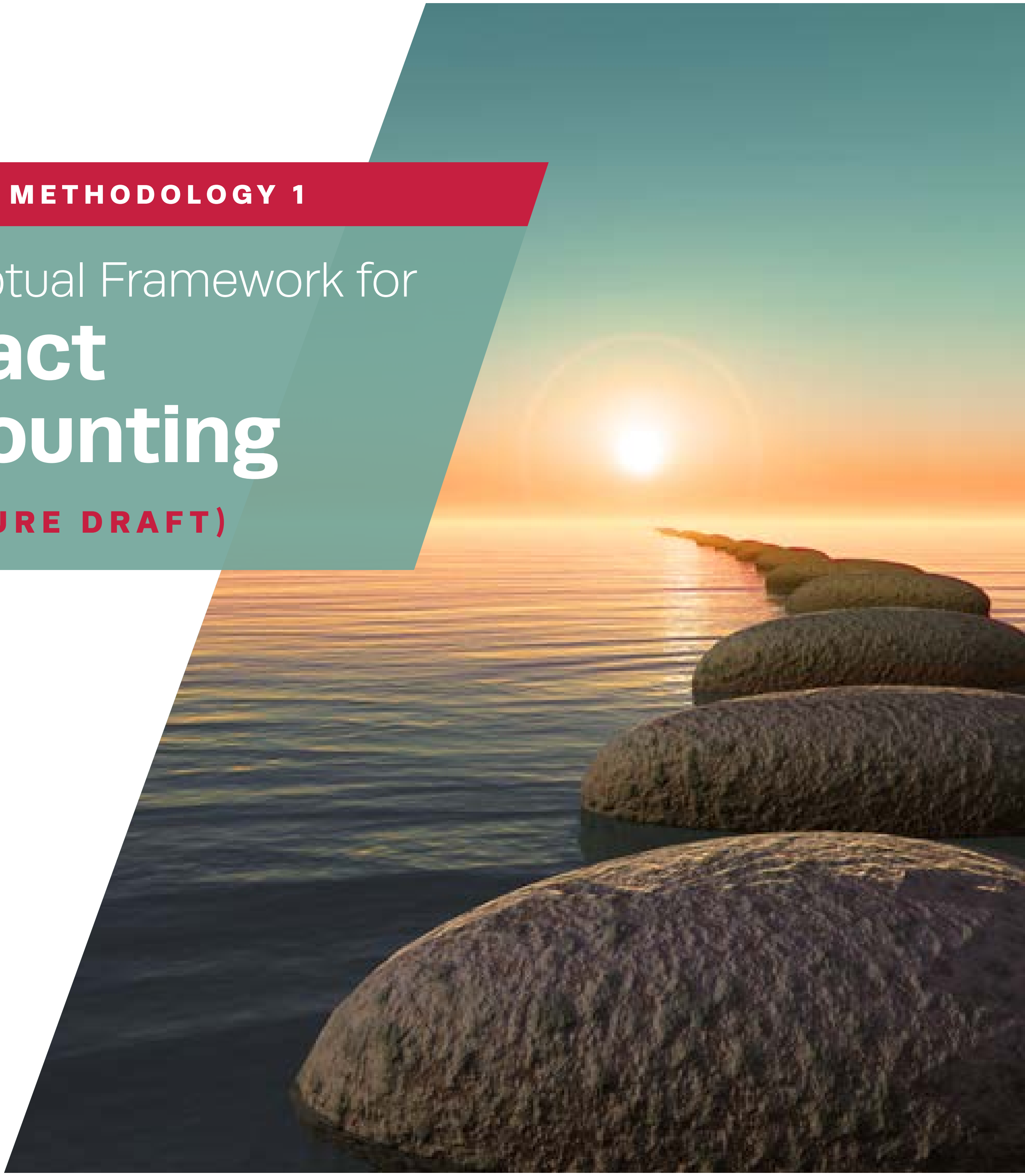
INTERNATIONAL FOUNDATION FOR VALUING IMPACTS

value balancing alliance

GENERAL METHODOLOGY 1

Conceptual Framework for **Impact Accounting**

(EXPOSURE DRAFT)



COMMENTS TO BE RECEIVED BY **OCTOBER 31, 2023**

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.

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.

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. 10.

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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 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.

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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 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.

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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 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 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.

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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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. 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.

5. See definitions for input, activities, output, and outcome stages of the impact pathway from Impact Management Platform (2023): Key terms and concepts.

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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 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]

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.
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?

Request for Public Comment

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 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.

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.

Request for Public Comment

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?

[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.

1. Introduction

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 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.

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.

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.

1. Introduction

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 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.

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 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.

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

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

2. Purpose and Applications of the Methodology

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.

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, 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.

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.

3. Qualitative Characteristics of Impact Information

3. Qualitative Characteristics of Impact Information

3.1 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.

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]

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.

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]

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."

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.

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.

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.

3. Qualitative Characteristics of Impact Information

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

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

4. Fundamental Concepts of Impact Accounting

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]

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. 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

49. 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]

50. 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]

51. 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.

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.
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.

4. Fundamental Concepts of Impact Accounting

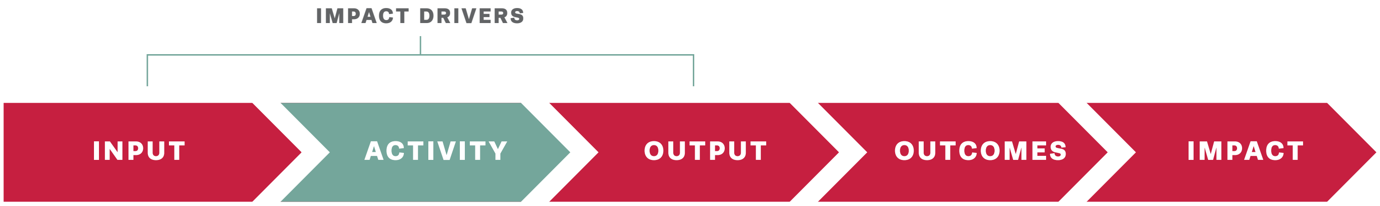

Figure 1: Impact pathway

52. 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.

53. *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.

54. 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

55. 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]

56. 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

57. 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.

29. Adapted from Impact Economy Foundation (2022): Conceptual Framework for Impact-Weighted Accounts.

4. Fundamental Concepts of Impact Accounting

58. 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]

59. 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 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.

60. 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

61. 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 within own operations 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.

62. 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.

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.

VALUE CHAIN	UPSTREAM	OWN OPERATIONS	DOWNSTREAM
DESCRIPTION	**Cradle-to-gate** Includes suppliers of products and services used in entity's own operations, including immediate suppliers and indirect suppliers further upstream.	**Gate-to-gate** Covers all activities over which the entity has direct control. Same scope as general purpose financial reporting.	**Gate-to-grave** Includes distribution and processing of sold products, use phase by consumers and end-users, and end-of-life treatment.

Figure 2: Value chain levels of an entity

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

4.8 STAKEHOLDERS[33]

64. *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.

65. 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

66. 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.

67. 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.

68. 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.

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 accounts. All impacts included in impact accounts should be assessed for the appropriate level of attribution to the entity.

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.

72. 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.

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

5. Impact Materiality and the Preparation of Impact Accounts

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 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.

74. 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.

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.

5.2 THE PREPARATION OF IMPACT ACCOUNTS[34]

76. 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.

77. 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.

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

5. Impact Materiality and the Preparation of Impact Accounts

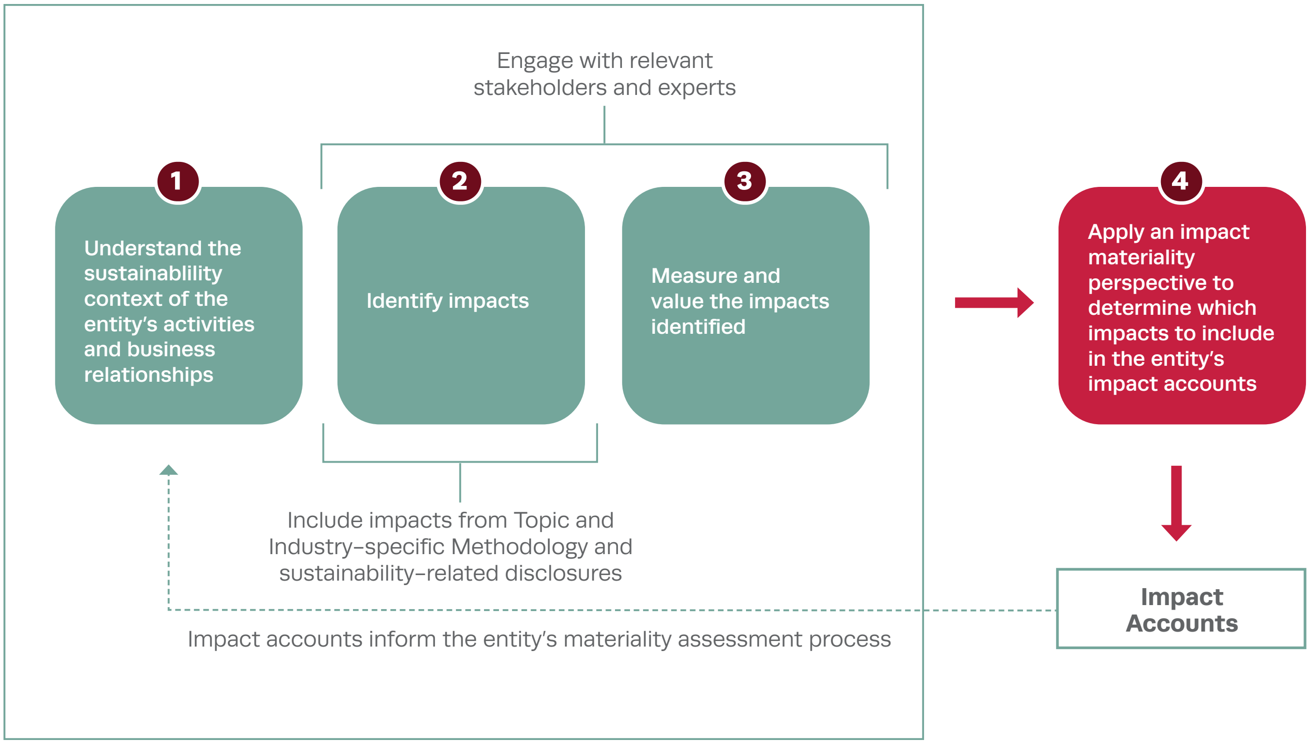

Figure 3. The preparation of impact accounts[35]

5.3 SUSTAINABILITY CONTEXT, IMPACT IDENTIFICATION, AND MEASUREMENT AND VALUATION

78. 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]

79. 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]

80. 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.

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.

5. Impact Materiality and the Preparation of Impact Accounts

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*).

82. 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:

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

83. 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.

84. 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]

5.5 ENTITY-SPECIFIC IMPACTS

85. 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.

86. 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]

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

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.

Appendix A: Glossary

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.	N/A
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 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.	N/A
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

41. Some definitions are adapted from the original source.

Appendix A: Glossary

TERM	DEFINITION	SOURCE[41]
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 'general issue categories' which are similar terms used by different standard setters.	Impact Management Platform
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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