetra.

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[13] Consideration of the effects of impacts on stakeholders to determine the relevance of information is consistent with the principles of relevance and significance in the Natural Capital Protocol and the Social & Human Capital Protocol of the Capitals Coalition, the double materiality view utilized in the Impact-Weighted Accounts Framework of the Impact Economy Foundation, and Principle 4: Only Include What Is Material of Social Value International.

[14] Adapted from IFRS (June 2023): IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

strive, and continually addressing possible limitations, is essential if impact accounting is to evolve so as to improve its usefulness.[15]

10. There are many ways to conceptualize and implement impact valuation. The Methodology is intended to provide a credible and standardized approach that promotes the comparability of sustainability-related data at scale through monetary valuation. Additional approaches may nonetheless complement the impact accounting system developed in the Methodology.

1.3 Architecture of the Methodology

11. The Methodology is developed through a system of interrelated statements.
    a) **General Methodology:** The General Methodology establishes the system of and conceptual elements for impact accounts, including the purpose, users of impact information, qualitative characteristics, fundamental concepts, impact materiality, and measurement and valuation methods. The General Methodology is comprised of multiple statements, with this statement being the first.
    b) **Topic Methodologies:** The Topic Methodologies include guidance for the measurement and valuation of impacts at the sustainability topic level. The impacts related to any specific topic included in an entity's impact accounts is based on the application of impact materiality. The Topic Methodologies are designed to apply across industries.
    c) **Industry-specific Methodologies:** The Industry-specific Methodologies include guidance for the measurement and valuation of impacts at the industry-specific level. The industry-specific impacts included in an entity's impact accounts is based on the application of impact materiality. Industry-specific methodologies are developed in circumstances in which a topic cannot be generalized across industries.

Commented [U7]: Can we list up some examples of the topics?

12. Topic and Industry-specific Methodologies are published in the form of standardized *impact pathways*, and may include additional information related to data sources, measurement and valuation methods, and resources that establish links between the *activities* of an entity and impacts.

13. The Methodology is designed with consideration given to practical feasibility and scalability. Additional documents may be developed to support interpretation and application of the Methodology, separate from the Methodology itself.

1.4 Objective of the General Methodology

14. The General Methodology serves as the foundation for the Methodology, meaning that it applies to all Topic and Industry-specific Methodologies. The concepts of and methods for impact accounting are not inherently consistent across sustainability topics and

[15] Adapted from IFRS (2018): Conceptual Framework for Financial Reporting.

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industries. The General Methodology provides guidance on the conceptual and methodological components that are generalizable.

15. The objective of the General Methodology is to:

   a) develop a system of impact accounting and enable the development of Topic and Industry-specific Methodologies based on consistent concepts, definitions, methods, and principles;

   b) assist entities and investors to prepare impact accounts based on consistent approaches; and

   c) assist users to understand and interpret impact information that is derived from impact accounts.

16. No content in the General Methodology overrides guidance in Topic and Industry-specific Methodologies. To meet the purpose of impact accounts, certain guidance may depart from aspects of the General Methodology. The General Methodology may be revised periodically and revisions of the General Methodology will not automatically lead to changes in Topic or Industry-specific Methodologies.

Commented [U8]: The relationship between this sentence and the sentence 14 (" The concepts of and methods for impact accounting are not inherently consistent across sustainability topics and industries. The General Methodology provides guidance on the conceptual and methodological components that are generalizable") is unclear. Generalizable foundations on one end, but not overriding on the other end. How is this possible?

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2 Purpose and applications of the Methodology

2.1 Purpose statement

17. The purpose of the Methodology is to produce impact accounts and generate impact information that enhances decision-making by entities and investors related to the *sustainability performance* of an entity. The same impact information can be used alongside financial information to assess trade-offs between sustainability topics and financial topics. Sustainability performance refers to the effectiveness of an entity in reducing negative impacts and increasing positive impacts.

Commented [U9]: How does this impact-based sustainability performance relate to the sustainability performance now expressed from financial materiality perspective as in the ISSB and the SEC? Do we need to clear up the distinction?

18. The Methodology is established by the societal obligations of entities and investors to meet the needs of the present without compromising the ability of future generations to meet their own needs.[16]
19. The Methodology is useful for entities and investors seeking to manage sustainability-related risks, opportunities, and impacts, but it further supports decision-making aimed at generating positive impacts that improve the lives of affected stakeholders as an objective in and of itself.

2.2 Preparers of impact accounts and users of impact information

20. Any entity in any business sector, in any geography, and at any organizational level can use the Methodology to measure and value its impacts and prepare impact accounts. The Methodology can also be applied by any investor in an entity from an external perspective to prepare impact accounts.

Commented [U10]: Also the impact of projects, in addition to organizational or firm as a whole impacts. Many impact assessments have been done on projects.

Commented [U11]: Need to further define the external perspective, slightly unclear

21. For the avoidance of doubt, the Methodology should not be applied to present impacts in a manner that is slanted in favor of positive impacts or is not neutral, for example by emphasizing an organizational level of an entity that has better sustainability performance than the entity as a whole.

Commented [U12]: How would we guard this to be practically followed by firms? Or is this just a statement? In that case, do we need this sentence?

22. Impact information is derived from impact accounts and can be used for decision-making by the following users in the applications described below. The use of impact information is not limited to the scenarios described herein.
    a) managers of the entity, including executives, finance departments, risk officers, and sustainability experts, can use impact information to inform decision-making related to:
        i. corporate management, including business acquisitions, mergers, and/or joint ventures, capital budgeting and investment, corporate strategy, distribution, procurement, and supply chain, employee compensation, engagement, and performance targets, governance controls, processes,

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[16] See the definition of *sustainable development* in Brundtland (1987): Our Common Future, Report of the World Commission on Environment and Development, section 3.27.

and procedures, new market entry and restructuring, product portfolio decisions, research and development, and risk management; and

b) existing or potential investors, lenders and other creditors can use impact information reported in an entity's sustainability-related disclosures or can prepare impact accounts from an external perspective to inform investment decisions based on:

   i. evaluation of the sustainability performance of an entity; and

   ii. assessment of an entity's enterprise value, including consideration of risks and opportunities that arise from an entity's impacts.

c) affected stakeholders, including individuals or groups whose well-being is affected or could be affected by the entity's activities and its *business relationships* across its *value chain*, can use impact information to understand the significance of the impacts caused by the entity.

   i. Affected stakeholders use impact information to inform a range of decisions, including those related to consumption, employment, procurement, and policymaking.

Commented [U13]: Need to incorporate the other financial stakeholders such as the insurers, and investment banks, and foundations. Note that insurers and investment banks are included in the ISSB Scope 3 financial emissions discussion (IBs being excluded for now).

Commented [U14]: Also regional communities

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3 Qualitative characteristics of impact information

3.1 Applying the qualitative characteristics of impact information[17]

23. For the purposes of preparing impact accounts, which includes measuring and valuing the impacts of an entity, and disclosing impact information in sustainability-related disclosures, the following should apply:
    a) the fundamental qualitative characteristics of impact information, i.e., relevance and faithful representation; and
    b) the enhancing qualitative characteristics of impact information, i.e., comparability, verifiability, and understandability.

Commented [U15]: Meaning unclear

24. The qualitative characteristics of impact information should be applied at the time when impact accounts are prepared and any impact information derived from those accounts is disclosed. Over time, the qualitative characteristics may no longer apply to impact information from prior time periods.

3.2 Relevance

25. In general purpose financial reporting, the ability of information to make a difference in the decision of users is the primary consideration for the relevance of financial information, whereas in impact accounting, the ability of impact information to influence the decisions of users is not the sole criterion. While the Methodology aims to generate useful impact information for decision-making, impact information may be highly relevant in its own right as a public interest activity.[18]

Commented [U16]: Can we define this here rather than resorting to GRI reference for understanding?

26. The relevance of the impact information related to any particular impact is determined by applying the following perspectives:
    a) the capacity of the impact information to influence the decisions of users;
    b) the need for transparency as a public good and accountability towards affected stakeholders; and
    c) the significance of the impact on affected stakeholders.

[17] The qualitative characteristics are primarily adapted from EFRAG (2002): Draft European Sustainability Reporting Standards, ESRS 1 General Requirements and IFRS (June 2023): IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. The technical principles of the Natural Capital Protocol and the Social & Human Capital Protocol of the Capitals Coalition, the general characteristics of useful impact information included in the Impact-Weighted Accounts Framework of the Impact Economy Foundation, and The Principles of Social Value International were also drawn upon to adapt the qualitative characteristics in this section to apply to impact valuation.

[18] See GRI (2021): GRI 1: Foundation 2021 for more details on the concept of a “public interest activity.”

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27. For actual impacts, the significance of the impact is based on the severity of the impact, while for potential impacts, it is based on the severity and likelihood of the impact. Severity is based on:[19]

    a) scale: how grave the negative impact is or how beneficial the positive impact is on people's well-being, including the duration over which an impact lasts;[20]

    b) scope: how widespread are the negative or positive impacts. In the case of environmental impacts that affect people's well-being, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people affected; and

    c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state. The irremediable character of an impact does not apply to positive impacts.

28. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood. The severity of a negative human rights impact is not limited to physical harm. Highly severe impacts can occur in relation to any human right.[21, 22]

3.3 Faithful representation

29. Impact information should not only represent relevant impacts, it should also faithfully represent the substance of the impact that it purports to represent. Faithful representation requires impact information to be:

    a) complete;

    b) neutral; and

    c) free from error.

30. A complete depiction of an impact includes all information necessary for the users to understand that impact. This includes information related to assumptions, data, and methods used to measure and value the impact.

31. Impact information is neutral if it is not slanted, emphasized, de-emphasized or otherwise manipulated to make it more likely that the users will receive that information favorably or unfavorably. It should consider positive and negative aspects of

[19] Adapted from the severity categories of EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.
[20] Adapted from the How Much dimension of the Impact Management Project (2023): Five Dimensions of Impact: How Much.
[21] Refers to human rights inherent to all human beings, which include, at a minimum, the rights set out in the United Nations (UN) International Bill of Human Rights and the principles concerning fundamental rights set out in the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work.
[22] Adapted from EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

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impacts. Positive impacts should not be used to obscure negative impacts in the presentation of impact information.

32. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that positive impacts are not overstated and negative impacts are not understated. Equally, the exercise of prudence does not allow for the understatement of positive impacts or the overstatement of negative impacts. In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts.

33. Impact information can be free from error without being perfectly precise in all respects. Information that is free from error implies that the entity has implemented adequate processes and internal controls to avoid material errors. The amount of precision needed and attainable, and the factors that make information free from error, depend on the nature of the information and the nature of the matters it addresses. For example, being free from error requires that:

    a) factual information is free from material error;
    b) descriptions are precise;
    c) estimates, approximations and forecasts are clearly identified as such;
    d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;
    e) assertions are reasonable and based on information of sufficient quality and quantity; and
    f) information about judgments about the future faithfully reflects both those judgments and the information on which they are based.

3.4 Comparability

34. Impact information is comparable when it can be compared with impact information in previous periods and with the impact information of other entities, in particular those with similar activities or operating within the same industry.

35. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same impact from period to period. Consistency helps to achieve the goal of comparability. Maintaining consistency does not preclude the possibility of improvements and revisions to the Methodology. To maintain consistency, changes in the Methodology over time may require an entity to recalculate certain impacts when comparing impact information across time periods.

36. Comparability is not uniformity. For information to be comparable, like components should look alike and different components should look different. Comparability of information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

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3.5 Verifiability

37. Verifiability helps to give users confidence that impact information is complete, neutral, and free from error. Information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.

38. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Impacts should be identified, assessed for materiality, measured, valued, and disclosed in ways that enhance their verifiability, for example:

    a) using information that can be corroborated by comparing it with other information available to users about the entity, about other entities, or about the external environment; and

    b) providing information about assumptions, data, and methods used to measure and value impacts.

3.6 Understandability

39. Impact information is understandable when it is clear and concise. Understandable information enables any reasonably knowledgeable and willing user to readily comprehend the information being communicated.

40. The completeness, clarity, and comparability of impact information rely on the impact information being presented as a coherent whole. For impact information to be coherent, it should explain the context and the relationships between the related assumptions, data, and methods used to measure and value the impact. Individual impacts may be aggregated or categorized to enhance the clarity of impact information but never in violation of neutrality or to the point at which topic or industry-specific context is lost.

41. The level of information, granularity and technicality should be aligned with the needs and expectations of users. Abbreviations should be avoided and the units of measure should be defined and disclosed.

3.7 Use of the enhancing qualitative characteristics of impact information[23]

42. Enhancing qualitative characteristics should be maximized to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make impact information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

43. Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Sometimes, one enhancing qualitative characteristic may have to be diminished to maximize another qualitative characteristic. For example, a

[23] Adapted from IFRS (2018): Conceptual Framework for Financial Reporting.

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reduction in comparability may be worthwhile to improve relevance or faithful representation.

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4 Fundamental concepts of impact accounting

4.1 Impact as the basis for impact accounting

44. To establish a system of impact accounting, several fundamental concepts must be defined. Those concepts are introduced and described in this section.

45. Whereas general purpose financial reporting is grounded in the concepts of assets and liabilities, to report an entity's financial position, and income and expenses, to report an entity's financial performance, impact accounts are grounded in the concept of impact. The unit of measurement for impact accounts is monetary.

4.2 The definition of impact

46. Impact can be 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. An impact can be actual or potential, intended or unintended, and positive or negative.[24]

Commented [U17]: Does this mean such impacts on natural environment that have remote (time-wise and location wise) or causally ambiguous effects on people's well-being are not to be considered? What is the boundary here? What about the impacts on animals for instance?

47. Impacts in the Methodology are valued using monetary valuation techniques, and as a consequence, impact is defined through a human perspective due to limitations associated with measuring the intrinsic value of nature. To the extent possible, the Methodology will over time consider effects on the natural environment independent of any relationship to humans.

48.

49. An impact is potential in nature when its effects have a degree of uncertainty, in that they may have occurred in the past or may occur in the future, subject to a degree of likelihood. An impact is unintended when its effects were not the aim or expected result of an entity's activities. An impact does not have to be directly observed to be included in impact accounts. In many instances, the measurement and valuation of impacts are based on models rather than depictions of real-time changes in people's well-being or the condition of the environment.

4.3 Comparisons between financial and sustainability topics

50. The creation or erosion of value related to the well-being of people can be analyzed as a system of flows and stocks, in which flows of value are represented by impacts and stocks of value are represented by *capitals*. Capitals are defined as the resources and relationships affected and transformed by an entity's impacts.[25] General purpose financial reporting measures the creation or erosion of value for specific types of financial capital, such as the equity of an entity, whereas impacts can primarily be represented as changes in various types of non-financial capitals.[26]

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[24] Adapted from Impact Management Platform (2023): Key terms and concepts.

[25] Adapted from Impact Management Platform (2023): Key terms and concepts.

[26] A categorization of capital types, which includes human capital, natural capital, produced capital, and social capital, can be found in Capitals Coalition (2021): Principles of Integrated Capitals Assessments.

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51. Alongside one another, general purpose financial reporting and impact accounting, aided by the use of monetary valuation techniques, lays the foundation for a comprehensive assessment of an entity's performance across capital types.

4.4 Impact pathways[27]

52. An impact pathway describes 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.[28] Impact pathways provide a consistent method to measure impacts, allowing for comparability across time and between entities for a specific sustainability topic.

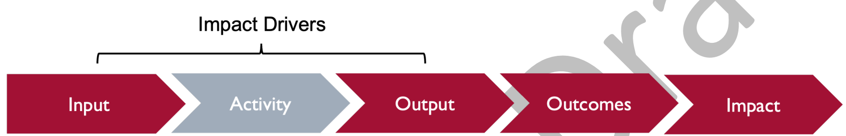

Figure 1: Impact pathway

53. Impact pathways consist of the sequence of events shown in Figure 1 and described below.

   a) Input: the resources and business relationships that the entity draws upon for its activities.

   b) 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.

   c) Output: the direct result of an entity's activities, including an entity's products, services, and any by-products.

   d) 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.

   e) Impact: the change in one or more dimensions of people's well-being directly or through a change in the condition of the natural environment. As such, the term "outcome" describes a resulting state or condition, where impact refers to the change and evolution in this state or condition as a result of the entity's activities.

[27] Definitions for input, activities, output, and outcome stages of the impact pathway are from Impact Management Platform (2023): Key terms and concepts.
[28] Adapted from ISO (2019): ISO 14008:2019.

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54. *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 drivers are typically input or output related data that are measured by the entity.

55. The boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity.

4.5 Reference scenario

56. An impact does not occur in isolation but in relationship to a *reference scenario*. A reference scenario is the set of activities and related outcomes that is assumed to happen in the absence of the entity's activities.[29]

57. A reference scenario assumes that the entity's activities, and any comparable substitutes, do not exist. A reference scenario does not assume that the activities of the entity are replaced by a competing entity that conducts its activities in a similar manner or provides a next best alternative. The reference scenario for an impact pathway should be disclosed to users of impact information such that it is clear what is measured in the impact calculation.

4.6 Monetary valuation

58. Impacts can be valued from the perspective of the financial opportunity or risk to the entity or from the perspective of the affected stakeholder. Monetary valuation in the Methodology is performed from the perspective of the affected stakeholder. In some instances, an impact cannot be isolated to a single affected stakeholder group and is valued from the perspective of society in general.

59. While impact accounts are valued from the perspective of the affected stakeholder, or society in general, they may be used to inform assessments of an entity's dependencies on people and the environment. Dependencies occur when an entity's impacts, or changes in the external environment in which it operates, affect an entity's cash flows, or future cash flows, and therefore create or erode investors' determination of its enterprise value.[30]

60. Monetary valuation of impacts from the perspective of the affected stakeholder refers to the estimation of the relative importance, worth or usefulness of impacts to the people who experience the impact, expressed as a monetary value. Impacts can be experienced by people directly or through changes to the planet or the economy.[31] An anthropocentric approach is utilized whereby any change in the condition of the

Commented [U18]: Changes to the society?

[29] Adapted from Impact Economy Foundation (2022): Conceptual Framework for Impact-Weighted Accounts.
[30] Adapted from Impact Management Platform (2023): Key terms and concepts.
[31] See definition of monetization from Impact Management Platform (2023): Key terms and concepts.

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environment is valued from the perspective of the impact on human well-being. The valuation of an impact is typically performed with a monetary value factor.

61. The well-being of people cannot be separated from social context and the valuation of impacts should consider local or regional differences to provide relevant information.

4.7 Value chain

62. 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.[32] The value chain can be distinguished into three different levels (see Figure 2).

    a) *Upstream*: covers all activities and business relationships from cradle-to-gate, including products and services that the entity has purchased from its immediate suppliers and indirect suppliers further upstream.

    b) *Own operations*: covers all activities over which the entity has control.

    c) *Downstream*: covers all activities and business relationships from gate-to-grave linked to distribution and transportation, direct customers, product use by consumers and end-users, and product end-of-life.

63. In line with sustainability reporting standards and established frameworks such as the GHG Protocol, the Methodology includes impacts on all three value chain levels and is applicable to the full value chain of an entity. The scope of own operations in impact accounts is consistent with that of the reporting entity in general purpose financial reporting.

Commented [U19]: Does this mean the full value chains may be the coverage of the impact valuation i.e. beyond own operations?
Can we say the impact activities across value chains are necessarily connected to each other in such a way that emissions are connected as in Scope 3? Can we say firms should force or exert efforts to value chain participants to enhance their impact performances?

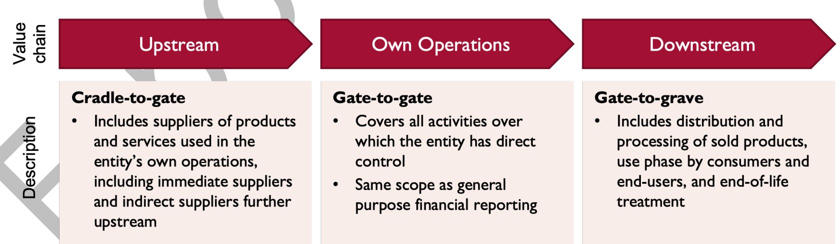

Figure 2: Value chain levels of an entity

64. A direct impact of an entity is an impact caused or contributed to by the entity's own operations. An indirect impact is an impact directly linked to the entity's own operations, products, or services through its business relationships in the upstream

[32] EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

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and/or downstream value chain. While the cause of indirect impacts is outside of the entity itself, the entity exerts an influence on the pathway that determines the scale and scope of the impact.

Commented [U20]: Does this mean we also intend to value indirect impacts?

4.8 Stakeholders[33]

65. *Stakeholders* are defined as those who can affect or be affected by the entity. For impact accounts, the affected stakeholder groups are of central importance. 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.

66. Common categories of stakeholders are authorities, including central banks, governments, regulators, and supervisors, business partners, civil society, employees, other workers, and trade unions, consumers, customers, and end-users, existing and potential investors, lenders, and other creditors, local communities and vulnerable groups, non-governmental organizations, and suppliers. Nature is considered a silent stakeholder, in that nature is affected by the impacts of entities, but it is the responsibility of people to act as stewards of the environment.

4.9 Time periods and accrual impact accounting

67. The time period for which an entity measures its impacts can be customized depending on the type of impact information that is required by users. For the purposes of disclosing impact information in sustainability-related disclosures, this would normally be the reporting period of the entity, but impacts can also be measured for the period of a specific project or the life of a product.

68. Impacts materialize over time and many impacts triggered by an entity's activities do not materialize within the period being considered. Impacts that do not materialize in the period may have materialized in a prior period or may materialize in a future period. For example, an impact can have materialized in a prior period when it affected a stakeholder in the entity's upstream value chain during the manufacture of an input that the entity draws upon for its activities in the current period. An impact can materialize in a future period when a good that the entity manufactures in the current period affects a stakeholder in the entity's downstream value chain in a future period.

69. Accrual impact accounting depicts the impacts on affected stakeholders in the period in which the related activities of the entity occur. Impact accounts for a particular period should reflect all of the impacts connected to activities of the entity that occurred in the period even if the impacts materialized in a prior period or may materialize in a future period.

[33] Adapted from EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

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4.10 Attribution of impacts

70. The attribution of an impact refers to the portion of an impact that is reflected in an entity's impact accounts. All impacts included in impact accounts should be assessed for the appropriate level of attribution to the entity.

71. An entity can be wholly or partially responsible for an impact. The attribution of an impact should consider the responsibility of the entity. If the entity has control over the activities that cause an impact, even if the impact exists in a system that other entities are linked to, it is likely that the entirety of the impact should be included in its impact accounts. Direct impacts that are caused by an entity are likely fully attributable to the entity, whereas direct impacts that are contributed to by the entity and indirect impacts may be either wholly or partially attributable to the entity.

72. The inclusion of the entirety of an impact by an entity in its impact accounts does not preclude another entity that is linked to the impact from including the entirety or a portion of the impact in its impact accounts. The direct impact of one entity can be the indirect impact of another entity in the same value chain. This approach to attribution creates the potential for double counting of impacts across the value chain. Double counting occurs when an entity wholly or partially recognizes an impact in its impact accounts and another entity in the same value chain wholly or partially recognizes the same impact. This approach to attribution allows for complete information on value chain responsibility at the entity level.

73. Beyond the responsibility of the entity, the attribution of an impact should also consider the capacity of the impact information to meet the decision-making needs of users. Additional guidance on attribution will be developed in Topical and Industry-specific Methodologies.

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5 Impact materiality and the preparation of impact accounts

5.1 Impact materiality as the basis for impact accounts

74. Before a preparer, whether an entity or an investor from an external perspective, can use the Methodology to prepare impact accounts at a point in time, the impacts of the entity under consideration must be identified and an impact materiality perspective must be applied to determine which impacts to include in impact accounts.

Commented [U21]: Need a definition of impact materiality

75. Impact materiality serves as the basis for impact accounts. Impact materiality is an entity-specific aspect of the relevance fundamental qualitative characteristic of impact information. Irrespective of the financial materiality of an impact, impact materiality serves as a sufficient basis to prepare impact accounts.

76. As part of generating impact accounts, the relative importance, worth, or usefulness of impacts to people and the environment is assessed through monetary valuation. As a result, the impact information derived from impact accounts provide a data driven and empirical foundation to support an entity's materiality assessment process. Ultimately, the process of identifying impacts, measuring and valuing them to understand their significance, and assessing them from an impact materiality perspective is an iterative and ongoing process.

5.2 The preparation of impact accounts[34]

77. To prepare impact accounts, an entity, or an investor from an external perspective, should consider the following steps.
    a) Steps related to impact identification and measurement:
        i. understand the sustainability context of the activities and business relationships of the entity under consideration;
        ii. identify impacts through engaging with topic and industry-specific research, relevant stakeholders, and experts; and
        iii. measure and value the impacts identified to understand their significance.
    b) Step to prepare impact accounts at a point in time:
        i. apply an impact materiality perspective to determine which impacts to include in the entity's impact accounts.

78. The first three steps relate to the entity's ongoing impact management process or an investor's ongoing assessment of sustainability performance. These steps allow the entity or investor to actively manage and assess impacts as they evolve and as new ones arise. In step four, the preparer determines which impacts to include in the impact accounts for a particular time period.

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[34] Adapted from GRI (2021): GRI 3: Material Topics 2021.

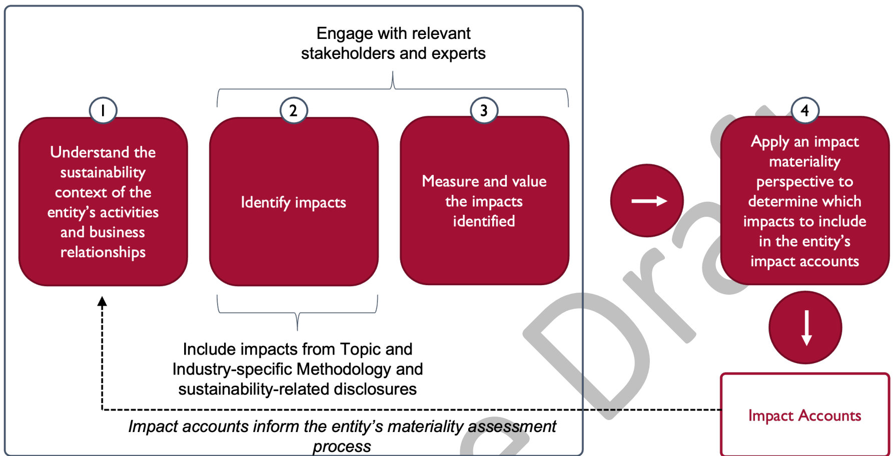

Figure 3. Process to determine material impacts[35]

5.3 Sustainability context, impact identification, and measurement and valuation

79. The following areas should be considered to understand the sustainability context of an entity's activities and business relationships:

    a) economic, environmental, human rights, and other societal topics that affect the well-being of people at local, regional, and global levels related to the entity's sectors and the geographic location of its activities and business relationships;

    b) the entity's responsibility regarding the authoritative intergovernmental instruments with which it is expected to comply; and

    c) the entity's responsibility regarding the laws and regulations with which it is required to comply.[36, 37]

80. An entity's stakeholders are central to the ongoing practice of assessing sustainability performance. Stakeholders need to be identified and consulted throughout the preparation of impact accounts. The measurement and valuation of impacts should be informed by those affected by, and who affect, the underlying activities of the entity.[38]

[35] Adapted from GRI (2021): GRI 3: Material Topics 2021.
[36] 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; the UN Guiding Principles on Business and Human Rights; and the UN International Bill of Human Rights.
[37] Adapted from GRI (2021): GRI 1: Foundation 2021.
[38] Adapted from Social Value International (March 2019): Standard on applying Principle 1: Involve Stakeholders.

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81. The Methodology is being developed to include standardized impact pathways at the Topic and Industry-specific level. Impact pathways in the Methodology are a starting point to identify impacts, but they do not necessarily identify all impacts of the entity. A preparer should also include impacts identified as part of the entity's sustainability-related disclosures and impacts identified through an entity's periodic materiality assessment process.

82. A material impact will always affect one or more stakeholder groups of the entity. To identify impacts, a preparer should identify impacts for each affected stakeholder category at each stage of an entity's value chain. A map that displays stakeholders and value chain stages may be a helpful tool for the identification of potential impacts (see Figure 4).

Commented [U22]: Not sure whether this map can be considered as materiality map when compared to SASB materiality map for instance. Unsure whether this map can be useful at the current level of granularity.

Stakeholder Categories	Value Chain Stage				
	Upstream	Own Operations	Downstream		
			Distribution	Use Phase	End-of-Life
Nature					
Consumers & end-users					
Employees & other workers					
Governments & regulators					
Local communities					

Figure 4: Example of a materiality map for impact identification

83. Impacts that have been identified should be measured and valued in accordance with standardized impact pathways included in Topic and Industry-specific Methodologies. Impacts for which standardized impact pathways are not included in the Methodology should also be measured, valued, and included in the entity's impact accounts. The preparer should ensure that:

Commented [U23]: Does this mean that preparers do not need to report on those impacts that are viewed non-material even if they are included in the Topic and Industry-specific Methodologies? What is the relationship?

a) an impact pathway approach is utilized;

b) the measurement and valuation process meets the qualitative characteristics of impact information; and

c) the impact measurement and valuation methods described in the Methodology are applied as applicable.

5.4 The application and scope of impact materiality

84. To prepare impacts accounts, an impact materiality perspective should be applied to impacts that have been identified, measured, and valued to assess their relevance. A failure to include all material impacts in impact accounts results in incomplete impact information.

Commented [U24]: Shouldn't materiality judgement come first, then the measurement and valuation later on those material ones? Are the two steps necessarily sequential?

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85. An impact can be material if it pertains to the entity's material actual or potential, positive or negative, intended or unintended impacts on the well-being of people directly or indirectly through changes in the natural environment over any time horizon. Material impacts can include direct impacts caused or contributed to by the entity's activities and indirect impacts that are directly linked to the entity's own operations, products, or services through its business relationships. Business relationships include the entity's upstream and downstream value chain and are not limited to direct contractual relationships.[39]

Commented [U25]: Financial materiality is defined by the SEC and the ISSB as sustainability issues' power to affect investor's decision on the firm, by changing the valuation for instance. Analogously, can we define impact materiality in a similar way i.e., employee's willingness to work for the company, or consumer's willingness to purchase the product by the company, depending on the stakeholders?

5.5 Entity-specific impacts

86. When the entity concludes that an impact not covered or covered with insufficient granularity by Topic or Industry-specific Methodologies is material due to its specific facts and circumstances, it should provide such additional entity-specific impacts in its impact accounts.

Commented [U26]: How can this contribute to the comparability across different firms?

87. When measuring and valuing entity-specific impacts, the preparer should carefully consider:

   a) comparability between entities, while still ensuring relevance of the information provided, recognizing that comparability may be limited for entity- specific disclosures. The entity should consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks provide elements that can support comparability to the maximum extent possible; and

   b) comparability over time: consistency of methodologies and disclosures is a key factor for achieving comparability over time.[40]

[39] Adapted from EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.
[40] Adapted from EFRAG (2022): DRAFT European Sustainability Reporting Standards, ESRS 1 General Requirements.

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Appendix A: Glossary

Term	Definition	Source[41]
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
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
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 accounting	The system for measuring and valuing the impacts of corporate entities and generating impact information to inform decisions related to sustainability performance.	N/A
Impact accounts	A set of accounts that contain the material positive and negative impacts of an entity valued in monetary terms.	N/A
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 the sustainability performance of an entity. Impact	N/A

[41] Some definitions are adapted from the original source.

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	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 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
Input	The resources and business relationships that the entity draws upon for its activities.	Impact Management Platform
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
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
Sustainability performance	The effectiveness of an entity in reducing negative impacts and increasing positive impacts.	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	Impact Management Platform

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	'general issue categories' which are similar terms used by different standard setters.	
Sustainable development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.	Report of the World Commission on Environment and Development
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

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Commented [U27]: This does not seem to build on the previous HBS IWAI works. What are the linkages?

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14. Laura Palmeiro

Dear IFVI team,
I trust this message finds you well.

Please find hereafter my comments to the methodology.

General Methodology 1 Public Comment

Question 1 - Preparers of Impact accounts and users of Impact information
The separation between the two concepts looks good to me as part of the narrative around the objective of the work, even if it doesn't seem very relevant in that It does not add much value to the methodology itself, in my view.
Standards to prepare financial accounts have existed for many decades. Financial teams from an organization prepare financial accounts strictly following the standards with the actual information with high degree of granularity and then this information is audited. Financial analysts in the markets (buy sides and sell sides, teams interested in M&A, competitors, etc) are continuously guessing this granularity to which they have no access as a means of making their own investing decisions.
To the best of my knowledge, none of them ever needed to be defined in any financial accounting standard to do so. They just follow the same standards as a means of comparability to the future accounts publication.

Question 2 - Conservatism
I think the difference between conservatism and prudence could be better explained in the document, regardless of the source definition at the Impact-Weighted Accounting Framework.
Not sure why this conservatism needs to replace the principle of Prudence, which immediately came to my mind when reading the first lines of the question.
In any case, I agree with including such principle (or equivalent term) taking into account the level of uncertainty this kind of information can entail. If anything, we should be more conservative (or prudent) than with financial information.

Question 3 - Impact Pathways
I like the description of the mechanics of the pathway to impact, but I would add a latest effect which would be the ripple effect of « leading by example » in a given market. Ex; one yogurt brand decides to get rid of its secondary packaging (carton wrap around the 4-pack, which entails greater shelf visibility), thus becoming more environmentally friendly while reducing costs, but risking losing some visibility in the process. Once done, sales results go unchanged annd even some "green reputation" is gained among consumers. As a result, all competitors in the shelf decide to follow the example, saving many euros…and trees! This bold move served as example to other players in the market and entrained the change of a whole industry. This « ripple effect could be defined and measured, as in the example it is the direct consequence of the decision of the first company that dared make the change.
Also, one reflection that could be a little far fetched but worth clarifying is that within the same realm of sustainability information, the word « pathway » is used to determine the series of actions that will take the company to Net Zero for instance. It has a connotation of a « plan ».
The use of pathway in this document looks more as a description of the mechanics of a chain of effects that occur following an action from an organization.
Not sure what to do with that, I'm not suggesting you should change the term but maybe clarify this somewhere in the methodology.

Question 4 - Impact materiality and the qualitative characteristic of relevance
I agree in all with this paragraph. The only demand I have is that it should align 100% with the same concepts and mechanics depicted in other standards, to avoid confusions for preparers of information.

Question 5 - Additional feedback
A) - It may be good to contemplate the possibility to use a qualitative description of an impact if its existence can be clearly identified and attributed to an action of the organization under study but its measurement is not possible in the current state of development of sustainability metrics. It could also happen that a measure can be achieved but its translation into monetary terms is impossible at this stage, in which case disclosing this measurement in another unit with an explanation of its relevance within the pathway could be of value. This could be a temporary fix while practitioners become collectively more mature in this methodology.
B) - It could be helpful to mention a notion of contextualization, such as thresholds and allocations of planetary boundaries. Lack of context could hinder comparability (30% reduction of a KPI for company A could not be comparable to 30% reduction for company B related to the same KPI even if both operate in the same industry). Apart from the obvious example of SBTI, there are such methodologies developed by Reporting 3.0 and even in the "Multi Capital Integrated Performance" chair at Audencia Business School.
C) - Paragraph 83 in Section 5.4
"A failure to include all material impacts in impact accounts results in incomplete impact information".
This refers to completeness of information in terms of "topics" or "kind of impacts".
This is linked to paragraph 29 in section 3.3: completeness of information should not only be understood for one impact (as seems to be the case in the sentence) but also in terms of scope of the organization (paragraph 21 Section 2.2). All considerations pertaining to the concept of "completeness" of the information could be more clear if shown within the same section.
Also, while I totally agree with all these points, I cannot imagine how anyone will be able to calculate accounts that result from the addition and subtraction of monetary figures to achieve an amount that reflects the net impact of an organization, knowing that impacts, both positive or negative, are potentially endless and just missing one of such impacts could flip the overall result from positive to negative and vice-versa.
D) - I think it would be important to run as many examples as possible in different industries before the completion of this methodology so as to be able to trigger discussion based on concrete elements. This would bring important insights to shape the methodology.
E) - It could be helpful to introduce the term of rightholders in the methodology, as discussed during many sessions I personally attended with IMP.
F) - "Reference Scenario" and "Attribution of impact"
I'm not sure how these two concepts work together.
By applying the reference scenario I assume I should imagine a world where all the dairy products, waters, etc sold by Danone did not exist in the market, so no other competitor would that place, it is simply empty. When calculating the company's impact I would allocate all the benefits of taxes, salaries, improvement of consumer's health, improvement of specific communities that depend on our company being established in a region, etc, etc. To Danone.
I believe these effects are in their majority co-dépendant of other actors in society, like governments, suppliers, etc. All organizations act as enablers for impact to one another, in full interdependence.
So on a theoretical level this is complicated to articulate, and even more on a practical level.
Furthermore, even without this difficulty, I find the "attribution of impact" by itself to be methodologically extremely challenging.

I hope my comments will be of help.

As always, I remain at your disposal should you want to discuss further. I'm always happy to help!

Best regards,

Laura Palmeiro
Head of Sustainable Finance
Danone

15. Lunum

General Methodology 1 Public Comment- LUNUM

I. **Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)** *The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity. A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions. The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22.* ***1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?***

   a. **We *agree* with the proposal to separate the preparers of impact accounts and the users of impact information due to the foregoing reasons:**

      i. The methodology provides a clear definition of users in paragraph 22, which is essential for guiding how impact information is utilized by various stakeholders.

      ii. In separating these accounts, the methodology acknowledges and prepares for the dynamic nature of impact accounting & management. As recognized in the Exposure Draft, data limitations are a pressing issue for preparers of impact accounts and users of impact information. This issue may also affect how impact accounts are prepared and understood. Entities may have privileged access to primary data, making them the most suitable preparers, whereas in other cases, investors might rely on publicly available information and other materiality metrics for self-guided investing. Framing the methodology in such a way that allows for flexibility and acknowledges the evolving nature of impact management and the potential need for entities and investors to serve different roles in preparing and utilizing impact information may be crucial in ensuring the framework is relevant in application across various use cases.

      iii. Separating prepares effectively segregates the differing appeals, drivers, roles, and perspectives- all of which might ultimately affect the preparation of impact accounts. It is crucial to accurately capture the drivers and their respective concerns to gain a comprehensive understanding of ongoing developments. The methodology discusses how company entities establish materiality standards, which can vary significantly between investors and the company itself due to differences in knowledge, engagement, appeals, etc. Investors may lack access to certain critical information, resulting in different approaches to impact account preparation. Additionally, the subsequent use of these impact accounts might also vary- thus their preparation may delineate to reasonably accommodate for those differences. Consolidating these groups could inadvertently widen disparity gaps by assuming a level playing field- ignoring the differences in access and utilization of information. This oversight might impede our understanding of the use and impact of these accounts on stakeholders.

b. **While we acknowledge the necessity for these distinctions, it is important to highlight our *disagreement* with the current framework encompassing only two classifications for potential users.**
    i. We propose the incorporation of a third category to complement the existing entity/company and investor categories. The need for this third category stems from our recognition that it may be incomplete and primally tailored with the notion impact accounting will exclusively be used in an investing/financial capacity. We firmly advocate that this additional category of users should cater to a broader spectrum of perspectives, extending beyond the realm of investors/business performance-oriented groups.
    ii. For instance, consider a third-party entity serving as an auditor for a company or providing consulting services related to impact accounting and 'certified calculations,' a case exemplified by companies like LUNUM. This user category should also encompass those engaged in impact accounting purely for educational/academia purposes, without seeking direct financial gains or attempting to enhance their investment portfolio. This holistic approach ensures that the framework remains inclusive and adaptive to various stakeholders' needs.

II. **Question 2 – Conservatism in faithful representation (paragraph 32)** *The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts." For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 General Requirements or IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's The Impact-Weighted Accounts Framework. 9 The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.* ***1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?****.*

a. **We agree with the proposal to include a principal of conservatism due to the foregoing reasons:**

b. Overstating positive impacts or understating negative impacts can lead to misleading conclusions and potentially harm affected stakeholders. In cases of uncertainty, conservatism ensures that potential adverse effects are not underestimated, and overly optimistic assessments are avoided. These considerations are increasingly important because entities (corporations, policymakers, etc.) and investors may use impact information to make financial decisions for employment or investment purposes- as such remaining conservative during times of uncertainty appears to be the most moral and appropriate approach.

III. **Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)** *Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.10 The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity.* ***1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.***

a. No concerns.

IV. **Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)** *To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance. Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows: a. the capacity of the impact information to influence the decisions of users; b. the need for transparency as a public good and accountability towards affected stakeholders; and c. the significance of the impact on affected stakeholders. For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.* ***1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity? 2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why? 3. Do you agree with defining impact materiality as an entity-***

specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

  a. ***Yes, the paragraphs are clearly written.***
  b. ***Yes, we agree with the perspectives written.***
  c. ***We firmly disagree with the proposal to exclude mandatory impacts from the methodology****.*
    i. It's important to recognize that one of the fundamental features of Impact Accounting is its ability to provide a comprehensive view of a company's financial and employment health, akin to our historical impact valuation practices. The omission of mandatory accounts may compromise this feature if users are allowed to selectively choose which impacts to calculate.
    ii. If a preparer intentionally omits impacts from their calculations or incorrectly deems an impact immaterial, the resultant impact information would be incomplete and potentially misleading. We assert that the ethical and accurate preparation of impact accounts necessitates the calculation of all framework dimensions and their relevant impacts to derive the Total Impact.
    iii. In this context, we propose that if mandatory impacts are not mandated, users should still be obliged to present the information and provide reasons they concluded it does not meet the materiality threshold. This approach enhances accountability, preventing entities from intentionally providing incomplete impact information. It also empowers investors to make informed decisions, thereby preserving the framework's flexibility while ensuring due diligence.

V. **Question 5 – Additional feedback 1.** *Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?*

  a. ***N/A***

16. positive impacts (PI) GmbH

IFVI/VBA: General Methodology 1 Public Comment of Positive Impacts®

Along with an impact washing case study and recommendations how to avoid impact washing

positive impacts (PI) GmbH | Cologne | 27 October 2023

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Bad Practice: Impact Washed “Integrated P/L” Statement – a Case Study – this should not be the result of the IFVI/VBA methodology

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Bad Practice: Impact Washed "Integrated P/L Statement"

IMPACT WASHED STATEMENT

CASE STUDY FOR AN IMPACT WASHED IP/L STATEMENT – OFF BY 32%!

	Company and Investors	Employees	Clients	Suppliers	Government, local communities and others	Beneficiaries of nature	Total
Financial	**10,000,000**	**15,000,000**	**-100,000,000**	**40,000,000**	**20,000,000**	**0**	**-15,000,000**
Payments from clients			-100,000,000				-100,000,000
Payments to suppliers				40,000,000			40,000,000
Employee salaries (and related taxes)		15,000,000			10,000,000		25,000,000
Interest payments	5,000,000						5,000,000
Income tax paid					10,000,000		10,000,000
Net profit/loss	20,000,000						20,000,000
Cost of capital	-15,000,000						-15,000,000
Manufactured	**0**	**0**	**150,000,000**	**-35,000,000**	**0**	**0**	**115,000,000**
Client value of products and services			150,000,000				150,000,000
Value of the goods delivered by suppliers				-35,000,000			-35,000,000
Intellectual	**2,000,000**	**0**	**0**	**0**	**0**	**0**	**2,000,000**
Development of immaterial assets and technology	2,000,000						2,000,000
Human	**2,000,000**	**3,500,000**	**0**	**1,000,000**	**2,500,000**	**0**	**9,000,000**
Creation of human capital	2,000,000	5,000,000		1,000,000	3,000,000		11,000,000
Well-being effects of employment		4,000,000			2,000,000		6,000,000
Workplace health and safety incidents		-500,000			-500,000		-1,000,000
Opportunity cost of labour		-5,000,000			-2,000,000		-7,000,000
Social	**1,000,000**	**0**	**0**	**0**	**-4,500,000**	**0**	**-3,500,000**
Change in brand value and customer loyalty	1,000,000						1,000,000
Child labour (in the value chain)					-1,000,000		-1,000,000
Forced labour (in the alue chain)					-500,000		-500,000
Underpayment (in the value chain)					-3,000,000		-3,000,000
Natural	**0**	**0**	**0**	**0**	**0**	**-6,400,000**	**-6,400,000**
Use of scarce materials						-500,000	-500,000
Use of scarce water						-400,000	-400,000
Water pollution						-1,000,000	-1,000,000
Fossil fuel depletion						-400,000	-400,000
Contribution to climate change						-2,500,000	-2,500,000
Land use and transformation						-600,000	-600,000
Air pollution						-1,000,000	-1,000,000
Mystery position*							15,000,000
TOTAL	15,000,000	18,500,000	50,000,000	6,000,000	18,000,000	-6,400,000	116,100,000

KEY ISSUES AND IMPACT WASHING CASES

COMPANY AND INVESTORS, EMPLOYEES AND SUPPLIERS

> Most positions are ultimately part of the revenue of a firm, impacting the P/L and balance sheet, while "washing" (mixing) P/L and balance sheet elements

CLIENTS

> No auditor would approve a financial statement that includes the revenues, profits, or value to the firms' tier 1-n customers (consumer surplus). Using them in the company IP/L statement is just an attempt to impact wash one's own results

HUMAN CAPITAL

> Human capital impacts represent estimates of future revenues without accounting for the related negatives. Furthermore, negative positions for the government and the competition to provide human capital to the company "for free" are not shown

GOVERNMENT, LOCAL COMMUNITIES, AND OTHERS

> The only position that should be counted for Societal Earnings are the income taxes, adjusted by subsidies that are also not included in the statement. The other positions presented in the column mix various positions that should not be mixed

BENEFICIARIES OF NATURE

> Mixes environmental, social and economic impacts; however, only a presentation issue

TOTAL INCL. A MYSTERY POSITION

> As a result, the total position is completely overstated! The correct total – free from impact washing – should be 88,100,000 and not 101,100,000 (when ignoring the mystery position) – an error of 15% or even 32% when including the mystery position

Source: Table 2: Example IP&L Statement from the Framework for Impact Statements of the Impact Institute 2019; * The final total of the table lacks 15,000,000 that are not presented anywhere in the table.

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Bad Practice: Impact Washed "Integrated P/L Statement"

IMPACT WASHED STATEMENT

CASE STUDY FOR AN IMPACT WASHED IP/L STATEMENT: A SOCIETAL EARNINGS MARGIN OFF BY 19%-points

1) See next slide for the same case study data used for our model

SE MARGIN

Other's Societal Earnings Margin: +16 %

IMPACT WASHED STATEMENT

vs.

PI's Societal Earnings Margin: -3 %[1]

IMPACT WASHING FREE

KEY ISSUES

SOCIETAL VALUE – LIKE REVENUE

> The **overall contribution** of a company to society at large is completely overstated: no one would judge a firm's success only on revenues

> It **mixes absolute and influenced impacts** and deliberately impact-washes the results to make them look good

SOCIETAL EARNINGS – LIKE PROFIT

> Such concepts typically ignore the socio-political contribution of a company

> They do not consider subsidies received and neglect the fact that externalities are typically granted by governments and not private individuals who have benefited from generating the externalities through their salaries, wages, or dividends

SOCIETAL EARNINGS MARGIN

> As a result, the Societal Earnings Margin could be impact washed to +16% whilst the impact washing free SE Margin would be -3%[1]

> Instead of being "net positive", the company should be called "net negative"

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Positive Impacts® Societal P/L Statement Case Study (Impact Washing Free)

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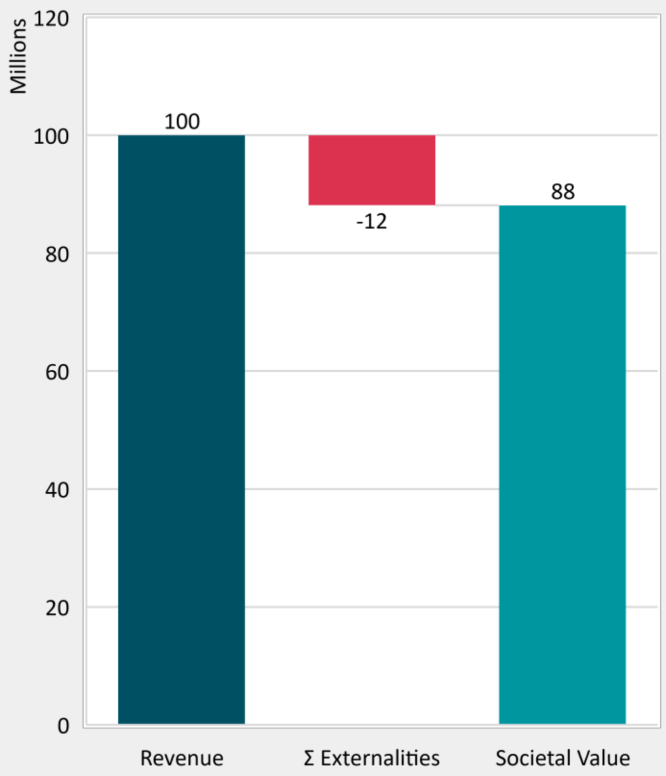
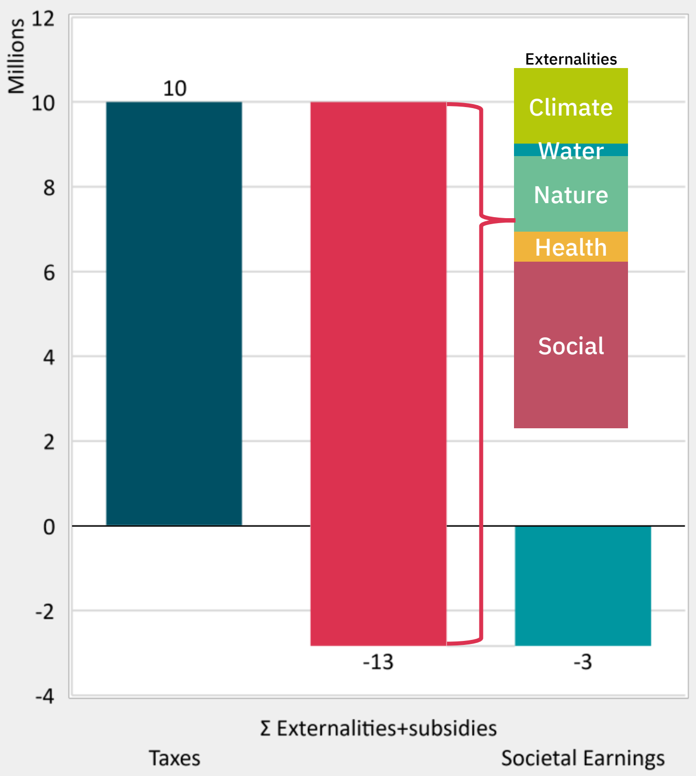
Positive Impacts® Societal P/L Assessment Case Study[1]

SOCIETAL VALUE (SV) – MIRROR FOR REVENUE



SOCIETAL EARNINGS (SE) – AS A MIRROR FOR EBITDA



SE MARGIN[1]

Case Study's Societal Earnings Margin[2]: -3 %

vs.

Case Study's Operating Margin: 20 %

KEY TAKEAWAYS

SOCIETAL VALUE

- Measures the overall contribution of a company to society at large
- The Case Study creates a positive societal value of 88 mn € as the revenue is larger than the monetized externalities

SOCIETAL EARNINGS

- However, the Societal Earnings of the Case Study, measuring the socio-political contribution, are negative by 13 mn € as the taxes (net) are smaller than the monetized externalities
- Thus, the Case Study company was net negative regarding its sustainability impact
- Most of the impacts are social impacts, followed by climate and nature-related impacts

SOCIETAL EARNINGS MARGIN

- Builds a ratio of the Societal Earnings to the revenue, acting as a KPI to benchmark a company against peers

1) Using most of the same data as presented in the Bad Practice Case Study of slides 3 and 4, while estimating subsidies; **2**) Defined as Societal Earnings divided by revenue.

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Our constructive feedback to the IFVI/VBA: General Methodology 1

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Things to consider[1] to avoid impact washing (I/IV)

2. PURPOSE AND APPLICATIONS OF THE METHODOLOGY

2.1 PURPOSE STATEMENT

17. The purpose of the Methodology is to produce impact accounts and generate impact information that enhances decision-making by entities and investors related to the *sustainability performance* of an entity. The same impact information can be used alongside financial information to assess trade-offs between sustainability topics and financial topics. Sustainability performance refers to the effectiveness of an entity in reducing negative impacts and increasing positive impacts.

18. The Methodology is established by the societal obligations of entities and investors to meet the needs of the present without compromising the ability of future generations to meet their own needs.[16]

19. The Methodology is useful for entities and investors seeking to manage sustainability-related risks, opportunities, and impacts, but it further supports decision-making aimed at generating positive impacts that improve the lives of affected stakeholders as an objective in and of itself.

2.2 PREPARERS OF IMPACT ACCOUNTS AND USERS OF IMPACT INFORMATION

20. Any entity in any business sector, in any geography, and at any organizational level can use the Methodology to measure and value its impacts and prepare impact accounts. The Methodology can also be applied by any investor in an entity from an external perspective to prepare impact accounts.

21. For the avoidance of doubt, the Methodology should not be applied to present impacts in a manner that is slanted in favor of positive impacts or is not neutral, for example by emphasizing an organizational level of an entity that has better sustainability performance than the entity as a whole.

RECOMMENDATIONS OF POSITIVE IMPACTS®

- (17) Considering the level of inherent impact washing, the methodology to date does **not meet its own ambition** to **enhance decision-making** by entities and investors related to the **sustainability performance** of an entity
- One of the key reasons for this is that the **definition of sustainability performance** is **detached from the sustainability definition** (18). Thereby, it also does not meet its objective of improving the lives of affected stakeholders (19) and will **lead to presentations of impacts** in a manner that are **slanted in favor of positive impacts** (21)

1) Numbers in the titles and in brackets () refer to chapters and paragraphs in the General Methodology 1 paper.

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Things to consider[1] to avoid impact washing (II/IV)

3. QUALITATIVE CHARACTERISTICS OF IMPACT INFORMATION

3.3 FAITHFUL REPRESENTATION

29. Impact information should not only represent relevant impacts, it should also faithfully represent the substance of the impact that it purports to represent. Faithful representation requires impact information to be:

a. complete;

b. neutral; and

c. free from error.

30. A complete depiction of an impact includes all information necessary for the users to understand that impact. This includes information related to assumptions, data, and methods used to measure and value the impact.

31. Impact information is neutral if it is not slanted, emphasized, de-emphasized or otherwise manipulated to make it more likely that the users will receive that information favorably or unfavorably. It should consider positive and negative aspects of impacts. Positive impacts should not be used to obscure negative impacts in the presentation of impact information.

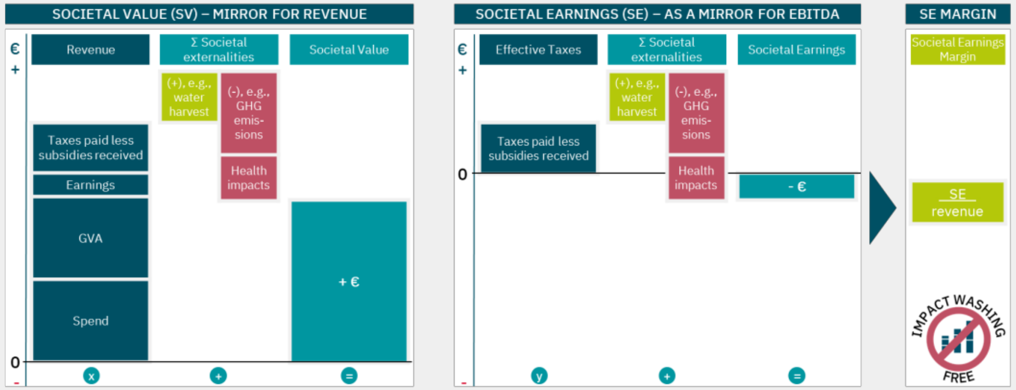
32. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgments under conditions of uncertainty. The exercise of prudence means that positive impacts are not overstated and negative impacts are not understated. Equally, the exercise of prudence does not allow for the understatement of positive impacts or the overstatement of negative impacts. In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts.

RECOMMENDATIONS OF POSITIVE IMPACTS®

> The methodology does not adhere to its principles of neutrality (31-32) as it uses influenced positive impacts to impact wash negative impacts in the presentation of impact information

> No company would include in their financial statements the consumer surplus, the downstream revenues, use the downstream profits to justify their own losses or include the revenues of a subsidiary but not their losses

> Instead, consider mirroring revenue and profits from a societal perspective by using Societal Value as the overall net impact on society to mirror revenues and Societal Earnings as the overall net socioeconomic impact on society, enabling decision-useful benchmarks with the SE Margin[2]:



1) Numbers in the titles and in brackets () refer to chapters and paragraphs in the General Methodology 1 paper; 2) Defined as societal earnings divided by revenues. This was changed compared to our report, as the societal value KPI can also be negative and as it relates to an indicator known by everyone, even the end consumer (the price of the product).

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Things to consider[1] to avoid impact washing (III/IV)

4. FUNDAMENTAL CONCEPTS OF IMPACT ACCOUNTING

4.2 THE DEFINITION OF IMPACT

46. Impact can be 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. An impact can be actual or potential, intended or unintended, and positive or negative.[24]

4.7 VALUE CHAIN

61. The value chain of an entity is the full range of activities and business relationships related to

63. A direct impact of an entity is an impact caused or contributed to by the entity's own operations. An indirect impact is an impact directly linked to the entity's own operations, products, or services through its business relationships in the upstream and/or downstream value chain. While the cause of indirect impacts is outside of the entity itself, the entity exerts an influence on the pathway that determines the scale and scope of the impact.

4.10 ATTRIBUTION OF IMPACTS

69. The attribution of an impact refers to the portion of an impact that is reflected in an entity's impact

70. An entity can be wholly or partially responsible for an impact. The attribution of an impact should consider the responsibility of the entity. If the entity has control over the activities that cause an impact, even if the impact exists in a system that other entities are linked to, it is likely that the entirety of the impact should be included in its impact accounts. Direct impacts that are caused by an entity are likely fully attributable to the entity, whereas direct impacts that are contributed to by the entity and indirect impacts may be either wholly or partially attributable to the entity.

71. The inclusion of the entirety of an impact by an entity in its impact accounts does not preclude another entity that is linked to the impact from including the entirety or a portion of the impact in its impact accounts. The direct impact of one entity can be the indirect impact of another entity in the same value chain. This approach to attribution creates the potential for double counting of impacts across the value chain. Double counting occurs when an entity wholly or partially recognizes an impact in its impact accounts and another entity in the same value chain wholly or partially recognizes the same impact. This approach to attribution allows for complete information on value chain responsibility at the entity level.

RECOMMENDATIONS OF POSITIVE IMPACTS®

- (46) **Impacts can also be absolute, influenced, or marginal** compared to a reference scenario
- (63) It is quite common to present upstream and downstream as the same, namely "indirect" impacts, while **upstream impacts are the entity's decision**. In contrast, **downstream impacts are the decisions of the customers/consumers**. The IFVA should require preparers to report **all material impacts linked to revenues** (from upstream and own operations). **Downstream** impacts are insightful but should always be **presented separately** as **influenced emissions**. This impact coloring typically goes hand in hand with impact washing by adding positive impacts without including their related negative impacts
- (70-71) The current text leads to the **mixing of absolute and influenced impacts**: While every impact tied to spend can directly be allocated to the organization that makes the purchase decision, downstream impacts are always at least the decision of one more entity/person, usually the decision of multiple actors. No one considers including customers' surplus or profits in one's financial statements to wash away the losses. The IFVA should instead account for this issue by demanding a **separate presentation** of **downstream impacts** along with using the **revenue share approach** as the standard, with the **option to explain the extent of influence** in a range (from-to) as a supplementary information

1) Numbers in the titles and in brackets () refer to chapters and paragraphs in the General Methodology 1 paper.

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Things to consider[1] to avoid impact washing (IV/IV)

IMPACT WASHING FREE

5. IMPACT MATERIALITY AND THE PREPARATION OF IMPACT ACCOUNTS

5.1 IMPACT MATERIALITY AS THE BASIS FOR IMPACT ACCOUNTS

73. Before a preparer, whether an entity or an investor from an external perspective, can use the

75. As part of generating impact accounts, the relative importance, worth, or usefulness of impacts to people and the environment is assessed through monetary valuation. As a result, the impact information derived from impact accounts provide a data driven and empirical foundation to support an entity's materiality assessment process. Ultimately, the process of identifying impacts, measuring and valuing them to understand their significance, and assessing them from an impact materiality perspective is an iterative and ongoing process.

81. A material impact will always affect one or more stakeholder groups of the entity. To identify impacts, a preparer should identify impacts for each affected stakeholder category at each stage of an entity's value chain. A map that displays stakeholders and value chain stages may be a helpful tool for the identification of potential impacts (see *Figure 4*).

Stakeholder Categories	Value Chain Stage				
	Upstream	Own Operations	Downstream		
			Distribution	Use-Phase	End-of-Life
Nature					
Consumers & end-users					
Employees & other workers					
Government & regulators					
Local communities					

Figure 4: Example of a materiality map for impact identification

RECOMMENDATIONS OF POSITIVE IMPACTS®

- (75) Perception-based **monetary valuation is useful for assessing impacts within a category** in most circumstances (e.g., 1 fatality vs. 1 occupational injury). In addition, in **certain circumstances**, they can **support** the assessment of the **relative importance of impacts between impact categories** (such as climate, water, subsidies and health). Positive Impacts® will **shortly release more on how this can be the case.** Stay tuned
- (81) Just because **one stakeholder group** is **affected** does **not** make an **impact material**, as it says nothing about the **magnitude of the impact** and its legitimacy. Stakeholders can even **mislead on purpose** to justify the impact washing of a statement

1) Numbers in the titles and in brackets () refer to chapters and paragraphs in the General Methodology 1 paper.

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Appendix: Approach comparison of Positive Impacts® vs. VBA vs. Harvard & issues of current GHG accounting standards

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What others say about our approach

PAPER SERIES PRESS COVERAGE (GERMAN)

Handelsblatt

> PART 1, PART 3

Börsen-Zeitung
Zeitung für die Finanzmärkte

> PART 1 , PART 3 (SPOTIFY#30)

TAGESSPIEGEL BACKGROUND

> PART 1, PART 2, PART 3 (see right)

Forum Nachhaltig Wirtschaften

> PART 1, (02/2022), PART 3 (04/2022)

PART 3:

TAGESSPIEGEL BACKGROUND COMPARES HARVARD, VBA AND POSITIVE IMPACTS APPROACH

The renown Tagesspiegel Background Sustainable Finance **compares** the **PI approach to** the one from **Harvard** and of the **VBA**:

“**Positive Impacts** has developed a similar concept to the one of [...] Harvard's, and the **Value Balancing Alliance**, an industry alliance, that is also working on it. They all convert emissions and other environmental impacts of corporate activities into monetary amounts and compare these with certain payments made by companies, such as taxes or salaries.

There are several ways in which companies can be made to look more positive or more negative, i.e., more beneficial or more detrimental to the common good: Which factors are considered positive or negative and what price tag is put on environmental damage, such as a ton of CO_2, are such **set screws**.

Salaries or taxes as a positive effect? [...]

In the Positive Impacts methodology, there is a ‘societal value’ and a ‘societal gain/loss.’ The external effects are offset against sales in the case of the former, and against taxes paid in the case of the latter – after all, only these are used to finance services for the general public, whereas salaries flow into private accounts.

The Value Balancing Alliance [...] gives its backers a method that makes them look good: [...] its methodology [...] considers **profits, interest payments** and depreciation in addition to salaries and taxes.”[1]

Harvard Business School's approach, which is continued by the **International Foundation for Value Impacts (IFVI)**, also uses amongst others earnings and interest payments.

1) Tagesspiegel Background Sustainable Finance from 10. November 2022, own translation

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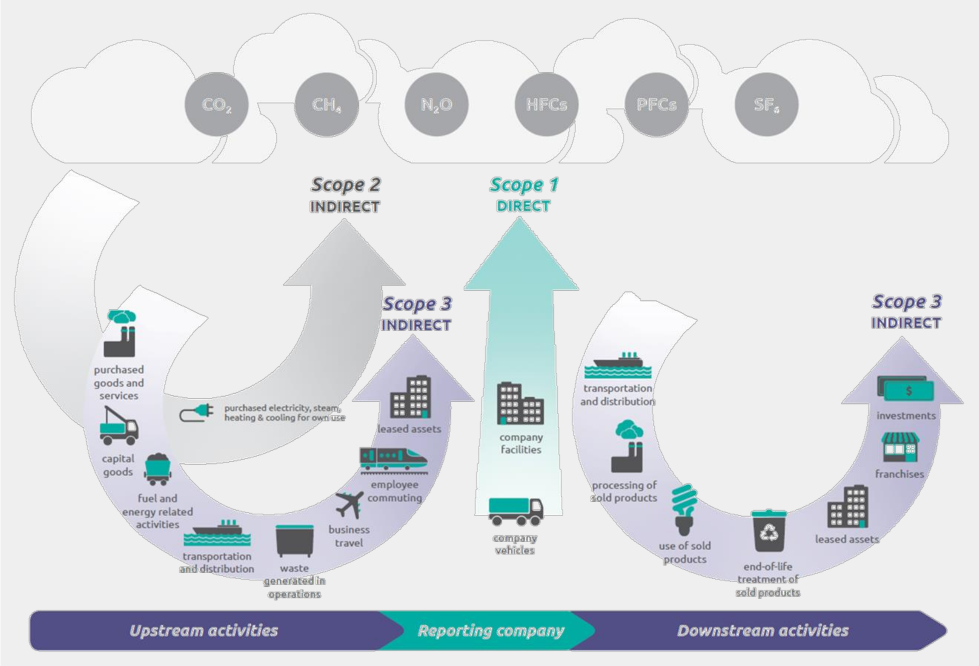
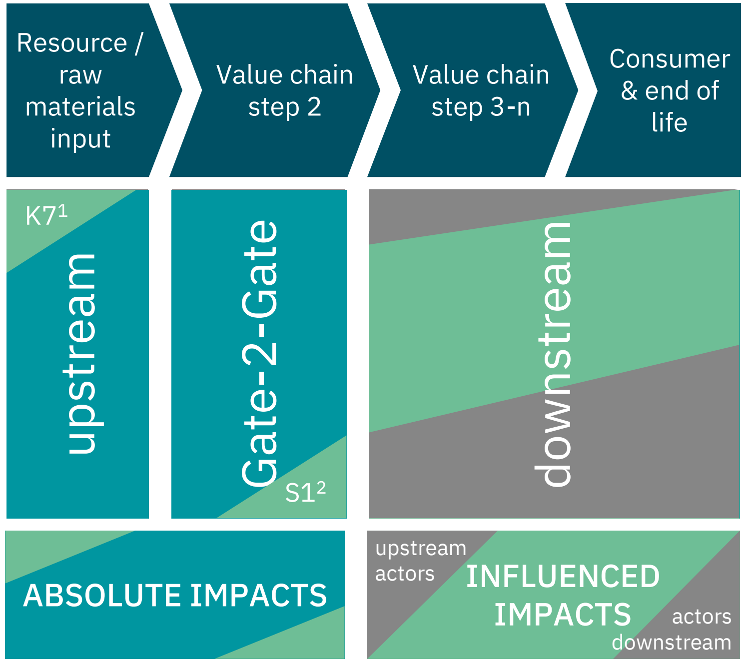
Current ESG accounting mix absolute & influenced impacts

GHG PROTOCOL



CURRENT ESG ACCOUNTING PRACTICES



RECOMMENDATIONS

- **Separately report cradle-to-gate emissions that cannot be linked to your revenues** (employee commuting)
- **Separately report downstream emissions** with by using the **revenue share approach** that can be complemented with an explanation of the level of influence
- **Apply a step-wise approach** to improve **data quality**, e.g., when assessing scope 3 emissions: start with a **spend-based**/average data analysis to identify hotspots and ensure completeness and then **complement** the data with **supplier-specific data**

1) Employee commuting; **2**) Scope 1 emissions of a lessor (e.g., for a leased car)

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Click to book a meeting with the CEO

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17. Pricewaterhouse Coopers (PwC)

The Valuation Technical and Practitioner Committee (VTPC)
97 W Springfield St # 1
Boston, MA 02118
United States
research@ifvi.org

31 October 2023

RE: General Methodology 1: Conceptual Framework for Impact Accounting (Exposure Draft)

Dear Sir or Madam,

PwC International Ltd, on behalf of its network of member firms (PwC IL), welcomes the opportunity to respond to your invitation to comment on the General Methodology 1: Conceptual Framework for Impact Accounting (Exposure Draft).

We congratulate the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) on the publication of this Exposure Draft which advances the development of future sustainability reporting. Businesses innovating with impact measurement and valuation are telling us about the tangible benefits they are seeing (including clearer language for decision making and steering towards sustainability pledges and for external stakeholders). Further, investors have told us that they are looking for information on business impacts including the attribution of a monetary value by the business. The valuation of impacts also facilitates a straightforward, holistic communication of business performance to a broader group of stakeholders (including NGOs).

Impact information requires certain consistent definitions and criteria to be applied in the preparation of impact information for there to be broad acceptance. We therefore draw your attention to the need in the Exposure Draft for definitions and measurement parameters for ‘well-being’, key principles for valuation techniques and determining value, principles for establishing impact pathways as well as appropriate disclaimers, ensuring that the users of impact information understand the nature of impact data and its limitations. We have provided detailed responses to individual consultation questions in the appendix to this letter.

To enable capital flows to sustainable businesses, there needs to be a set of standardised methodologies that allow for comparability and broader adoption. We therefore encourage the IFVI and VBA to continue to build consensus for the methodologies being developed for impact pathways at the sustainability topic and industry-specific level.

While impact accounting and valuation is at an early stage for many companies, we urge ongoing connection (and reference where applicable) to the work of the impact reporting standard setters (e.g. EFRAG, GRI) as this topic evolves and may support impact materiality assessment with quantitative analysis. To that end, we welcome the efforts for maximum alignment between the Exposure Draft and

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existing sustainability reporting frameworks (from the IFRS Foundation and EFRAG) and recommend caution in the introduction of new principles (such as conservatism).

If you have any questions in relation to this letter, please do not hesitate to contact me, Gilly Lord (gillian.lord@pwc.com), Andreas Ohl (andreas.ohl@pwc.com), or Superna Khosla (superna.khosla@pwc.com).

Yours sincerely,

GLord.

Gilly Lord,
Global Leader for Public Policy and Regulation, PwC

Appendix: Responses to the Exposure Draft Questions for Feedback

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)
The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity. A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions. The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22. 1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

While investors may be able to use the Exposure Draft, we believe it should be focused on entity managers as the primary preparers of impact accounts, in line with other reporting frameworks. The exercise of judgement required for impact accounting means entity managers are better placed to prepare impact information, given their knowledge of the business activities and access to detailed information (at product, location level etc.).

We agree that there may be multiple users of impact information as set out in paragraph 22. However, we note that for the framework to provide a sufficient basis for preparation of information that can be assured, there needs to be consideration of ‘intended users’, which is not as broad as currently set out in paragraph 22. A distinction between groups allows preparers of impact information to clarify the distinct needs and interests of different groups, and respectively allows assurance practitioners to determine the nature and extent of audit procedures.

Additionally, clear guidance should be developed (or referenced) on how to take into consideration the information needs of different users, how to identify key stakeholders and what to do when their views are inconsistent.

Question 2 – Conservatism in faithful representation (paragraph 32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, “In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts.”

For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 General Requirements or IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas `conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation’s The Impact-Weighted Accounts Framework.

The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

We do not agree with the inclusion of the statement ‘should default to avoiding the overstatement of positive impacts and the understatement of negative impacts’. The principle of faithful representation is well established in corporate reporting and we believe it to be sufficient to avoid overstating positive impacts or understating negative impacts.

Introducing a principle of conservatism could introduce a systematic bias in impact reporting and potentially compromise the objective of "faithful representation". Unlike prudence, which suggests caution in estimation but does not introduce a directional bias, conservatism explicitly incorporates such a bias. This can create complications for users of impact accounts who seek to make direct comparisons across entities or track performance over time.

To ensure maximum alignment with existing reporting frameworks, we recommend consideration of additional information in paragraph 31 e.g. “A neutral depiction is without bias in the selection or presentation of information.”

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)
Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.10 The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity. 1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

We do not have concerns with the proposed logic of the impact pathways as described in paragraph 52.

We do note a need for further definition for human wellbeing with more explicit reference to specific parameters defining "human well-being" to ensure a solid basis for comparison. For instance, referencing frameworks like the OECD's well-being conceptual framework could provide clarity and alignment in this context.

The Exposure Draft should also define principles for identifying and assessing when establishing causality within impact pathways, including principles for considering time horizons when identifying impacts.

We also observed that the impact definition within the Exposure Draft (paragraph 46) varies slightly from the ESRS. For ease of implementation, we recommend reference to baseline reporting standards (e.g. ESRS) and then clarify further refinements for the purposes of placing a monetary valuation on impacts.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84
To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance.

Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows:

a. the capacity of the impact information to influence the decisions of users;

b. the need for transparency as a public good and accountability towards affected stakeholders; and

c. the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?

3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

1. The paragraphs referenced above contain some ambiguity and potential for circularity, especially when identifying and assessing relevance. We suggest the following:

    a. Clearly define impact materiality (or reference it to other sources such as the ESRS where relevant) within section 3.2.

    b. Consolidate section 5.1 (paragraphs 73-74) with section 5.4 (paragraphs 83-84) to streamline the guidance on impact materiality, enhancing clarity and reducing redundancy.

    c. Clearly indicate that all relevance perspectives within paragraph 26 need to be satisfied for impact information to be deemed relevant.

    d. Add the decision-usefulness criterion “information may impact decisions of users if it has predictive value, confirmatory value or both”.

    e. Develop or reference supplemental guidance to further clarify and provide practical application guidance enabling consistent implementation.

2. We do not agree with the inclusion in 3.2 of the relevance determining perspective “the need for transparency as a public good and accountability towards affected stakeholders” on the basis that there is no framework for determining ‘public good’. The inclusion of this perspective could deter from the aim of standardisation and comparability.

   Subsequently, paragraph 25 should be updated to reflect the removal of perspective "b", which implies that the notion of information relevance as a public interest activity in its own right no longer stands.

3. We agree with defining impact materiality as an entity-specific aspect of relevance. We also agree to not include a list of mandatory impacts as this goes against the concept of materiality assessment.

Question 5 – Additional feedback
1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

We have the following recommendations:

1. The inclusion of key principles underpinning valuation. Currently the exposure draft is silent on this, whereas to drive clarity and comparison between companies, there needs to be established key principles for available valuation techniques and criteria for selecting appropriate techniques depending on the purpose of the valuation, as well as other key factors to be considered for impact valuation, e.g. principles for generating/ selecting value factors, use of discount factors, etc. We understand based on information in paragraph 11, that measurement and valuation methods would be subject to subsequent general methodology statements and we recommend prioritising this aspect of methodology as a foundational element for driving consistency and comparability within impact accounting.

2. Clarification of the principles of netting in impact accounting, requiring transparency and caution to ensure individual positive and negative impacts are clearly disclosed, preventing the potential overshadowing of significant negative consequences by positive contributions.

3. Further refining section 4.10 Attribution of Impacts by providing more explicit criteria for distinguishing between where an entity is wholly or partially responsible for impacts, how to navigate and reconcile/disclose instances of double counting, and considering the capacity of the impact information to meet the decision-making needs of users.

4. Clarification (in paragraph 24) of which characteristics may no longer apply to impact information from prior time periods and what should be done in such instances.

5. Inclusion of an additional clause related to understandability qualitative characteristic of impact information [adapted] from paragraph D30 of ISSB S1:

   Some [impact information is] inherently complex and might be difficult to present in a manner that is easy to understand. An entity shall present such information as clearly as possible. However, complex information about these [impacts] shall not be excluded from [impact information] to make those reports easier to understand. Excluding such information would render those reports incomplete and, therefore, possibly misleading.

6. Inclusion of a definition of direct and indirect impacts within section 4.2 The Definition of Impact.

7. Removal of reference (currently in paragraphs 22.b) to use of this conceptual framework in the assessment of enterprise value to avoid any confusion for preparers with financial materiality (as implicit in the ISSB and proposed SEC disclosure approach). We recognise that while certain impacts may have a material monetary valuation, this will not always mean they are financially material.

18. Prof.Dr. Laura Edinger-Schons and Prof.Dr. Judith Ströhle

Response to the Exposure Draft "Conceptual Framework for Impact Accounting" from the International Foundation for Valuing Impacts Methodology

October 16th, 2023

The International Foundation for Valuing Impacts (IFVI) has proposed a methodology for impact valuation within the broader context of addressing grand challenges. While the IFVI's intentions appear noble, the approach raises substantial concerns. In this feedback letter we want to outline our main points of concern pertaining to the overall methodology of impact valuation as well as its application in the exposure draft. Below we explore the methodology's potential pitfalls and highlight its ethical, practical, and systemic challenges. We hope this gives a good overview of the growing concern in some parts of the academic community that relates to impact valuation and its proliferation.

I. Oversimplification and Lack of Uniform Reporting Criteria: The IFVI's approach seeks to assign monetary values to complex sustainability impacts.

> One fundamental concern with impact valuation is that it oversimplifies corporate impacts and their complexities. The exposure draft's definition of impact as "a change in one or more dimensions of people's well-being" confirms this concern. It is neither a comprehensive definition, nor does it fully address problems of additionality and intentionality. While there is a (somewhat confusing) section on attribution included in the exposure draft, it is entirely unclear how this definition of impact enables companies to manage the complexities of their externalities. In other words, at this point, impact valuation is merely a method for complexity reduction, yet, without the needed complexity appreciation that comes with it.
>
> It is also concerning that given definition seemingly over-writes concerns of trade-offs, for example where the "wellbeing" of people is being traded off with environmental harm (e.g., what about biodiversity or adaptation strategies that may lead to reduction of livable space or agricultural spaces?), or even their geopolitical relevance (e.g., we know that in the valuation of a human life, people in Bangladesh are worth less than those in Paris). Furthermore, the methodology uses "an impact materiality perspective to determine which impacts to include in impact accounts", yet there is only a very high-level explanation of how this is done, without even referencing existing frameworks from, e.g., the EU or the GRI. It is also not clear how one can assess the materiality of flows without assessing the materiality of stocks – which is what impact valuation is pronouncing to focus on. This is inadequate for management of areas of concern, *especially* when the logic of the underlying methodology is focused on creating net impact figures. The exposure draft further reads that "Sustainability performance in the Methodology refers to the effectiveness of an entity in reducing negative impacts and increasing positive impacts", yet how is this possible when the main attribute of the methodology nets the positive with the negatives and therefore hides the underlying components that are to be managed? In an effective performance management, you would always look at the up- and downside simultaneously, never just at the end-result.

II. Lack of Transparency and Rigorous Peer Review: Impact valuation methods must undergo rigorous peer review to ensure their accuracy and credibility.

> The fundamental logic of impact valuation is based on the use of impact factors which to this date, and despite advertisement that suggests otherwise, have not undergone credible and rigorous peer reviews. Hardly any of the methodological papers that underly the logic of this

“impact accounting” system have been published in peer reviewed journals or reviewed by a representative council of scientific advisors. Neither have there been studies to test whether impact valuation information actually leads to desired results in management of externalities and asset allocation. This is simply assumed. Finally, impact statements from companies to date are not transparent about the underlying calculations and / or sources for impact values that are reported. The exposure draft is inadequate here as there is no discussion whatsoever on the legitimacy of impact factors that are to be used in the methodologies nor on the potential (adverse) consequences that their use could have.

III. Ethical Dilemmas:

Commodification of Life and Nature: Assigning monetary values to human lives and nature is ethically problematic. Reducing life, well-being, and ecosystems to financial figures undermines the intrinsic value of these entities. Such valuation perpetuates the dangerous idea that life and nature can be bought, sold, or traded, potentially fueling further exploitation. The main concern here pertains to the “net” impact score. Companies already engage in the controversial practice of netting different impact categories, presenting themselves as “net positive”, even if we know that this is a socially self-constructed measurement concept from firms themselves.

IV. Lack of Local Representation

The IFVI's approach, like other monetary valuation methodologies, is fully controlled by experts from developed nations, neglecting local contexts and the voices of affected communities. This power dynamic, if not changed, replicates a neocolonialist structure in which external actors make decisions about the value of impacts in developing countries, perpetuating global inequalities. Simply putting varying monetary valuation factors per region is not enough to contextualize impact (even though that seems to be the argument underlying the methodology). Voices and insights from those regions need to be credibly involved. We do not see any of this reflected in the current exposure draft. Currently, the IFVI's methodology reflects the dominance of powerful nations and entities, particularly those in the global North. This top-down approach determines how impacts are perceived and assessed, further marginalizing developing countries in the sustainability dialogue.

V. Neglect of Unquantifiable Impacts and Intrinsic Values

Many sustainability impacts, such as cultural heritage, social cohesion, and spiritual significance, resist (monetary) quantification. Attempting to do so belittles the importance of intrinsic values. It undermines the ethical foundations of human rights, dignity, and environmental stewardship. You state in your exposure draft that “While the Methodology aims to generate useful impact information for decision-making, impact information may be highly relevant in its own right as a public interest activity” (p. 20), but you completely ignore that by virtue of not being quantifiable (and subsequently monetizable) many important topics, by definition, fall out of your impact “accounts”. This is perpetuated in methodological criteria such as “faithful representation” and the expectation that good impact information needs to be “complete, neutral, and free from error” (p. 21). This is paradoxical, as complete impact information will never be neutral, *especially* if monetary values are asserted. In contrary, assumptions, gaps, and biases need to be explored explicitly and explained, not made fitting to be seemingly neutral and complete. Impact is exactly not a long list of physical entities which can be taken up into an objective assessment (as outputs are). The missing appreciation of this is concerning.

VI. Terminology and Overclaim

It is understandable that the IFVI would like to establish a whole methodology for impact accounting, yet, under the current exposure draft and the known methodologies of impact valuation, “accounting” is an unfit terminology to be used. As outlined (very briefly) in the development of “Fundamental Concepts of Impact Accounting” on page 24, impact valuation is in effect only looking at one narrow aspect of impact accounting: that of flows. This in itself is a methodological flaw which should be addressed (you cannot establish flows without stocks), but it certainly means that impact valuation cannot be equaled with an entire accounting system. Suggesting so may actually be quite detrimental – as it suggest that only looking at impact values is enough. Impact valuation should be presented as *one* methodology in the toolkit that can feature within an impact accounting system. Not as the equivalent of a system itself. If there is an intent to establish a whole system, the methodology needs to put MUCH more work into establishing complete impact pathways (particularly the often-ignored measurement of outcomes), think about the concepts of multi-capitals and their valuation and maintenance as stocks, consider differences between activity-based costing of these stocks and valuations, and many more items. Without these there is no credible claim of establishing an entire impact accounting system.

VII. Conclusion

The IFVI's approach to monetary valuation of sustainability impacts raises ethical, methodological, and systemic concerns. Oversimplification, lack of uniform criteria, and a lack of transparency and peer review are practical challenges. Ethical dilemmas include the commodification of life and nature, the introduction of moral hazards, the neglect of local representation, and the influence of the global North. The neglect of unquantifiable impacts and intrinsic values further deepens the problems associated with this approach. The IFVI should consider addressing these issues to ensure that their methodology contributes positively to the broader goal of addressing grand challenges.

Prof. Dr. Laura Edinger-Schons

University of Hamburg, Germany

Prof. Dr. Judith Ströhle

University of St. Gallen, Switzerland

19. Royal London Asset Management

Royal London Asset Management
80 Fenchurch Street
London
EC3M 4BY
United Kingdom

The Technical Staff

The Valuation Technical & Practitioner Committee (VTPC)

The International Foundation for Valuing Impacts (IFVI) n partnership with the Value Balancing Alliance (VBA)

13 October 2023

Dear technical Staff,

Re: General Methodology 1 Public Comment

Please see below Royal London Asset Management Ltd comments to the General Methodology 1 Conceptual Framework for Impact Accounting (Exposure Draft).

QUESTIONS

1. Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

1. *"Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?"*

We agree. We think that the proposal would emphasize the fact that this is a new concept, notwithstanding being monetary based, that was designed primarily to measure impact on people, communities, and the environment.

2. Conservatism in faithful representation (paragraph 32)"

1. *"Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?"*

We agree. Reason being exactly the justification indicated in the exposure draft namely to legitimize impact accounting and dealing with impact washing. The principle of conservatism would help to surface any unconscious biases, especially important in this context, since as indicated in the exposure draft, "impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting".

We would note that the principle of conservatism does not appear as such anywhere in the body of the exposure draft.

3. Impact pathways (paragraphs 51, 52, 53, 54)

1. *"For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway."*

We do not have any concerns with the with the proposed logic of the impact pathway in paragraph 52. However, we think the distinction between Outcomes and Impact is ambiguous and it would be useful to clarify it, by using a few general examples (perhaps in an appendix).

4. Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

1. *"Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?"*

We think the paragraphs indicated are clear and helpful. We also note that the following clarification (paragraph 73, page 29) is important as an enabler to achieve the goals of Impact Accounting:

"Irrespective of the financial materiality of an impact, impact materiality serves as a sufficient basis to prepare impact accounts."

2. *"Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?"*

We agree with the three perspectives based on the three important anchors: ability to influence, transparency as a public good and significance to affected stakeholders (especially as the exposure draft made it clear that this last part is as opposed to the perspective of the entity under consideration).

3. *"Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?"*

We agree. Entity-specific relevance is important to allow for the specific business models of each company and the avoidance of a ticking the box like exercise. At the same time, the other basic principles of the exposure draft (designed to maintain the comparability of sustainability-related data at scale through monetary valuation and the architecture, including topic methodologies and industry-specific methodologies), maintain the general usefulness of the approach and the ability to compare between and across companies, industries, and markets.

5. Additional feedback

8. *"Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?"*

We would comment that this is an important, useful, and thoughtful first draft. We will be looking forward with anticipation to future drafts form the VTPC. In addition, as we indicated above and below, in certain areas, the use of examples could help clarifying the described concepts.

More specifically we would like to add the following comments:

1. Paragraph 36: the principle seems unclear; and the use of general examples would help to clarify (perhaps in an appendix).

2. Paragraph 54: the first part of the paragraph, is clear in the context of previous paragraphs, however the second part (starting with “In some cases…), seems unclear and not connected to the first part of the paragraph. A clarification, we think, would help.

3. Paragraphs 70-71: we agree with the “approach to attribution that allows for complete information on value chain responsibility (based on ‘control’ -EH) at the entity level”. However, we think that it will be important to clearly define to concept of ‘control’ in paragraph 70, as it will help to either avoid ‘double counting’ completely or will enable the ability to attribute impacts, when prepares of impact reports (mostly investors) use entity impact accounts to aggregate impacts to a portfolio level.

Yours Sincerely,

Eliyao Haroush, CFA

Head of ESG Research
Royal London Asset Management Limited

20. Sixto Palacios Quinto

CONCEPT OF THE DRAFT STANDARD IMPACT ACCOUNTING METHODOLOGY – IFVI & VBA

Comments on the draft Standard proposals and associated questions:

Pregunta 1 – Preparadores de cuentas de impacto y usuarios de información sobre impacto (párrafos 5, 20, 22)

La Metodología propone que los elaboradores de la información de impacto sean las propias entidades o inversores desde una perspectiva externa. El Proyecto de Norma establece que la preparación de cuentas de impacto desde una perspectiva externa puede tener limitaciones como resultado del acceso limitado a los datos primarios de la entidad.

Una de las razones del desafío de identificar a los preparadores de las cuentas de impacto es que la infraestructura institucional para la gestión del impacto aún se está desarrollando. Puede ser razonable imaginar un estado futuro en el que las entidades preparen y divulguen públicamente declaraciones de impacto auditadas. Alternativamente, puede existir un estado futuro en el que los inversores utilicen divulgaciones financieras relacionadas con la sostenibilidad para preparar cuentas de impacto desde una perspectiva externa para informar una amplia gama de decisiones de inversión.

Los usuarios de la información sobre el impacto están definidos más claramente, ya que muchas decisiones hoy en día ya están fundamentadas en información relacionada con la sostenibilidad. Los usuarios de la información sobre impacto se describen en el párrafo 22.

1. ¿Está de acuerdo con la propuesta de separar de esta manera a los preparadores de cuentas de impacto y a los usuarios de la información de impacto? ¿Por qué o por qué no? En caso negativo, ¿cómo diferenciaría entre los preparadores de las cuentas de impacto y los usuarios de la información sobre el impacto?

R/

I partially agree with the proposal proposed by the regulatory project because it is pertinent to separate the preparers of the impact accounts and the users as interested parties in the impact information that is disclosed, but to prevent the preparation (enabled and neutral) of the accounts. issue faithful, verifiable, comparable and, above all, prudential impact information that avoids deliberate actions with the intention of causing harm to organizations and their processes, violating the principles of conservatism and prudence.

Pregunta 2 – Conservadurismo en fiel representación (párrafo 32)

La característica cualitativa de la representación fiel incluye una frase en el párrafo 32 que introduce implícitamente un principio de conservadurismo en las cuentas de impacto en casos de incertidumbre. La oración dice: "En casos de incertidumbre, los preparadores de cuentas de impacto deben evitar exagerar los impactos positivos y subestimar los impactos negativos".

Como referencia, un principio de conservadurismo no está implícito en la característica cualitativa de representación fiel en los Requisitos Generales de las Normas Europeas de Información de Sostenibilidad 1 o los Requisitos Generales de la NIIF S1 para la Divulgación de Información Financiera Relacionada con la Sostenibilidad. Para evitar dudas, un principio de conservadurismo es distinto de un principio de prudencia. La prudencia se refiere a la precaución al emitir juicios en condiciones de incertidumbre, mientras que el conservadurismo se refiere a un sesgo al emitir juicios en condiciones de incertidumbre. **Sin embargo, el conservadurismo es un principio explícito adoptado por marcos y organizaciones centrados en el impacto, por ejemplo en** el Marco de Cuentas Ponderadas por Impacto de la Impact Economy Foundation . 9

La propuesta se incluye para reconocer que la contabilidad de impacto en su estado actual no se beneficia del mismo nivel de aseguramiento y auditoría, autoridad regulatoria y adopción generalizada que la información financiera de propósito general. Como tal, el conservadurismo puede no ser indeseable, particularmente si un sesgo conservador genera información sobre el impacto que es más relevante o está representada fielmente. Específicamente, implicar implícitamente un principio de conservadurismo al medir y valorar los impactos puede ayudar a contrarrestar los efectos del lavado de impactos o la exageración del desempeño de sostenibilidad de una entidad.

1. ¿Está de acuerdo con incluir un principio de conservadurismo en el Proyecto de Norma, principalmente para legitimar la contabilidad del impacto y contrarrestar el lavado del impacto? ¿Por qué o por qué no?

R/

Yes, it is very appropriate to include this principle expressly in the draft standard so that these types of configurations are specifically noted in the impact statements by both the preparers of the impact accounts and the users as parties. interested parties who can develop the parallel activity of preparers or rather analysts of account reports.

Likewise, an explicit section with the various biases that can originate from the practice of both the preparers of the impact accounts and the users who validate the reports issued would be important.

Pregunta 3 – Vías de impacto (párrafos 51, 52, 53, 54)

Las rutas de impacto son el marco fundamental para medir los impactos de las entidades corporativas, vinculando las actividades de una entidad con los impactos en las personas y el medio ambiente natural a través de una serie de relaciones causales consecutivas. La propuesta en el Borrador de Norma es utilizar la lógica de la vía de impacto de la Plataforma de Gestión de Impacto.10

Las etapas de una ruta de impacto y cómo se definen esas etapas varían según los marcos, orientaciones y protocolos del ecosistema de gestión de impactos. A menudo, los límites entre los diferentes elementos de la trayectoria del impacto, en particular los resultados y los impactos, dependen de la naturaleza de los fenómenos subyacentes. En algunos casos, ciertos componentes de la trayectoria pueden estar modelados implícitamente en la valoración monetaria; en otros, ciertos componentes no son relevantes. Esto puede depender, por ejemplo, del tema de sostenibilidad específico o de la industria de la entidad.

1. A los efectos de la contabilidad del impacto tal como se establece en el Proyecto de Norma, ¿tiene alguna inquietud con la lógica propuesta de la ruta del impacto como se describe en el párrafo 52? De ser así, describa escenarios en los que la vía de impacto propuesta podría no ser aplicable y cómo cambiaría la lógica propuesta de la vía de impacto.

R/

The proposed logic is very consistent with the proposed regulatory project but I suggest possible a schematic adaptation in which the logic of the circular economy or the circularity of the processes can be evidenced as an enhancing element for the integrative understanding with current or future taxonomic regulations.

Pregunta 4 – Materialidad del impacto y característica cualitativa de relevancia (párrafos 25, 26, 27, 73, 74, 83, 84)

Para preparar cuentas de impacto, una entidad o inversionista debe determinar qué impactos incluir y excluir.
El Proyecto de Norma aborda esta necesidad aplicando una perspectiva de materialidad del impacto. Específicamente, la materialidad del impacto se define como un aspecto específico de la entidad de la característica cualitativa de relevancia.

En la práctica, esto significa que al preparar cuentas de impacto, y después de que un preparador haya identificado, medido y valorado un impacto, el preparador debe considerar las tres perspectivas del párrafo 26 para decidir si incluye un impacto. Las tres perspectivas son las siguientes:

a. la capacidad de la información de impacto para influir en las decisiones de los usuarios;

b. la necesidad de transparencia como bien público y rendición de cuentas ante las partes interesadas afectadas; y

C. la importancia del impacto sobre las partes interesadas afectadas.

Para la tercera perspectiva, la de las partes interesadas afectadas, la importancia de un impacto se describe con más detalle en el párrafo 27, que está determinada por la escala y el alcance del impacto. Después de considerar las tres perspectivas, el preparador debe determinar si un impacto es material. La materialidad del impacto es específica de la entidad, en el sentido de que la materialidad varía para cada entidad y, como resultado, la Metodología no incluye impactos obligatorios ni un umbral uniforme para la materialidad del impacto.

1. ¿Están los párrafos señalados anteriormente en la pregunta claramente escritos, en el sentido de que brindan orientación clara sobre cómo determinar si se incluye o excluye un impacto de las cuentas de impacto? Si no, ¿qué párrafos no están claros y cómo podría mejorar su claridad?
2. ¿Está de acuerdo con las tres perspectivas para determinar la relevancia en la sección 3.2? Si no, ¿con qué perspectivas no está de acuerdo y por qué?
3. ¿Está de acuerdo con definir la materialidad del impacto como un aspecto de relevancia específico de la entidad a los efectos de la contabilidad del impacto? Además, ¿está de acuerdo con la propuesta de no incluir impactos obligatorios en la Metodología?

R/

The following are considerations with a duality of interpretation since, in addition to being proposed, they acquire the quality of questions derived from the query posed, therefore, in the most respectful way:

Being prudent, it could be possible to establish an attached code of ethics for account preparers who make or practice impact statements or disclosures that establishes clear and specific criteria on their activity in order to avoid damages and losses in the organizations that they evaluate. derived from biased assessments, with underestimates or without prudential and comparable qualitative characteristics?

Would it be prudent to establish an attached code of ethics for account preparers who make or practice impact statements or disclosures that establishes clear and specific criteria on their activity in order to avoid damages and losses in the organizations that they evaluate derived from assessments? biased, with underestimations or without prudential and comparable qualitative characteristics?

Impact account preparers must be enabled under an approach that guarantees prudence free of bias or with a certain weight in the disclosure of information that avoids exaggerations or underestimations that lead to impacts that lead to the detriment of the commercial activity of the Organization.

Should impact account preparers be enabled in an approach that guarantees prudence free of bias or with a certain weight in the disclosure of information that avoids exaggerations or underestimations that lead to impacts that lead to the detriment of the commercial activity of the Organization?

Pregunta 5 – Comentarios adicionales
1. ¿No está de acuerdo o tiene inquietudes con alguna propuesta adicional en el Proyecto de Norma? Por ejemplo, esto podría incluir comentarios sobre la formulación del propósito general y la estructura de la Metodología, las referencias utilizadas y las definiciones, entre otras áreas. Si es así, ¿cuáles son y cuáles considera que son enfoques alternativos viables?

R/

The draft standard is not only relevant but appropriate because it seeks the interpretive, general and applicative integration of various frameworks and approaches of widely spread and previous knowledge that address the subject matter of the regulatory project.

With all due respect, I am left with the feeling that it is necessary to integrate general specifications that add the value normally omitted in the valuation of natural capital, but I believe that the current generality allows for its progressive improvement.

I hope to have contributed to the review of one of the most important regulatory projects for the due valuation of natural capital and the activities associated, related or interdependent on it today. Thank you for allowing participation.

SIXTO PALACIOS QUINTO

Abogado y Consultor Ambiental HSEQ

CONCEPTO DEL PROYECTO DE NORMA METODOLOGIA DE CONTABILIDAD DE IMPACTO IFVI

Comentarios sobre las propuestas del proyecto de Norma y preguntas asociadas:

Pregunta 1 – Preparadores de cuentas de impacto y usuarios de información sobre impacto (párrafos 5, 20, 22)
La Metodología propone que los elaboradores de la información de impacto sean las propias entidades o inversores desde una perspectiva externa. El Proyecto de Norma establece que la preparación de cuentas de impacto desde una perspectiva externa puede tener limitaciones como resultado del acceso limitado a los datos primarios de la entidad. Una de las razones del desafío de identificar a los preparadores de las cuentas de impacto es que la infraestructura institucional para la gestión del impacto aún se está desarrollando. Puede ser razonable imaginar un estado futuro en el que las entidades preparen y divulguen públicamente declaraciones de impacto auditadas. Alternativamente, puede existir un estado futuro en el que los inversores utilicen divulgaciones financieras relacionadas con la sostenibilidad para preparar cuentas de impacto desde una perspectiva externa para informar una amplia gama de decisiones de inversión. Los usuarios de la información sobre el impacto están definidos más claramente, ya que muchas decisiones hoy en día ya están fundamentadas en información relacionada con la sostenibilidad. Los usuarios de la información sobre impacto se describen en el párrafo 22. 1. ¿Está de acuerdo con la propuesta de separar de esta manera a los preparadores de cuentas de impacto y a los usuarios de la información de impacto? ¿Por qué o por qué no? En caso negativo, ¿cómo diferenciaría entre los preparadores de las cuentas de impacto y los usuarios de la información sobre el impacto?

R/

Estoy parcialmente de acuerdo con la propuesta que plantea el proyecto normativo por ser pertinente la separacion entre preparadores de las cuentas de impacto y los usuarios como partes interesadas en la informacion de impacto que se divulgue pero evitar que los preparados (habilitados y neutrales) de cuentas emitan informacion de impacto fiel, verificable, comparables y sobre todo prudenciales que eviten actuaciones deliberadas con la intecion de causar daño a las organizaciones y sus procesos vulnerando los principios de conservadurismo y prudencia.

Pregunta 2 – Conservadurismo en fiel representación (párrafo 32)

La característica cualitativa de la representación fiel incluye una frase en el párrafo 32 que introduce implícitamente un principio de conservadurismo en las cuentas de impacto en casos de incertidumbre. La oración dice: "En casos de incertidumbre, los preparadores de cuentas de impacto deben evitar exagerar los impactos positivos y subestimar los impactos negativos".

Como referencia, un principio de conservadurismo no está implícito en la característica cualitativa de representación fiel en los Requisitos Generales de las Normas Europeas de Información de Sostenibilidad 1 o los Requisitos Generales de la NIIF S1 para la Divulgación de Información Financiera Relacionada con la Sostenibilidad. Para evitar dudas, un principio de conservadurismo es distinto de un principio de prudencia. La prudencia se refiere a la precaución al emitir juicios en condiciones de incertidumbre, mientras que el conservadurismo se refiere a un sesgo al emitir juicios en condiciones de incertidumbre. **Sin embargo, el conservadurismo es un principio explícito adoptado por marcos y organizaciones centrados en el impacto, por ejemplo en** el Marco de Cuentas Ponderadas por Impacto de la Impact Economy Foundation . 9

La propuesta se incluye para reconocer que la contabilidad de impacto en su estado actual no se beneficia del mismo nivel de aseguramiento y auditoría, autoridad regulatoria y adopción generalizada que la información financiera de propósito general. Como tal, el conservadurismo puede no ser indeseable, particularmente si un sesgo conservador genera información sobre el impacto que es más relevante o está representada fielmente. Específicamente, implicar implícitamente un principio de conservadurismo al medir y valorar los impactos puede ayudar a contrarrestar los efectos del lavado de impactos o la exageración del desempeño de sostenibilidad de una entidad.

1. ¿Está de acuerdo con incluir un principio de conservadurismo en el Proyecto de Norma, principalmente para legitimar la contabilidad del impacto y contrarrestar el lavado del impacto? ¿Por qué o por qué no?

R/

Si, Es muy pertienen incliuir este principio de forma expresa en el proyecto de norma de tal forma que se advierta de forma especifica ese tipo de configuraciones en las declaraciones de impacto por parte tanto de los preparadores de las cuentas de impacto y los usuarios como partes interesadas que puedan desarrollar la actividad paralela de prepadadores o mejor dicho de analistas de los informes de cuentas.

Asi mismo seria importante un aparte explicito con los diversos sesgos que pueden originarse desde la practica tanto de los preparadores de las cuentas de impacto como de los usuarios que validad los informes emitidos.

Pregunta 3 – Vías de impacto (párrafos 51, 52, 53, 54)

Las rutas de impacto son el marco fundamental para medir los impactos de las entidades corporativas, vinculando las actividades de una entidad con los impactos en las personas y el medio ambiente natural a través de una serie de relaciones causales consecutivas. La propuesta en el Borrador de Norma es utilizar la lógica de la vía de impacto de la Plataforma de Gestión de Impacto.10

Las etapas de una ruta de impacto y cómo se definen esas etapas varían según los marcos, orientaciones y protocolos del ecosistema de gestión de impactos. A menudo, los límites entre los diferentes elementos de la trayectoria del impacto, en particular los resultados y los impactos, dependen de la naturaleza de los fenómenos subyacentes. En algunos casos, ciertos componentes de la trayectoria pueden estar modelados implícitamente en la valoración monetaria; en otros, ciertos componentes no son relevantes. Esto puede depender, por ejemplo, del tema de sostenibilidad específico o de la industria de la entidad.

1. A los efectos de la contabilidad del impacto tal como se establece en el Proyecto de Norma, ¿tiene alguna inquietud con la lógica propuesta de la ruta del impacto como se describe en el párrafo 52? De ser así, describa escenarios en los que la vía de impacto propuesta podría no ser aplicable y cómo cambiaría la lógica propuesta de la vía de impacto.

R/

La logica propuesta es muy acorde con el proyecto normativo propuesto pero sugiero posible una adecuacion esquematica en la cual pueda evidecniarse la logica de la economia circular o la circularidad de los procesos como elemento potenciardor para el entidimiento integrativo con las normativos taxonomicos vigentes o futuros.

Pregunta 4 – Materialidad del impacto y característica cualitativa de relevancia (párrafos 25, 26, 27, 73, 74, 83, 84)

Para preparar cuentas de impacto, una entidad o inversionista debe determinar qué impactos incluir y excluir. El Proyecto de Norma aborda esta necesidad aplicando una perspectiva de materialidad del impacto. Específicamente, la materialidad del impacto se define como un aspecto específico de la entidad de la característica cualitativa de relevancia.

En la práctica, esto significa que al preparar cuentas de impacto, y después de que un preparador haya identificado, medido y valorado un impacto, el preparador debe considerar las tres perspectivas del párrafo 26 para decidir si incluye un impacto. Las tres perspectivas son las siguientes:

a. la capacidad de la información de impacto para influir en las decisiones de los usuarios;

b. la necesidad de transparencia como bien público y rendición de cuentas ante las partes interesadas afectadas; y

C. la importancia del impacto sobre las partes interesadas afectadas.

Para la tercera perspectiva, la de las partes interesadas afectadas, la importancia de un impacto se describe con más detalle en el párrafo 27, que está determinada por la escala y el alcance del impacto. Después de considerar las tres perspectivas, el preparador debe determinar si un impacto es material. La materialidad del impacto es específica de la entidad, en el sentido de que la materialidad varía para cada entidad y, como resultado, la Metodología no incluye impactos obligatorios ni un umbral uniforme para la materialidad del impacto.

1. ¿Están los párrafos señalados anteriormente en la pregunta claramente escritos, en el sentido de que brindan orientación clara sobre cómo determinar si se incluye o excluye un impacto de las cuentas de impacto? Si no, ¿qué párrafos no están claros y cómo podría mejorar su claridad?
2. ¿Está de acuerdo con las tres perspectivas para determinar la relevancia en la sección 3.2? Si no, ¿con qué perspectivas no está de acuerdo y por qué?
3. ¿Está de acuerdo con definir la materialidad del impacto como un aspecto de relevancia específico de la entidad a los efectos de la contabilidad del impacto? Además, ¿está de acuerdo con la propuesta de no incluir impactos obligatorios en la Metodología?

R/

Las siguientes son consideraciones con una dualidad interpretativa pues además de ser propuestas estas adquieren la calidad de preguntas derivadas de la consulta planteada, por tanto, de la forma más respetuosa:

Se podría al ser prudente, establecer un código de ética anexo para los preparadores de cuentas que realicen o practiquen las declaraciones o divulgaciones de impacto que establezca criterios claros y específicos sobre su actividad con el fin de evitar daños y perjuicios en las organizaciones que estos evalúen derivados de apreciaciones sesgadas, ¿con subestimaciones o sin características cualitativas prudenciales y comparables?

¿Sería prudente establecer un código de ética anexo para los preparadores de cuentas que realicen o practiquen las declaraciones o divulgaciones de impacto que establezca criterios claros y específicos sobre su actividad con el fin de evitar daños y perjuicios en las organizaciones que estos evalúen derivados de apreciaciones sesgadas, con subestimaciones o sin características cualitativas prudenciales y comparables?

Los preparadores de cuenta de impacto, se deberán habilitar bajo en un enfoque que garantice la prudencia libre de sesgos o con cierta ponderabilidad en la divulgación de la información que evite exageraciones o subestimaciones que deriven en impactos que lleven al detrimento la actividad comercial de la Organización

¿Se deberán habilitar preparadores de cuenta de impacto en un enfoque que garantice la prudencia libre de sesgos o con cierta ponderabilidad en la divulgación de la información que evite exageraciones o subestimaciones que deriven en impactos que lleven al detrimento la actividad comercial de la Organización?

Pregunta 5 – Comentarios adicionales
1. ¿No está de acuerdo o tiene inquietudes con alguna propuesta adicional en el Proyecto de Norma? Por ejemplo, esto podría incluir comentarios sobre la formulación del propósito general y la estructura de la Metodología, las referencias utilizadas y las definiciones, entre otras áreas. Si es así, ¿cuáles son y cuáles considera que son enfoques alternativos viables?

R/

El proyecto de norma es no solo pertinente sino apropiado porque busca la integración interpretativa, general y aplicativa de varios marcos y enfoques de conocimiento ampliamente extendido y previos que abordan el tema objeto del proyecto normativo.

Con todo respeto, quedo con la sensación de que falta integrar especificaciones generales que agregar el valor normalmente omitido en la valoración del capital natural, pero creo que la generalidad actual permite el mejoramiento progresivo de la misma.

Espero haber aportado a la revisión de un de los proyectos normativos más importantes para la debida valoración del capital natural y las actividades asociados, relacionas o con interdependencia de este en la actualidad. Gracias por permitir la participación.

SIXTO PALACIOS QUINTO

Abogado y Consultor Ambiental HSEQ

21. Social Value International (SVI)

Social Value International Response to IFVI Public Consultation on General Methodology 1: Conceptual Framework for Impact Accounting

Dear colleagues,

Thank you for the opportunity to provide feedback on the General Methodology 1: Conceptual Framework for Impact Accounting.

The comments below address the five questions posed by the International Foundation for Valuing Impacts and the Value Balancing Alliance for this public consultation and incorporate the views of Social Value International members and practitioners from across our global network.

Sincerely,

Ben Carpenter,
CEO, Social Value International

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)
The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity. A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions. The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22. 1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

SVI Response to Question 1
In general, we agree with the proposal to separate the preparers of impact accounts with the users of impact information. The preparers of impact accounts could be those within the organization that have an ability to collect information from the key stakeholders. The users of the impact information would be those investors/externals who would analyse and make decisions based on information provided. However, the way it is presented or explained could be improved. Please consider the following as feedback:

1. In interpreting Paragraphs 5 and 20 it seems that it will be possible for an external party (i.e. an investor) to apply the methodology without any primary data. This could be made clearer. Essentially, the investor can become the preparer and the user of impact accounts potentially without the entity even being aware. If this is the case, there should be explicit mention and emphasis on the significant risks involved when anyone is preparing an account without primary data from the entity and/or the people affected by the entity: the information on impact gathered by external preparers of accounts would be difficult to use for decision-making. It can be further discussed which areas should rely more on "primary" data that should be gathered directly from stakeholders (refer to SVI Principle 1: Involve Stakeholders - People Affected)
2. In terms of the preparers, it is worth considering the role of third-party advisors (consultants) who are likely to be employed by an entity or an investor to prepare impact accounts.
3. In relation to the scenarios for impact information being used it would be good to include manager's decisions to manage impacts on the planer people affected (i.e. increasing positive impacts or reducing negative). This would demonstrate consistency with Paragraph 19, according to which the methodology supports decision-making aimed at generating positive impacts that improve the lives of affected stakeholders as an objective in and of itself.

Question 2 – Conservatism in faithful representation (paragraph 32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts."

For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 *General Requirements* or IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's *The Impact-Weighted Accounts Framework*.[9]

The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

SVI Response to Question 2

We strongly support the inclusion of a principle of conservatism to combat impact washing and suggest reinforcing it by referencing Social Value Principle 5: Do not overclaim which has existed since 2007 for the same purposes. Suggest that the principle is explicit rather than implicit.

Strongly recommend adding reference to assurance of impact information as a measure to support implementation of the principle of conservatism and prevention of impact washing. Since 2009 SVI have been delivering assurance of impact reports providing confidence to the completeness and accuracy of the information presented. Any accounts that do not have assurance with respect to completeness and accuracy of information will not provide the user with enough confidence for meaningful decision making.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.[10]

The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity.

1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

SVI Response to Question 3

The impact pathway presented is universally recognised but there are some key nuances to consider:

1. Input could be used synonymously with the term 'dependencies'.
2. It is currently not clear how the impact pathways should be developed for the purposes of impact accounting: whether they follow a theory of change logic working backwards from desired impacts or they start with activities and look at their consequences both positive and negative, expected and unexpected based on stakeholder involvement.
3. Regarding activity, if we apply the impact pathway logic to an organisation as a whole (not just its specific products or programs), then in reality organisations (especially large or global corporations) engage in numerous activities (which are often interrelated), and it seems infeasible to examine each of the organisations' activities individually and assess its outcome and impact. To make the creation of impact accounts more manageable, there is a need for clear criteria to determine which activities should be included within the scope of the impact pathway logic and which should be excluded.
4. When analysing outcomes there is always a chain of outcomes to consider. One outcome leads to another outcome etc. SVI recommend the use of an additional term; "well defined outcome" this represents the outcome that offers the best opportunity to optimise wellbeing.
5. There is always much confusion when exploring the relationship between and definition of outcome and impact. Paragraph 52 E defines impact as *"the change and evolution in this state or condition as a result of the entity's activities",* whereas in the Glossary the term '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" without attributing the change or part of it to the entity's activities. Clarify whether the impact is the amount of change caused by the entities' activities (their contribution) as opposed to the total amount of change (the outcome). This is how SVI use the word impact and benefit from explicitly stating that calculation of impact requires an estimation on counterfactual or at least the contribution of others to determine the amount of change that is attributed to the entities' activities. Clarify if this is the 'reference scenario' discussed in Paragraph 55.

6. SVI always advocate for stakeholders to inform the analysis which includes involvement in the creation of the impact pathways and identifying the well-defined outcomes. Suggest stakeholder involvement is referenced in relation to impact pathways, as right now it looks like the impact pathways would only reflect the expected/planned outcomes and impacts from the perspective of the entity.

See SVI Standard and Guidance for applying Principle 1: Involve Stakeholders and Principle 2: Understand What Changes

.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance.

Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows:

a. the capacity of the impact information to influence the decisions of users;

b. the need for transparency as a public good and accountability towards affected stakeholders; and

c. the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?
2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?
3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

SVI Response to Question 4

See SVI Standard and guidance for applying Principle 4: Only include what is material.

4.1. It is currently not explicitly stated in paragraph 26 that all three perspectives in 26 should be considered by preparers of accounts simultaneously. There is no guidance on how the three perspectives should be considered by the preparers of accounts – i.e. should all three be met or if the impact on stakeholders is significant, but the information on this impact is not likely to influence the users' decision, it should still be included?
In relation to 26b the need for transparency in impact information is good but there is a need to provide a better definition of 'public good'. Perhaps this could be done by referencing public interest activities referred to in 25.

4.2. It is not clear whether valuation of impacts is part of the consideration of significance or severity. Please explain how valuation determines materiality, does it include the scale and duration of the impacts?

4.3. It is not clear on how to judge 'the capacity of the information to influence the users'. This will depend on the purpose driving the users decision.

4.4. In general, we agree with the three perspectives of determining relevance in paragraph 26, but we would like to see better guidance on how they should be applied and whether they should be all present in a piece of impact information for it to be considered relevant, or any of the three perspectives could be enough to establish its relevance.

4.5. We agree that impact materiality is entity-specific, but it is also stakeholder-specific, so it should be explicitly stated that impact materiality should be defined by entities through stakeholder involvement. We believe that all negative impact should be mandatory for inclusion in the impact accounts.

4.6. Although the entity perspective and stakeholder involvement are critical to identifying the things we should measure, it is not enough. According to the UNDP Guidance for SDG Impact Standards for Enterprises there are four SDGs which should always be considered material and reported on – inequality ("leaving no-one behind" is the overarching goal of the SDGs), and gender equality, climate action and decent work (including as cross-cutting goals of all others). SVI recommend that this guidance is followed by IFVI.

Question 5 – Additional feedback

1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

SVI Response to Question 5:

5.1. Acknowledging IFVI's efforts to develop a framework for 'impact accounting' rather than 'impact valuation', this presents even more of an opportunity for a partnership approach with SVI. It would be good to see greater alignment and co-production or branding of specific methodology statements for example in involving stakeholders to define and value aspects of wellbeing.

5.2. In relation to the ‘Vision of impact accounting’; Paragraph 9 – this statement on the short term vision lacks ambition. It is a good to express caution and the challenges in accounting for impacts but the way it is phrased raises more doubts about the viability of impact accounting.

5.3. Paragraph 6 – when discussing aggregation of impacts and trade-offs there should be an explicit requirement not to hide material negative impacts when impact is aggregated.

5.4. SVI and members would also like to see as future considerations:

- Interoperability and Compatibility with other organizations work.
- Development of an assurance framework to build trust and avoid overstatement of information.

22. Takeshi Igarashi

Dear IFVI

I would like to thank you all for your excellent work.

I offer the following comments on the General Methodology 1: Conceptual Framework for Impact Accounting (Exposure Draft).

I consider the development of this methodology to be of great importance and strongly support its implementation.
On the other hand, I have concerns regarding the lack of clarity regarding the preparers and users of impact accounts in this methodology, the lack of consideration of the socio-economic context of different countries and regions, the lack of consideration of how information should be disclosed according to the size and stage of development of entities, and the practical and ethical challenges of the reference scenarios.

Below, I comment on the questions in the exposure draft.

(Q1.)
The preparers of impact accounts ought to be entities, excluding investors. It is imperative to underscore that the term 'entities' encompasses both management and employees.

In the 22nd paragraph of the Methodology, there is no contention regarding the designation of investors as users of impact accounts. On the contrary, I wholeheartedly applaud the prioritization of management as a primary user within the Methodology, over investors, followed by the inclusion of affected stakeholders.

Nevertheless, there exists an ambiguity in delineating the roles of preparers and users of impact accounts (as mentioned in paragraph 5). As articulated in the fifth paragraph, it is the entities, not the investors, that possess firsthand knowledge about an entity. Analogous to financial statements, the preparers of impact accounts should be entities. The justification for investors to assume this role remains insufficiently elucidated. It is conceivable that, in certain scenarios, investors might undertake this task. This stems from proficiency in impact accounting and the motivation to reveal adverse effects, encompassing (negative) environmental impact. These should be guaranteed through suitable education and societal systems. Entities, undoubtedly, possess the most profound comprehension of their own impact. Impact accounts, if prepared based on an investor's superficial understanding, could prove detrimental, if not outright counterproductive. I am of the conviction that entities and investors should amplify their disclosures through constructive dialogue (engagement). The preparation of impact accounts by investors might be deemed unsuitable. It is pivotal to reiterate that 'entities' comprise both management and employees. The interests of management and employees are not invariably congruent. In many instances, management might compromise the interests of employees in favor of investors (e.g. reducing employee salaries and increasing dividends)..
Consequently, employees should be unequivocally recognized as users of impact accounts, enhancing their utility in decision-making processes.

(Q5.)

1. The Necessity of Considering Socio-economic Contexts Across Nations and Regions

In paragraph 11, a general methodology, topic-specific methodology, and industry-specific methodology are proposed. Furthermore, paragraph 20 stipulates that any business, regardless of sector, region, or organizational level, can utilize this methodology for measuring and evaluating impact, as well as for the preparation of impact statements. However, paragraph 60 also notes that people's well-being cannot be detached from their social context, and the evaluation of impact should take into account regional and local differences. The socio-economic background of each country or region is of paramount importance, and the extent of flexibility required in balancing comparability remains unclear. Leaving this to the discretion of individual companies might jeopardize comparability. Therefore, there is an anticipation for the development of methodologies tailored to specific countries or regions. For instance, when considering sectors like healthcare and education, the healthcare and education costs referred to as impact evaluation coefficients would likely vary depending on the healthcare and education systems of the respective country. Beyond the mention in paragraph 60, it should be explicitly stated that there is a need for the development of country or region-specific methodologies.

2. The Necessity of Consideration of the Size and Stage of Development of Entities

In paragraph 20, it is stated that entities of any organisational level, in any business sector, in any region, may use this methodology for measuring and evaluating their impact and preparing impact statements. Indeed, impact accounting may be beneficial for both large and small entities, public and private (start-ups). However, the expected disclosure of information may differ depending on the size and stage of development of entities. Consideration needs to be given to the scope and level of disclosure required by the size and stage of development of entities and the practical burdens involved, so that flexible application of impact accounting is possible.

3. Concerns about the Practical and Ethical challenges of the Reference Scenario

There is no dispute that impact occurs in relation to reference scenarios. However, in practice, developing reference scenarios is extremely difficult and raises ethical issues. If reference scenarios are to be strictly formulated and measured, it is necessary to create a case in which interventions by entities are not artificially made. In Western countries, there is a certain understanding of the use of RCTs for the public good, but in Japan, for example, such an understanding has not developed and ethical issues are recognised. Given this social background, it is difficult in practice to formulate reference scenarios, and therefore a certain degree of flexibility should be allowed.

Thank you all again.

Best regards,
Takeshi Igarashi
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Takeshi Igarashi, CPA / MBA
KIBOW Social Investment Fund
Investment Professional

Dear IFVI,

Thank you for your response.

I would like to add one suggestion regarding Q3.

In Figure 1 of the exposure draft, the impact pathway is represented as follows.

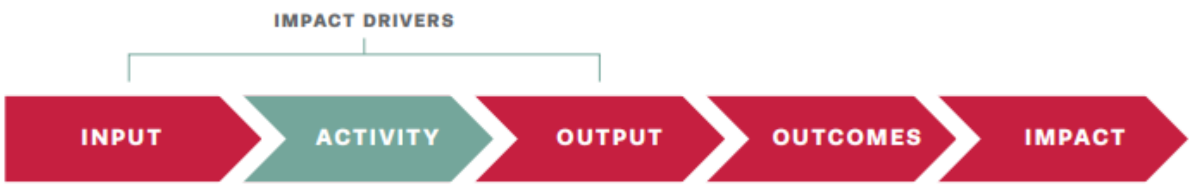
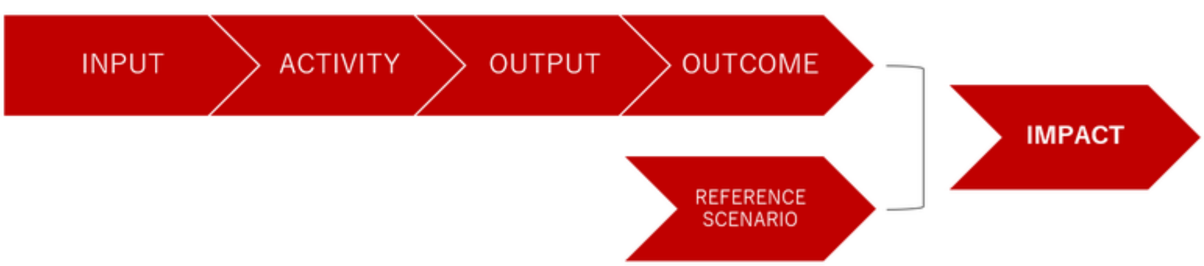


Figure 1: Impact pathway

However, the difference between the 'outcome' of the impact pathway and the reference scenario is the 'impact'. (See paragraph 55.)
Figure 1 of the exposure draft could mislead people into thinking that the impact is the long-term and spillover effects of the outcome.
It is therefore suggested that the figure be replaced by the following one.



Thank you.

Best regards,
Takeshi

23. The Shareholder Commons

Frederick H. Alexander
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October 31, 2023

Technical Staff
Valuation Technical & Practitioner Committee

International Foundation for Valuing Impacts and Value Balancing Alliance
97 W Springfield St # 1
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RE: Exposure Draft for General Methodology 1: Conceptual Framework for Impact Accounting

Dear Staff Members:

The Shareholder Commons (TSC) is a nonprofit advocate for diversified investors. We are pleased to provide the Valuation Technical & Practitioner Committee created by the International Foundation for Valuing Impacts and Value Balancing Alliance with comments to its *Exposure Draft for General Methodology 1: Conceptual Framework for Impact Accounting* (the "Exposure Draft."')

Set forth below are our answers to the questions set forth in the Exposure Draft.

Question 1 – Preparers of impact accounts and users of impact information

> 1. *Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?*

The Financial Effect of Impact on Diversified Investors

The division among enterprises, investors, and stakeholders would be well served by a recognition of the potential fulcrum role that could be played by diversified investors in an impact-oriented economy. The Exposure Draft only recognizes two uses of impact information for investors: (1) calculating the enterprise value of the entity whose impact is being measured and (2) evaluating that entity's sustainability performance. This delineation omits the financial interest most investors have in protecting the systems in which their entire portfolios are embedded.

Modern investing principles prescribe diversification, which allows investors to earn the higher financial returns that come from bearing risk while diversifying away some of that risk.[1] In many cases, the laws that govern investors who act in a fiduciary capacity require such diversification.[2] The capital markets are dominated by diversified investors and investment intermediaries who represent diversified beneficiaries.

Diversified investors internalize the collective costs of negative impacts (or "externalities") (more than $2 trillion annually from publicly listed companies according to a recent report[3]) because they degrade the systems upon which economic growth and corporate financial returns depend: when the economy suffers, so do diversified portfolios. The return to such portfolios depends largely upon overall securities market returns ("beta"[4]), not the relative performance or enterprise value of individual companies. Over long time periods, beta is influenced chiefly by the performance of the economy itself, because the value of the investable universe is equal to the percentage of the productive economy that the companies in the market represent.[5] As one work describes this, "[a]ccording to widely accepted research, alpha [over- or under-performance of individual securities] is about one-tenth as important as beta [and] drives some 91 percent of the average portfolio's return."[6] **Thus, diversified investors internalize the impacts of an individual entity, even if the impact is not material to the entity enterprise value.** The following figure illustrates the path by which impacts become financially material to diversified investors, regardless of the effect those costs may have on the enterprise value of the externalizing company.

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[1] See generally, Burton G. Malkiel, A Random Walk down Wall Street (2015).

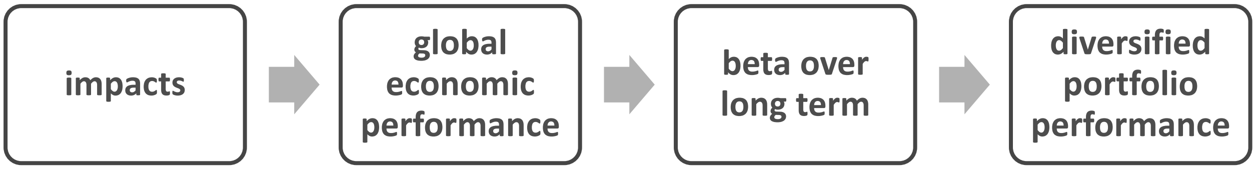
[2] 29 USC Section 404(a) (1) (C) (requiring fiduciaries of federally regulated retirement plans to "diversify[] the investments of the plan"); Uniform Prudent Investor Act, § 3 ("[a] trustee shall diversify the investments of the trust unless the trustee reasonably determines that, because of special circumstances, the purposes of the trust are better served without diversifying.")

[3] Andrew Howard, SustainEx: Examining the social value of corporate activities, (Schroders 2019), available at https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf.

[4] We use the term "beta" to describe overall market return. This usage differs from the formal use of the term in financial literature, where it refers to the specific risk of a security or securities not attributable to the market. More recently, however, literature addressing the importance of broad market returns to diversified investors has used "beta" to refer to the overall return of the market, due to its clear linguistic contrast with "alpha," the term used to describe the return of a portfolio or security relative to the market performance of comparable securities or portfolios.

[5] Principles for Responsible Investment & UNEP Finance Initiative, Universal Ownership: Why Environmental Externalities Matter to Institutional Investors, Appendix IV, https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf.

[6] Stephen Davis, Jon Lukomnik, and David Pitt-Watson, What They Do with Your Money (2016).



The Potential Role of Diversified Investors in Preparation of Impact Information

Of the three categories of users of impact information—entities, investors, and stakeholders—investors, or at least the diversified shareholders who play a critical role in capital markets, are best incentivized to prepare neutral impact information. Companies have a clear incentive to downplay their negative impacts and exaggerate their positive impacts. Stakeholders have incentives to focus on the impacts that affect them, while downplaying the importance of impacts on other stakeholders. As discussed above, however, investors are potentially affected by all impacts that reduce the value of capitals upon which a healthy economy relies.

The General Methodology should (1) recognize the financial importance to investors of systemic impacts and (2) account for the likelihood that investors will be better incentivized to prepare neutral impact information than entities will be.

Question 2 – Conservatism in faithful representation

> *Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?*

We agree with this principle but would make the language of the General Methodology more forthright in recognizing that entities have very significant incentives to minimize negative impacts and overstate positive impacts. (We note that the question uses the phrase “impact-washing,” which is not present in the text.)

Moreover, a system of impact accounting should distinguish between positive impacts that are bargained for by customers, employees, and other third parties, and those that are fully externalized. For example, a drug sold by a pharmaceutical company has a positive impact, but its investors are compensated for that impact through revenue. In contrast, the intellectual property that the company develops that can be used by generic drugmakers after the relevant patents expire creates a positive impact for which the company is not compensated and may be more relevant to “balancing” its total impact than a compensated positive impact.

Question 3 – Impact pathways

> *For the purposes of impact accounting as set out in the Exposure Draft, do*

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you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

We have no concerns with the outline of the pathway but believe that the description of outcome and impact could be strengthened by (1) fully articulating the role of the stock/flow distinction and (2) expanding referenced stocks beyond natural capital.

Although it is ambiguous, we read the reference to “well-being experienced by people” as denoting the current flow of positive impact during a measurement period, and the reference to “conditions of the natural environment” as change in the stock of natural capital during a measurement period.

With respect to the former, the term “actual impact experienced” might better convey the idea of impact flow. As to the latter, to fully accommodate the concept of impact accounting, the stocks counted should include all forms of capital, from intellectual to institutional (e.g., trust, rule of law), rather than only natural capital.

Question 4 – Impact materiality and the qualitative characteristic of relevance

1. *Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?*

No separate answer provided.

2. *Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?*

We propose that the sole criterion for inclusion be decision utility. Properly understood, decision utility encompasses both other criteria: (1) transparency as a public good and accountability and (2) significance to stakeholders. As to the former, transparency will not serve as a public good or accountability measure unless it can be acted upon, whether by investors, government, employees, customers, or other stakeholders. It is highly likely that there will always be the potential for action with respect to a disclosed impact by at least one stakeholder.

As to the latter, the significance of an impact directly bears on whether it is decision useful. In other words, while significance of an impact is important in deciding whether to report it, the way to measure significance is to ask whether the data would affect a reasonable stakeholder’s potential decisions.

Separating decision utility into three separate categories may be confusing and undermine the primary goal of impact reporting: improving impact.

> 3. *Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?*

As a general matter yes, but for clarity, the General Methodology should note that industry-specific methodologies will include mandatory impact and that topic-specific methodologies will establish thresholds of entity size or other aspects at which mandatory impacts will apply.

Question 5 – Additional feedback

> *Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?*

We have the following additional comments on the Exposure Draft:

1. *Paragraph 47: "To the extent possible, the Methodology will over time consider effects on the natural environment independent of any relationship to humans."*

This statement may generate significant controversy. This project must be considered as a means to encourage human flourishing (including by preserving the natural environment) in order to gain widespread support.

2. *Paragraph 49 and Glossary: "Capitals are defined as the resources and relationships affected and transformed by an entity's impacts."*

The entity-specific nature of this definition could be confusing. "Capitals" are best conceptualized as a distinct, universal set of stocks upon which multiple stakeholders depend. The confusion that might be generated can be seen in the last sentence of Paragraph 49, which reads:

> *General purpose financial reporting measures the creation or erosion of value for specific types of financial capital, such as the equity of an entity, whereas impacts can primarily be represented as changes in various types of non-financial capitals.*

Those capitals are not specific to any single entity.

3. *Reference scenario and attribution*

It may be important to recognize that some of the most troubling negative impacts from entity operations involve the consumption of common resources, such as carbon sinks, biodiversity, or society's capacity for inequality. Because of the non-excludable nature of such resources, there is a great temptation for entities to use them at an unsustainable pace. It will often be the case that any single entity can use more than its fair share of such resources with no discernible impact due to the relatively small size of even a large commercial entity compared to the overall size of the economy. Nevertheless, without guarding against such "commons grazing," stakeholders risk depleting critical social and environmental capitals.

For this reason, impact reporting and materiality should reflect the impact of an entity's use of common resources from a perspective that considers each entity's fair share of such resources.

A related issue arises with respect to public goods that benefit everyone, and which are often supplied by the government (and paid for through taxes). Even though a single entity's contribution to the tax base is unlikely to have a material impact on the availability of government services, an impact reporting system should treat payment of a fair share of taxes as material to avoid condoning a practice that is unsustainable if widely practiced.

* * * * *

We appreciate the opportunity to provide our comments and recognize the significant work that went into preparation of the Exposure Draft. Please do not hesitate to contact us with any questions.

Sincerely,

Frederick Alexander
CEO

24. Total Portfolio Project

Dear IFVI and VBA teams,

I want to start by applauding the International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA) for the careful, deliberate steps you are taking to develop this open-source methodology as a public good. It's inspiring to see the rigor and thoughtfulness you have applied in drafting this pioneering methodology. I appreciate you spearheading the advancement of impact accounting through an open and collaborative process.

My comments focus on the questions and other key areas where I believe the Methodology could be strengthened further. I look forward to continuing to advance our shared mission of integrating impact information into the decision making of managers, investors and other stakeholders.

Thank you again for your leadership and for the opportunity to provide input,

Jonathan

Dr. Jonathan Harris
Founder, Total Portfolio Project
jonathan@total-portfolio.org

Question 1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

I agree with the general principle of having separate definitions of the preparers of impact accounts and the users of impact information.

However, I suggest removing most explicit mentions of investors as preparers for the following reasons:

- Simplicity. At most, you only need to indicate that investors can be preparers once. There is no need to repeat this throughout the document.
- Focus & Scope: It is hard to judge if investors should be encouraged to use the Methodology to prepare impact accounts, or to use a future methodology tailored to investors, when it is still in draft form even for entities. The work of Total Portfolio Project has, at the very least, demonstrated that the question of how investors impact accounts should be prepared is non-trivial. Thus, I believe the nuances of investor impact accounts should be addressed in separate work and that this should be out of scope for the present document. It's fine to try to make the Methodology attractive and relevant to investors, but not to insist that they be preparers.
- Coherence. Noting any stakeholder could theoretically prepare accounts is more consistent with the Methodology's open-mindedness and flexibility.

Suggested changes:

- Paragraph 5.1 - change the middle sentence to '*The Methodology is designed to be applied by the managers of an entity to produce impact accounts.*'
- Paragraph 5.2 - change the latter part to '*however, the Methodology is flexible enough to be applied by any stakeholders to prepare impact accounts from an external perspective.*'
- Paragraph 15.b - delete '*and investors*'
- Paragraph 20 - replace '*any investor*' with '*any stakeholder entity*'
- Paragraph 73 - delete '*, whether an entity or an investor from an external perspective,*'
- Paragraph 76 - delete '*, or an investor from an external perspective,*'
- Paragraph 77 - delete '*or an investor's ongoing assessment of sustainability performance*' and delete '*or investor*'
- Consider replacing '*entity*' with '*preparer*' everywhere where this distinction is relevant (i.e. in the paragraphs noted in this list).

Question 2 – Conservatism in faithful representation (paragraph 32)

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

I agree with the cautious, non-directive tone of Paragraph 32. Its ambiguous phrasing allows room for interpretation, rather than prescribing a firm stance. Additionally, a conservative approach aligns with many views on how to practice decision making under uncertainty.

However, in general, I have several concerns about explicitly including a principle of conservatism:

- **Redundant**. Conservatism is not necessary to legitimize impact accounting and counter-balance impact washing if the Methodology is rigorously applied. The qualitative characteristics, especially faithful representation, already guard against the overstatement of positive impacts and understatement of negative impacts.
- **Potentially patronizing**. Conservatism can be viewed as patronizing if it presumes users cannot make informed judgments with transparent information. Assuming users will only look at central estimates, not ranges, undercuts their agency. Robust transparency would empower users to incorporate uncertainty into their analyses as they see fit.
- **Tension with neutrality**. Conservatism appears to contradict the qualitative characteristic of neutrality. Introducing a bias seems at odds with the aim of faithful representation.
- **Unintended consequences**. It could undermine the case for investing in uncertain positive impacts, since conservatism favors understatement. Perversely, it may also incentivize entities to be less transparent about the extent of uncertainty around negative impacts.
- **Lack of evidence**. Because impact accounting is so new, it seems prudent to first pilot testing without an explicit conservatism principle. The results can then be evaluated to see if any bias is appropriate after seeing impact accounting implemented in more pilot cases.

Rather than conservatism, a more direct way to legitimize impact accounting and counter-balance impact washing is simply to continue emphasizing transparency. Assuming preparers report uncertainties (i.e. as quantified ranges) clearly alongside central estimates, users can contextualize estimates accordingly. Prioritizing transparency over conservatism places faith in preparers and users alike.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

I have no immediate concerns with the proposed impact pathway logic and I trust the Methodology will remain adaptable to future concerns.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

Each paragraph is clearly written, but taken together I found the clarity of the guidance to be lacking. What would enhance the clarity is to include information that I can only see in the guidance to this question and in the explanatory notes. For example, how materiality is entity-specific (or preparer-specific) and that the Methodology will not include mandatory impacts or uniform thresholds.

2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?

No, I do not agree with the three perspectives. I think they can be simplified into two perspectives:

A. the significance of the impact on affected stakeholders
B. the potential of the impact information to influence decisions that change the impact

This combines the original (a) and (c) together to form (B). This cuts out the word 'users', so we don't need to worry about the semantics there (see my related comment on Paragraph 25 in my answer to Question 5).

Removing the original (b) avoids needing to consider transparency that does not directly influence relevant decisions. If the essence of (b) is still deemed essential, (B) could be extended to be "the potential of the impact information, including its contribution to transparency and accountability as a public good, to influence decisions that change the impact".

3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

The proposal to define impact materiality as an entity-specific aspect of relevance makes sense at this stage. However, consider providing a list of highly likely material impacts per sector to encourage more consistent consideration of common impacts across similar entities. This would enhance comparability while retaining a non-prescriptive, entity-specific approach.

Question 5 – Additional feedback

1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Overall, I am supportive of the methodology's aim to create a standardized system for impact accounting and commend the rigorous development process. There are several major themes in my answers to the questions below:

- **Emphasize transparency**
    - Emphasize transparency even more and more consistently. Because almost everything depends on this, including how robust and adaptable to different user contexts.
    - Related comments: Question 2, Question 5 Paragraphs 7, 8, 56, 57, 71
- **Simplicity**
    - Make the methodology more modular, focused and disciplined in scope.
    - Related comments: Question 1, Question 4.2, Question 5 Paragraphs 25, 46, 57, 59, 72
- **Impartiality**
    - Avoid taking moral views or making statements that can be interpreted as such. Be open-minded and epistemically humble about the existence of other perspectives, some of which you might not be aware of yet.
    - Related comments: Question 1, Question 2, Question 5 Paragraphs 7, 25, 46, 47, 56, 57, 59, 65
- **Coherence**
    - Make sure the sections are coherent with each other. Follow the logic in the Methodology through to its natural conclusions.
    - Related comments: Question 1, Question 5 Paragraphs 14, 25
- **Flexibility**

- Don't be overly prescriptive (the explanation for Question 4 is a good example of being non-prescriptive). Emphasize iteration (like in Paragraph 75). Have *defaults*, not hard rules.
- Related comments: Question 1, Question 3, Question 5 Paragraphs 7, 56, 57, 59

I offer these suggestions in a constructive spirit, as I believe they are aligned with IFVI and VBA's overall direction. My aim is to help refine an already impressive methodology.

In addition to my comments on specific paragraphs, I would like to encourage emphasizing transparency in the following forms:

- Reference scenario(s)
- Perspective taken for valuation
- Disclosure of partial attribution figures
- Disclosure of quantified ranges of uncertainty
- Unaggregated, non-monetized impact information

Paragraph 7

In my view, the appropriate perspective for the monetary valuation of an impact depends on the user. In particular, different stakeholders (including different investors) may desire monetary valuation to be done in different ways (e.g. with different monetary value factors).

For example, the work we have done at Total Portfolio Project has demonstrated the importance of an 'opportunity cost' perspective. Especially for investors. A basic version of this perspective is valuing an impact based on the cost to produce a similar impact with the best alternative charitable option (BACO). This will generally produce significantly different values from the 'social cost' perspective that it seems is the default for the Methodology.

I believe the draft paragraph's stated perspectives are fine as a 'default' for monetary valuation by preparers, especially entities. But, in my view, the paragraph should be written in an open-minded way. I suggest revising the last sentence in the paragraph as follows:
"*The monetary valuation of an impact may be different when done from the perspective of different stakeholders. The default perspective in the Methodology is that of affected stakeholders, or society in general, as opposed to the perspective of the entity.*"

I also suggest emphasizing that the valuation perspective that is used by a preparer should be made transparent to users.

Paragraph 8

Quantifying uncertainty could significantly enhance the methodology's transparency. Even without a mandate, some users may still estimate uncertainties themselves. Requiring the quantification of uncertainty would formalize it as an additional way for preparers to communicate with users.

Paragraph 10

I appreciate this paragraph because Total Portfolio Project's 'Impact Returns' might be one of the 'additional approaches' that complements the Methodology. This paragraph tantalizingly notes that there are many ways to conceptualize and implement impact valuation. I believe it would be helpful to elaborate on this, perhaps in a separate document published as a literature review.

Paragraph 14

It makes sense that the General Methodology provides guidance on generalizable components. Should it not also provide general guidance on how to combine information from impact accounts that have been prepared based on Topic or Industry-specific Methodologies that aren't inherently consistent or include non-generalizable parts? If the General Methodology does not address such issues, then I fear entities and users may make up adhoc rules for managing inconsistencies across topics. This aggregation guidance need not overrule any methodology.

Paragraph 25

'Users' are defined very broadly in Paragraph 22. Therefore, as drafted, Paragraph 25 is saying that impact information that does not affect the decisions of anyone can be considered useful. I don't see how that can be the case and I don't think it's in line with the purpose of the Methodology to enhance decision making (as stated in the Explanatory Note). Furthermore, I believe the point of the statement about 'public interest activity' in the GRI references in the footnote is that impact information doesn't have to be financially material to an entity to be important.

Here is a suggested revision that addresses these points:
"*In general purpose financial reporting, the relevance of financial information is primarily determined by its ability to influence the economic decisions of users. In contrast, impact accounting extends this criterion of relevance to encompass its ability to affect the decisions of all stakeholders, reflecting a wider range of concerns and implications.*"

Paragraph 46

This definition is highly anthropocentric compared to other organizations. In my opinion, using more neutral phrasing, like the IMP, could avoid unnecessarily constraining the Methodology.

Paragraph 47

I believe that we agree that monetary valuation of impact can greatly aid decision making. However, in my personal view, I do not see monetary valuation as a 'measure of the intrinsic value' of impact. Even if I did believe valuation was about 'measuring' intrinsic values, I would still also believe that different people have different beliefs about intrinsic values.

In line with my comments on Paragraph 59, I would suggest you delete this paragraph.

Paragraph 56

The proposed reference scenario is a natural candidate to be the default reference scenario. It is not clear to me why it is being presented as 'the' scenario, rather than just 'the default'.

In my view, justifying key design choices like the choice of the (default) reference scenario definition would strengthen the Methodology. Even brief explanations, e.g. this being the most straightforward reference scenario, would be helpful and build trust.

The (default) reference scenario may not suit the needs of many preparers and users in different contexts and the Methodology should be open-minded about this reality.

Transparency is key. As long as reference scenarios are clearly disclosed, then users will be empowered to adjust their use of information accordingly.

Paragraph 57

This paragraph misses that impacts can be valued from the perspective of the investor. For example, this can be seen in the 'strategic price of impact' concept developed by Total Portfolio Project. It is based on the 'impact opportunity cost' to the investor - how much would it cost the investor to generate (or avert) similar impacts on the affected stakeholders? Thus, this paragraph is (inadvertently) oversimplifying the impact valuation landscape.

Transparency is key. Similar wording should be included for the valuation choices as for the reference scenario.

Based on the above two points, I suggest that the most robust way to proceed would be a revision such as:
"*Impacts can be valued from many different perspectives. The perspective used for valuation of each impact should be disclosed to users of impact information such that it is clear how impact has been valued in the impact calculation.*

The default Monetary valuation in the Methodology is performed from the perspective of the affected stakeholder. In some instances, an impact cannot be isolated to a single affected stakeholder group and is valued from the perspective of society in general."

Paragraph 59

In my opinion the Methodology should not be anthropocentric (or morally prescriptive in other similar ways). At most, I would be comfortable with it being anthropocentric by default, but in the draft it does not seem to be qualified in this way.

For example, consider the engagements of the investor Carl Icahn with entities like McDonald's over pig gestation crates. To analyze such cases, must I think about how improving the pigs lives will improve Mr. Icahn's well-being, or the well-being of the average American? That seems wrong, or at least like a needless complication. Much simpler to just say that Mr. Icahn, for whatever reason and from whatever perspective, has decided to put a monetary value factor on pig well-being.

There are several (complementary) ways that you can avoid mandating that the Methodology be purely anthropocentric:

1. Revise Paragraph 57 as suggested above so that the potential to do valuation from other perspectives is more openly acknowledged and accepted.
2. Delete the 'anthropocentric' sentence from Paragraph 59. Or move it to Paragraph 57. Or qualify it as only a 'default'.
3. Revise Paragraph 65 as suggested below.

<u>Paragraph 65</u>

One part of making the Methodology non-anthropocentric is to allow non-human beings to be stakeholders as well. Then the Methodology would instantly be more general without any further changes. Nature is already listed as a silent stakeholder. Consider dropping the word 'silent', dropping the moralizing explanation about stewardship, and adding that this includes all non-human beings.

Questions: How are you defining 'nature'? What about non-natural, domestic/agricultural animals?

<u>Paragraph 66</u>

What is the definition of 'measure'? Because Paragraph 67 and 68 suggest that impact forecasts may play a crucial role in impact accounts. There is an important difference between measure and forecast.

<u>Paragraph 71</u>

This paragraph is confusing and would benefit from clarification. The draft paragraph introduces double counting but then jumps to a conclusion without cleanly resolving if double counting is an issue. I believe that double counting is not an issue, at least as long as there is transparency so users are aware of the potential for double counting. So, I am sympathetic to what I think this paragraph is trying to say, but I think it needs to be improved.

<u>Paragraph 72</u>

Further explaining how capacity should affect attribution would demystify this vague yet intriguing point. An alternative option is simply to cut the first sentence and keep the second.

25. Transcendent

PUBLIC COMMENT ON IFVI & VBA GENERAL METHODOLOGY 1

Question 1 – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

The Methodology proposes that the preparers of impact information are entities themselves or investors from an external perspective. The Exposure Draft states that preparing impact accounts from an external perspective may have limitations as a result of limited access to primary data of the entity.

A reason for the challenge in identifying the preparers of impact accounts is that the institutional infrastructure for impact management is still being developed. It may be reasonable to imagine a future state in which entities prepare and publicly disclose audited impact statements. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external perspective to inform a wide-range of investing decisions.

The users of impact information are more clearly defined, as many decisions today are already informed by sustainability-related information. The users of impact information are described in paragraph 22.

1. Do you agree with the proposal to separate the preparers of impact accounts and users of impact information in this way? Why or why not? If not, how would you delineate between the preparers of impact accounts and users of impact information?

Transcendent's response to Question 1

*Given the early stage of development of the impact accounting system and the need of access to primary data of the entity to produce impact accounts, **we do believe that it is reasonable to differentiate between the preparers of impact accounts and users of impact information**. In addition, for the time being we find that it may be advantageous that impact accounts are only produced by internal stakeholders and existing investors with access to company information, as having access to primary data will enhance the quality and representativeness of the impact accounting exercise.*

For the moment, we believe it is crucial for reporting entities to be transparent with the methodology and data used to produce their impact accounts and results in order to raise awareness on the importance of measuring a company's impact and the added value this exercise provides to both internal and external stakeholders (including employees, managers of the entity, potential investors, customers, etc.). For instance, we believe Summa Equity's "Portfolio Report 2022" to be a best-in-class example of impact accounting transparency.

Last but not least, by clearly identifying users of impact information leveraging on impact data to inform investing decisions (i.e., existing or potential investors, lenders and other creditors; but also, investment analysts and consultancy firms); IFVI, VBA and relevant standard setters and market builders are better positioned to educate them on the added value of incorporating impact accounting in their business decisions.

Question 2 – Conservatism in faithful representation (paragraph 32)

The qualitative characteristic of faithful representation includes a sentence in paragraph 32 that implicitly introduces a principle of conservatism into impact accounts in cases of uncertainty. The sentence reads, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts."

For reference, a principle of conservatism is not implied in the qualitative characteristic of faithful representation in European Sustainability Reporting Standards 1 General Requirements or IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For the avoidance of doubt, a principle of conservatism is distinct from a principle of prudence. Prudence refers to caution when making judgements under conditions of uncertainty, whereas conservatism refers to a bias when making judgments under conditions of uncertainty. Conservatism is, however, an explicit principle adopted by frameworks and organizations focused on impact, for instance in Impact Economy Foundation's The Impact-Weighted Accounts Framework.

The proposal is included to acknowledge that impact accounting in its present state does not benefit from the same level of assurance and audit, regulatory authority, and widespread adoption as general purpose financial reporting. As such, conservatism may not be undesirable, particularly if a conservative bias generates impact information that is more relevant or faithfully represented. Specifically, implicitly implying a principle of conservatism when measuring and valuing impacts may help to counteract the effects of impact washing, or overstating the sustainability performance of an entity.

1. Do you agree with including a principle of conservatism in the Exposure Draft, primarily to legitimize impact accounting and counter-balance impact washing? Why or why not?

Transcendent's response to Question 2

*Following a similar logic as with the benefits of having access to primary data stated in Transcendent's answer to Question 1, **we do believe that including a principle of conservatism in the preparation of impact accounts is preferable** to foster a proper development of impact accounting exercises.*

Hence, following similar reasons as in both the European Commission's proposal for a directive "regarding empowering consumers of the green transition" (Document 52022PC0143) and the proposal for a "Green Claims Directive" (Document 52023PC0166); we believe that it is of the utmost importance to provide internal and external stakeholders with information that is "well-substantiated", "transparent and credible". From Transcendent's perspective, not including a principle of conservatism in the definition of the General Methodology could result in overstating positive impacts or understating negative impacts generated by an entity; subsequently incurring in an "impact washing" exercise which would harm the development and standardization of impact accounting.

Question 3 – Impact pathways (paragraphs 51, 52, 53, 54)

Impact pathways are the foundational framework for measuring the impacts of corporate entities, linking the activities of an entity to impacts on people and the natural environment through a series of consecutive, causal relationships. The proposal in the Exposure Draft is to utilize the impact pathway logic of the Impact Management Platform.

The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. Oftentimes, the boundaries between the different elements of the impact pathway, particularly outcomes and impacts, are dependent on the nature of the underlying phenomena. In some cases, certain components of the pathway may be implicitly modelled in the monetary valuation; in others, certain components are not relevant. This may depend on, for instance, the specific sustainability topic or industry of the entity.

1. For the purposes of impact accounting as set out in the Exposure Draft, do you have any concerns with the proposed logic of the impact pathway as described in paragraph 52? If so, please describe scenarios in which the proposed impact pathway may not be applicable and how you would change the proposed logic of the impact pathway.

Transcendent's response to Question 3

*At Transcendent, we have been following the impact pathway approach as defined by the Impact Management Platform in all our impact measurement engagements with external customers, including our own 2022 Impact Report ("Memoria de Impacto Transcendent"). Hence, we believe that the impact pathway approach is the best suited for defining the casual sequence of events and relations that occur along an entity's operations and the effects they have on the society and the natural environment, and **do not have any concern with the proposed logic**.*

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

To prepare impact accounts, an entity or investor must determine which impacts to include and exclude. The Exposure Draft addresses this need by applying an impact materiality perspective. Specifically, impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance.

Practically, this means that when preparing impact accounts, and after a preparer has identified, measured, and valued an impact, the preparer should consider the three perspectives in paragraph 26 to decide whether to include an impact. The three perspectives are as follows:

a. the capacity of the impact information to influence the decisions of users;

b. the need for transparency as a public good and accountability towards affected stakeholders; and

c. the significance of the impact on affected stakeholders.

For the third perspective, that of affected stakeholders, the significance of an impact is further described in paragraph 27, which is determined by the scale and scope of the impact. After considering the three perspectives, the preparer should determine if an impact is material. Impact materiality is entity-specific, in that materiality varies for each entity and, as a result, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality.

1. Are the paragraphs noted above in the question clearly written, in that they provide clear guidance on how to determine whether to include or exclude an impact from impact accounts? If not, which paragraphs are unclear and how might you enhance their clarity?

2. Do you agree with the three perspectives for determining relevance in section 3.2? If not, which perspectives do you disagree with and why?

3. Do you agree with defining impact materiality as an entity-specific aspect of relevance for the purposes of impact accounting? Further, do you agree with the proposal to not include mandatory impacts in the Methodology?

Transcendent's response to Question 4

1. *From Transcendent's perspective, **paragraphs noted in the question herein stated are clearly written**. However, we believe that **guidance on how to determine whether to include or exclude an impact from impact accounts may be improvable**, as only perspective c) is clearly defined in paragraph 27 of the General Methodology. For perspectives a) and b), we believe that there is not enough guidance on how to determine whether an impact has "capacity … to influence the decisions of users" or is affected by "the need of transparency as a public good and accountability towards affected stakeholders".*
   Hence, in case the three perspectives defined remain in the final version of the General Methodology 1 (please see Transcendent's feedback on proposed perspectives on the response to question 4.2 included below), we believe that perspectives a) and b) should be further detailed in the correspondent paragraphs (in a similar way as paragraph 27 serves as a clear guidance for assessing perspective c)).

2. *In VBA's press release on 10th January 2023 announcing the partnership between VBA and IFVI, it was stated that the strategic ambition of the parentship was "utilizing data inputs from global standard setters and developing methodologies that can inform global standard*

setting (…) building on the global sustainability reporting baseline currently developed by standard setters".

*As a result, given the consequences arising in cases of divergence between different standards or market solutions to assess sustainability and impact (e.g., on the case of divergence from ESG ratings providers affecting its usability[1]); and leveraging on the need of companies affected by the UE's Corporate Sustainability Reporting Directive (CSRD) to undertake materiality assessments from a "double materiality" perspective, at Transcendent **we believe that the perspectives used for determining the relevance of impact information should be in line with EFRAG's guidance on conducting an impact materiality assessment** (06-02 Materiality Assessment SRB 230823).*

*Hence, in Transcendent **we do agree with perspective c)** defined in the General Methodology 1 (paragraph 26), **but we believe that perspectives a) and b) may be updated** so that they are aligned with the European Sustainability Reporting Standards (ESRS) requirements.*

Furthermore, ESRS 1 General Requirements, as per paragraphs 21 and 30 state the following:

- *"The undertaking shall report on sustainability matters based on the double materiality principle" (CSRD, Annex I, ESRS 1, paragraph 21); and*
- *"When the undertaking concludes that a sustainability matter is material as a result of its materiality assessment, on which ESRS 2 IRO-1, IRO-2 and SBM-3 set disclosure requirements, it shall:*
  - *(a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the corresponding topical and sector-specific ESRS; and*
  - *(b) disclose additional entity-specific disclosures (see paragraph 11 and AR 1 to AR 5 of this Standard) when the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity." (CSRD, Annex I, ESRS 1, paragraph 30)*

According to our understanding, this would imply that "the need for transparency" included in perspective b) of the General Methodology 1 would be already covered by ESRS 1 transparency requirements (and so covered by perspective c)).

In a nutshell, by ensuring that material impacts identified when conducting a double materiality assessment can also serve as a basis for engaging in an impact accounting exercise, we believe that the General Methodology 1 may increase its likelihood of success among corporate partners potentially interested in applying it.

3. *Following EFRAG's guidelines, at Transcendent **we agree with the definition of impact Materiality as an entity-specific aspect**. Hence, as per EFRAG's Implementation guidance for materiality assessment (06-02 Materiality Assessment SRB 230823), "the undertaking is not to disclose all matters of the sector-agnostic or sector-specific standards but only those material to them including entity-specific matters" (paragraph 41). As a result, **we do agree with the proposal to not include mandatory impacts in the Methodology**.*

[1] *See Berg, Florian and Kölbel, Julian and Rigobon, Roberto, "Aggregate Confusion: The Divergence of ESG Ratings"*

However, as upstream and downstream impacts may be difficult to trace depending on sector-specific and entity-specific matters, we also believe that developing sectorial methodologies and impact accounting guidelines would ease the impact valuation process for companies engaging in this exercise.

Finally, as CSRD reporting requirements start to apply for EU and non-EU companies (and companies develop double materiality analysis accordingly), we believe that IFVI and VBA may benefit for and increased interest from preparers of impact accounts and users of impact information to develop and leverage on impact valuation exercises.

Question 5 – Additional feedback

1. Do you disagree or have concern with any additional proposal(s) in the Exposure Draft? For example, this could include feedback on the framing of the overall purpose and structure of the Methodology, references used, and definitions, among other areas. If so, what are they and what do you see as viable alternative approaches?

Transcendent's response to Question 5

We do not have any additional concern with the proposals in the Exposure Draft.

However, as stated in paragraph 47, we believe it would be positive to consider over time effects of the reporting entities "on the natural environment independent of any relationships to humans" (General Methodology 1, paragraph 47) in order to have a comprehensive and holistic assessment of an entity's effects "on people and the natural environment" (as per the Impact Management Platform's definition of impact).

Given the development of nature-related disclosing frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) Recommendations; and the advances made by the Stockholm Resilience Centre in mapping and assessing planetary boundaries, we believe that being able to place value on the impact generated by an entity not only "through a human perspective" (General Methodology 1, paragraph 47) would improve the functioning of private markets by increasing transparency on "how and to what extent corporate entities create and/or destroy vale for non-financial stakeholders".

In addition, valuing in monetary terms impacts on natural capital may promote sustainable markets related to biodiversity in line with international frameworks such as the EU Biodiversity Strategy for 2030 and improve corporate transparency towards private investors, given that in the EU "Public funding dominates financing for nature-based solutions", with "Only 3% of the projects identified report private sector financing that covers more than 50% of a project's total cost" (as per the European Investment Bank report on "Investing in nature-based solutions. State-of-play and way forward for public and private financial measures in Europe"; from 08 June 2023) but the issuance of "bonds featuring terrestrial and aquatic biodiversity conservation in their use of proceeds (UoPs) has increased considerably in recent years", with a 11 percentage points increase of share of labelled bonds issued between 2020 and 2023 (from 5% to 16%, as per "Biodiversity in ESG: State of the Sustainable Finance Market"; Sustainable Fitch, October 2023).

Currently, there are already initiatives such as the EU INCA project developing accounting systems for natural capital[2], hence "bridging ecology to economy" and measuring "how does our socio-economic system depend on ecosystems and their services", including economic values related to human well-being, nature-based recreation, etc. As a result, at Transcendent we believe that it is a matter of time that, leveraging on the impact valuation Methodology developed by IFVI and VBA, it will be possible to prepare impact accounts in which impact is defined through a comprehensive non-financial stakeholders' perspective.

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[2] *Vysna, V., Maes, J., Petersen, J.E., La Notte, A., Vallecillo, S., Aizpurua, N., Ivits, E., Teller, A., "Accounting for ecosystems and their services in the European Union (INCA). Final report from phase II of the INCA project aiming to develop a pilot for an integrated system of ecosystem accounts for the EU."; Publications office of the European Union, Luxembourg, 2021.*

26. Upright Project

Dear IFVI and VBA members,

Thank you for your valuable work on the impact accounts methodology!

Here are a few comments from me and my colleagues from Upright. Upright's role as an external impact data provider differs from your company-focused approach, which is naturally reflected in our feedback.

We acknowledge that many different types of players are needed in the field, to make impact accounting reality on a large scale, within the needed time frame. So we fully support your mission and approach and would like to highlight some points that we have learned during our journey - they might differ significantly from your current thinking, but hopefully, they give some food for thought.

Question 1: – Preparers of impact accounts and users of impact information (paragraphs 5, 20, 22)

In addition to companies and investors, preparers of impact information should acknowledge also external impact data providers.

As stated in paragraph 8, the use of estimates is an essential part of impact accounting and does not undermine the usefulness of the information. Accurately modeling the wide variety of impacts, especially across value chains, requires significant resources. This is not always practical, or possible, for companies to do in-house.

In addition, external impact data providers have strengths in some areas that companies themselves lack, for example:

- Objectivity and ability to produce comparable data
- Ability to do assessments in a more scalable way. It probably isn't realistic that each and every company would allocate significant resources for impact accounting, at least in the short run. Considering the urgency of generating reliable impact information for companies, it might be risky to assume that only companies and investors would be responsible for compiling impact accounts.

Question 2 – Conservatism in faithful representation (paragraph 32)

Yes, we agree on adopting the principle of conservatism to balance the potential for impact washing.

Question 4 – Impact materiality and the qualitative characteristic of relevance (paragraphs 25, 26, 27, 73, 74, 83, 84)

Measuring and valuing impacts require significant resources in an organization. If measurement and valuation are done already before defining if some impacts are actually material, there is a high risk of spending resources on doing calculations on impacts that are not material after all.

Based on Upright's experiences, it is possible to exclude some of the impacts (based on materiality) already before doing the detailed valuation. By applying the impact materiality perspective already before measuring and valuing impacts, resources could be saved and targeted to more meaningful work.

Best regards,
Lisa Jackson

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