General Methodology 1:
Conceptual Framework for Impact Accounting

Basis for Conclusions

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Note to readers:

In this document, references to paragraph numbers and sections refer to the final version of *General Methodology 1: Conceptual Framework for Impact Accounting* that was approved by the Valuation Technical and Practitioner Committee of IFVI on December 7, 2023. References to paragraph numbers and sections in the Exposure Draft of *General Methodology 1: Conceptual Framework for Impact Accounting* are explicitly stated.

Background

BC1. *General Methodology 1: Conceptual Framework for Impact Accounting* (GM1) was developed 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. The GM1 statement is the first in a series of interrelated statements that will comprise the Methodology.

BC2. The partnership between IFVI and VBA was formed in part as a response to the Impact Taskforce, which operates under the leadership of the G7 and in December 2021 published *Time to deliver: mobilising private capital at scale for people and planet*.[1] The report called for mandatory accounting for impact as a destination to harmonize global standards for impact accounting and to enable investment decisions across global capital markets to be informed by risk, return and impact.

BC3. In April 2022, the Impact-Weighted Accounts Initiative at Harvard Business School (IWAI) and VBA announced a collaboration to harmonize their impact accounting methodologies. At the time, IWAI and VBA had developed independent methodologies for measuring and valuing in monetary terms the impacts of corporate entities (entities or an entity). While the two methodologies had been developed with a similar objective, to develop impact accounting to complement and supplement general purpose financial reporting with decision-useful information related to sustainability topics, in certain applications they were not interoperable and in others they were redundant and required harmonization. A lack of interoperability stemmed in part from the methodologies emphasizing use cases from different perspectives, IWAI emphasizing the perspective of investors and VBA emphasizing the perspective of entities and managers.

BC4. In January 2023, IFVI, which is a spin-off organization of IWAI, and VBA entered into a formal partnership to develop a globally-applicable impact accounting methodology to be available as a public good. It was agreed to that the development of the Methodology would be governed by an independent committee, the Valuation Technical and Practitioner Committee (VTPC), that has since been established to direct, validate, and approve impact accounting research and methodology produced by the cooperation of IFVI and VBA.[2] The development of the GM1 statement commenced with the formation of the partnership.

BC5. As a starting point for GM1, the technical staffs of IFVI and VBA (the technical staff) set out to harmonize the generalizable aspects of the IWAI and VBA methodologies. The IWAI methodology is organized into three stakeholder impact pillars, employee, environment, and product, and a document describing generalizable aspects has not been developed. The VBA methodology includes a document describing its

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[1] Impact Taskforce. (2021). *Time to deliver: Mobilising private capital at scale for people and planet*.

[2] International Foundation for Valuing Impacts. (2023). *VTPC Terms of Reference.* https://ifvi.org/about-us/valuation-technical-practitioner-commitee/.

generalizable aspects titled *Impact Statement General Paper, Version 0.1*. It was concluded that while the legacy IWAI and VBA methodologies include advanced prototypes for topic-specific impact measurement and valuation, the field of sustainability-related reporting has benefited from significant developments in recent years, such as the adoption of the European Sustainability Reporting Standards by the European Commission and the publication of sustainability reporting standards by the IFRS. It was further concluded that in order to inform the future of impact accounting and to harmonize the Methodology with recent developments, it was necessary and valuable to develop an overarching conceptual framework and a complete general methodology for impact accounting.

BC6. The scope of the GM1 project was set as a conceptual framework that would include the purpose of the Methodology, describe some but not all generalizable aspects, and lay the foundation for a methodology that would fulfill the mandate of the IFVI and VBA partnership. The mandate of the partnership is to develop a common impact accounting methodology for the public good that allows entities and investors to translate social and environmental impacts into the language of currency and to produce impact information that is comparable to financial information.[3]

BC7. A literature review was conducted of key documents from three separate fields: financial accounting, impact management, and sustainability-related disclosures. These three fields form the foundation for impact accounting. The rationale for including each field in the literature review and how learnings from the literature review influenced GM1 are summarized below.

a. *Financial accounting*. As stated in paragraph [4] of GM1, "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 generated by financial accounting and contained in general purpose financial reporting."

   A key phrase in the long-term vision is "system of impact accounting," by which is meant a complete system with concepts, guidelines, and principles that provide for a common language to evaluate performance, ensure comparability across entities, and protect affected stakeholders.[4] While the Methodology is not today a standard, it is being developed to include all of the components of a standard.

   Financial accounting is a well-established standard for providing information to users to inform decision-making.[5] Therefore, while what is measured by financial accounting, specifically economic resources and claims, and by impact

[3] IFVI and VBA. (January 10, 2023). *Value Balancing Alliance and International Foundation for Valuing Impacts Announce Partnership*. https://ifvi.org/news/value-balancing-alliance-and-international-foundation-for-valuing-impacts-announce-partnership/.
[4] Adapted from National Institute of Standards and Technology, U.S. Department of Commerce. (2022). *Standards & Measurements*. https://www.nist.gov/services-resources/standards-and-measurements.
[5] See 'The objective of general purpose financial reporting' in paragraph 1.2 in IFRS. (2018). *Conceptual Framework for Financial Reporting*.

accounting, specifically changes in the well-being of affected stakeholders, varies, the structure of financial accounting provides a highly relevant foundation on which to base the structure of impact accounting. The relevance of financial accounting to impact accounting is enhanced by the significant overlap that exists between the preparers and users of financial accounting and the preparers and users of impact accounting.

The IFRS *Conceptual Framework for Financial Reporting (*IFRS *Conceptual Framework)* and the FASB *Statement of Financial Accounting Concepts No. 8 (*FASB *Concepts Statement No. 8)* were used to inform the scope and certain content of GM1. For example, just as the objective statement of general purpose financial reporting forms the foundation of the IFRS *Conceptual Framework*, the purpose statement in paragraph [17] of section '2 Purpose and applications of the Methodology' serves as the foundation for the content in GM1.[6] Further, the principles in section '3 Qualitative characteristics of impact information' are adapted from the IFRS *Conceptual Framework*.

b. *Impact management.* The Methodology is designed to generate impact information by measuring and valuing impacts. Organizations in the impact management ecosystem have developed frameworks and protocols in recent decades that provide extensive guidance on how to measure and value impacts. Frameworks and protocols in the impact management ecosystem served as the source for a majority of the concepts developed in section '4 Fundamental concepts of impact accounting.'

   Foundational concepts in impact management, including absolute impact, capitals, the definition of an impact, impact pathways, and perspectives on monetary valuation are adapted from existing frameworks and protocols, including those published by:

   i. Capitals Coalition;
   ii. Impact Management Platform;
   iii. Impact Economy Foundation's Impact-Weighted Accounts Framework;
   iv. Social Value International; and
   v. Transparent Project.

   To promote harmonization in the ecosystem, the first source for definitions specific to impact management is the Impact Management Platform. In several instances described in this document, definitions are adapted to better align with the purpose statement of the Methodology.

c. *Sustainability-related disclosures.* The literature review included standards for sustainability-related disclosures of governing jurisdictions and international

[6] See paragraph 1.1 in IFRS. (2018). *Conceptual Framework for Financial Reporting*.

standard setters, specifically documents that pertain to cross-cutting or generalizable topics. The following were reviewed:

i. ESRS 1 *General Requirements* of the European Sustainability Reporting Standards;

ii. GRI 1 *Foundation*, GRI 2 *General Disclosures*, and GRI 3 *Material Topics* of the Global Reporting Initiative; and

iii. IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* of the IFRS Foundation.

To be practically feasible and scalable, the Methodology builds on sustainability-related disclosures that are already required of entities. GM1 adapts and utilizes concepts from sustainability-disclosure standards throughout section '5 Impact materiality and the preparation of impact accounts.' Specifically, the scope of impact materiality in GM1 was developed using ESRS 1 *General Requirements* and the steps to prepare impact accounts and apply an impact materiality perspective were developed using GRI 3 *Material Topics*.

Additional linkages between specific disclosure requirements in sustainability-related disclosures, such as sustainability-related metrics, will be developed at length in Topic Methodology statements.

BC8. An overarching observation drawn from the literature review was that many of the frameworks and protocols in the impact management ecosystem are designed for a broad range of applications. For example, many of the frameworks and protocols reviewed provide guidance for valuing changes in human well-being using qualitative, quantitative, and monetary approaches, but they do not specify a preferred approach. Further, not all of the frameworks and protocols reviewed specify a primary use case, such as measuring impacts to inform steering decisions by corporate managers or to provide a comprehensive view of the positive and negative impacts generated by an entity to inform investment decisions based on risk, return, and impact.

BC9. The technical staff concluded that to develop a coherent and practical system for impact accounting that expands upon and complements existing work, the intended application of the Methodology would need to be well-defined. The intended application for the Methodology is partially developed in GM1; however, it will continue to be developed through future methodological statements. The following provide guidance on the intended application of the Methodology.

a. Paragraph [2] in section '1.1 Document purpose' states that valuation in the Methodology is always performed using a monetary approach, unless stated otherwise.

b. Specific use cases are described in section '2 Purpose and applications of the Methodology.' The use cases in paragraph [22] are potential high-level applications of the Methodology and are not meant to be exhaustive. It is intended that specific use cases will be developed over time through applied research and through market testing by preparers and users.

c. While not stated in GM1, the Methodology, similar to IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, is most suitable for profit-oriented entities.[7]

d. Section '4.4 Fair presentation' states that impact accounting should provide for a comprehensive assessment or stated otherwise an evaluation of the societal value created and/or eroded by an entity. Emphasizing a comprehensive assessment orients the use case of the Methodology towards informing investment decisions based on risk, return, and impact. Such investment decisions may be between entities or between business units within an entity.

e. Paragraph [60] in section '4.6 Reference scenario' states that "The default reference scenario in the Methodology assumes that the entity's activities, and any comparable substitutes, do not exist." This default scenario results in the measurement of absolute impact.[8]

   Measuring the absolute amount of each impact enables the Methodology to provide a complete picture of how an entity creates or erodes value for a stakeholder, or when all the impacts of an entity are analyzed together, how an entity creates or erodes value for society. The objective of taking this approach is to measure and fully understand all the dimensions of an impact.

   The default starting point in the Methodology is to measure absolute impact, but measuring absolute impact is distinct from determining the attribution of an impact to an entity. It is not intended that the entirety of an absolute impact should be attributed to an entity in all cases. Instead, a preparer should measure an impact on an absolute basis and then consider the portion of the impact that should be reflected in impact accounts using guidance in section '4.11 Attribution.'

BC10. Following the literature review, the technical staff, with guidance from the VTPC, prepared a draft of GM1 for public exposure. Following discussion regarding the purpose and structure of the statement at the VTPC meeting on April 25, 2023, an initial version of the statement was prepared as a Pre-exposure Draft. The Pre-exposure Draft was distributed to the VTPC and experts in the field of impact management for feedback. The technical staff made revisions for the feedback collected to prepare the Exposure Draft. The Exposure Draft was deliberated on during the July 20, 2023 VTPC meeting and approved by the VTPC for a public comment period by e-mail ballot on July 31, 2023. The public comment period commenced on August 16, 2023 and closed on

[7] See paragraph BC4 in IFRS. (2023). *IFRS S1 Basis for Conclusions.*

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

October 31, 2023, after being extended by 15 days in response to requests from organizations and individuals for additional time.

BC11. The Exposure Draft of GM1 contained proposals for public comment, meaning that the sections drafted had not received final approval by the VTPC and would be redeliberated following the public comment period. The Exposure Draft solicited targeted feedback on five proposals:

a. the preparers of impact accounts and users of impact information;

b. use of the conservatism principle in faithful representation;

c. the description and presentation of impact pathways;

d. impact materiality and the qualitative characteristic of impact information; and

e. feedback on additional proposals in the statement.[9]

BC12. A total of 26 comment letters were received, containing over 200 individual comments and representing a range of geographies and stakeholder groups. The largest number of responses came from non-profit organizations in the impact management ecosystem and fields related to measuring the environmental and social effects of organizations. The comment letters were generally supportive of the overall content and scope of the statement and indicated that most proposals were well received. A number of proposals were identified for further clarification. A very limited number of comment letters emphasized the ethical and practical challenges of developing an impact accounting methodology. All comments letters were reviewed in their entirety and taken into consideration for potential revisions to GM1, as well as further developments in the impact accounting system. This document does not provide a response to every comment submitted but instead emphasizes areas of convergence in the feedback and feedback provided in response to the targeted proposals mentioned in paragraph [BC11].

BC13. The basis for conclusions drawn by the VTPC is summarized below for each section of GM1. Conclusions were based on either the research of the technical staff, both that conducted prior to publishing the Exposure Draft and in response to the public comment period, the feedback received during the public comment period, and the objective of fulfilling the mandate of the IFVI and VBA partnership. The final version of the GM1 statement was approved unanimously by the VTPC on December 7, 2023 and was published on February 22, 2024.

[9] For the complete description of the proposals for which feedback was solicited, see IFVI and VBA. (2023). Exposure Draft of *General Methodology 1: Conceptual Framework for Impact Accounting*.

1 Introduction

1.1 Document purpose

BC14. The purpose of GM1 is twofold: to introduce through a conceptual framework the impact accounting system envisioned by the partnership between IFVI and VBA and to establish certain aspects of the General Methodology. The purpose was determined after the technical staff reviewed and attempted to reconcile the generalizable components, or the cross-cutting concepts, definitions, methods, and principles, of the IWAI and VBA methodologies, and approved by the VTPC as part of the work plan for 2023. The IWAI methodology is developed across three distinct pillars, employment, environment, and product.[10] Each pillar contains methods for measuring and valuing in monetary terms the impacts on stakeholders that are relevant for each pillar. The generalizable components of the IWAI methodology are not organized into a single document but are instead incorporated into the pillar level methodologies, either explicitly or implicitly through the impact pathway calculations. The generalizable components of the VBA methodologies are described in *Impact Statement General Paper, Version 0.1*. The VBA methodology is structured around the concept of triple bottom line, the triple referring to environmental, social, and economic aspects, and connects topic methodologies to capitals, specifically economic, social, human, and environmental capitals. All VBA methodologies include impact pathways which outline the calculation logic of each topic.

BC15. The GM1 statement is scoped as an original conceptual framework, as opposed to an adaptation of the conceptual and generalizable documents of IWAI and VBA. This approach avoided the need to fully harmonize the aspects of the IWAI and VBA methodologies that are not interoperable. An original approach also created the opportunity to present a long-term vision for impact accounting that unified the antecedent methodologies of IWAI and VBA. Moving forward, the methods and valuation techniques in the legacy IWAI and VBA methodologies will serve as critical foundations for Topic Methodologies.

BC16. Paragraph [2] states that "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." The decision to develop a methodology that exclusively uses monetary valuation was based on the mandate of the partnership between IFVI and VBA, specifically the part of the mandate to translate impacts into the language of currency for the purposes of generating sustainability-related information that is commensurable with financial information. This approach is consistent with that of the Impact Economy Foundation's *Conceptual Framework: Impact-Weighted Accounts Framework*, specifically the principle of commensurability, which recommends the use

[10] See Freiberg, D., Panella, K., Serafeim, G., & Zochowski, R. (2020). Accounting for Organizational Employment Impact. *Harvard Business School Working Paper No. 21-050*; Freiberg, D., Park, D. G., Serafeim, G., & Zochowski, R. (2021). Corporate Environmental Impact: Measurement, Data and Information. *Harvard Business School Working Paper No. 20-098*; and Serafeim, G., & Trinh, K. (2020). A Framework for Product Impact-Weighted Accounts. *Harvard Business School Working Paper No. 20-076*.

of a monetary unit.[11] The role of valuing impacts in monetary terms is acknowledged in the *Natural Capital Protocol* and the *Social & Human Capital Protocol* of the Capitals Coalition and in *Standard on Applying Principle 3: Value the Things That Matter* of Social Value International; however, monetary valuation is not the exclusive or default approach in either framework.[12, 13]

1.2 Long-term vision for impact accounting

BC17. The long-term vision for impact accounting in paragraph [4] was developed in accordance with the mandate of the partnership between IFVI and VBA. Several respondents to the request for public comment expressed support for the long-term vision and more broadly for the development of an impact accounting system that is globally applicable and comprehensive.

BC18. An objective of the partnership between IFVI and VBA is to promote decision-making by entities and investors based on risk, return, and impact. Adding impact to considerations of risk and return broadens the scope of decision-making for allocating capital beyond the traditional paradigm of modern portfolio theory, in which investors maximize returns for a given level of risk. In a paradigm in which entities and investors optimize return, risk, and impact, additional decision-useful information is needed to complement and supplement general purpose financial reporting. The Methodology is designed to build and scale the practice of impact accounting to provide such information.

BC19. Several paragraphs in this section, including paragraphs [5, 6, and 7] are summaries of concepts that are developed more completely in later sections. Paragraphs [5 and 6] summarize the approach described in section '2.2 Preparers of impact accounts and users of impact information' to delineate between preparers and users of the Methodology. Paragraph [7] summarizes the impact materiality approach in section '5. Impact materiality and the preparation of impact accounts' for determining which impacts to include in an entity's impact accounts. The basis for conclusions for those aspects are described below in the respective sections.

BC20. Feedback indicated support for recognizing the limitations of impact accounting in paragraph [9] and for the general approach taken throughout section 1.2 to acknowledge the limitations of impact accounting.

1.3 Architecture of the Methodology

BC21. The GM1 statement outlines at a summary level the base components of the architecture for the Methodology. The Methodology will be developed as system of interrelated statements, each of which will be classified as either General Methodology, Topic Methodology, or Industry-specific Methodology. The architecture is partially based on the architectures of the European Sustainability Reporting Standards, which

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[11] Impact Economy Foundation. (2022). *Conceptual Framework for Impact-Weighted Accounts*.

[12] Capitals Coalition. (2016). *Natural Capital Protocol* and Capitals Coalition. (2019). *Social & Human Capital Protocol*.

[13] Social Value International. (2019). *Standard on applying Principle 3: Value the Things That Matter*.

include Cross-cutting Standards, Topical Standards, and Sector Standards, and the Global Reporting Initiative, which includes Universal Standards, Topic Standards, and Sector Standards.[14]

BC22. The architecture for the Methodology is under development by the technical staff to provide a more complete picture of possible sustainability topics to include in the Methodology and how the statements will interrelate.

BC23. Respondents provided no comments on this section.

1.4 Objective of the General Methodology

BC24. The relationship of the General Methodology to the Topic and Industry-specific Methodologies is based on the relationship between generalizable aspects and topic aspects in the standards of the European Sustainability Reporting Standards and the Global Reporting Initiative.[15] This relationship is described in paragraph [14] by stating that the General Methodology "applies to all Topic and Industry-specific Methodologies." As explained in paragraph [16], the General Methodology is meant to inform but not override guidance in Topic and Industry-specific Methodologies. Preparers should refer to General Methodology statements to help them generate impact accounts based on consistent approaches, better understand the conceptual foundations of impact accounting, and measure and value impacts for which a standardized impact pathway is not available.

BC25. The objective of the General Methodology in paragraph [15] is based on the purpose of the IFRS *Conceptual Framework* and was adapted to fit the approach taken towards preparers and users in the Methodology.[16]

BC26. Respondents provided no comments on this section.

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[14] See section '1.1 Categories of ESRS Standards' in European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards* and '1.3 System of GRI standards' in Global Reporting Initiative. (2021). *GRI 1: Foundation 2021*.

[15] Ibid.

[16] See SP1.1 (a) through (c) in IFRS. (2018). *Conceptual Framework for Financial Reporting*.

2 Purpose and applications of the Methodology

2.1 Purpose statement

BC27. The objective of general purpose financial reporting as described in the IFRS *Conceptual Framework* served as the starting point for the purpose statement of the Methodology.[17] The objective statement in the IFRS *Conceptual Framework* states that the role of general purpose financial reporting is to "provide financial information about the reporting entity" and that such information should be "useful to existing and potential investors, lenders, and other creditors in making decisions relating to providing resources to the entity."

BC28. The purpose statement in section 2.1 follows a similar structure but adjusts the type of information that is to be produced by the Methodology and the users of that information. In the purpose statement, the role of the Methodology is to "produce impact accounts and generate impact information" and that information is meant to "enhance decision-making by entities and investors related to an entity's effects on sustainability." The purpose statement includes "produce impact accounts," whereas the IFRS *Conceptual Framework* only mentions providing financial information, as the role of the Methodology extends beyond reporting and includes serving as a tool for preparers to measure and value impacts. The purpose statement also establishes that both entities and investors are the users of the information being produced.

BC29. The purpose statement also establishes that the Methodology is designed to inform decisions related to "an entity's effects on sustainability," complementing financial information, which in the IFRS *Conceptual Framework* is meant to inform decisions related to "providing resources to the entity." This proposal was made in the Exposure Draft to align with language included in sustainability-related disclosures, which serve as a primary data input for impact accounts, have been adopted at scale by entities, and will continue to be adopted by regulatory bodies. The purpose statement is also aligned with similar purpose statements produced by organizations such as the Capitals Coalition and Social Value International.[18]

BC30. Paragraph [18] establishes what is meant by the term sustainability in the purpose statement. The description is adopted from the definition of sustainable development in *Our Common Future, Report of the World Commission on Environment and Development*, known as the Brundtland Report.[19] The paragraph is meant to clarify that sustainability refers to both impacts on the well-being of people as well as the condition of the natural environment. The description of sustainability is intentionally broad to reflect the wide range of sustainability topics that should be considered when

[17] See paragraph 1.2 in IFRS. (2018). *Conceptual Framework for Financial Reporting*.
[18] See section '0.1 What is the Natural Capital Protocol?' of Capitals Coalition. (2016). *Natural Capital Protocol* and see page 4 of Social Value International. (2022). *The Purpose of the Principles of Social Value and the SVI Standards*.
[19] Brundtland, G. H. (1987). *Our Common Future: World Commission on Environment and Development*. United Nations.

identifying impacts. This definition was selected to achieve alignment with the Impact Management Platform and the purpose statement of the GRI Standards.[20]

BC31. Respondents provided limited feedback on the purpose statement. In the Exposure Draft, the purpose statement described that the Methodology was being designed to inform decisions related to "sustainability performance" as opposed to "an entity's effects on sustainability." Sustainability performance was defined as the effectiveness of an entity in reducing negative impacts and increasing positive impacts. Respondents highlighted concern over how impacts will be presented when reported to an external audience by entities. The concern related to whether positive and negative impacts may be netted against each other, potentially disguising significant negative impacts. An additional concern related to how sustainability performance defined in the Methodology relates to sustainability performance as measured by standards developed by the International Sustainability Standards Board (ISSB). In response to the feedback, it was decided to remove the concept of sustainability performance. The presentation of impact information and how sustainability performance relates to financial performance is a topic planned for future methodological statements.

2.2 Preparers of impact accounts and users of impact information

BC32. The preparers of impact accounts and users of impact information were both featured for targeted feedback during the public comment period of the Exposure Draft. In the following paragraphs, the proposals made in the Exposure Draft are explained, the feedback received during the public comment period is summarized, and the conclusions drawn in the final version of the GM1 statement are stated.

BC33. As the Methodology develops, it may be useful to refer to specific use cases of preparers of impact accounts and users of impact information. For instance, guidance that pertains to the measurement and valuation of impacts may be most relevant for preparers, whereas guidance on how to analyze impact information alongside financial information may be most relevant for users. Accordingly, the technical staff proposed a clear delineation between preparers and users in the Exposure Draft.

BC34. Further, drawing a distinction between preparers and users allows IFVI and VBA to identify key stakeholders in the sustainability-related disclosure landscape, articulate a vision for how the reporting landscape may evolve, and develop an impact measurement and reporting methodology that is tailored to that anticipated future state. The institutional infrastructure for impact reporting is in the early stages of development and the roles of different stakeholders within that infrastructure in the future are uncertain. A future may exist in which entities, whether publicly traded or privately held, prepare audited impact statements and disclose those statements to their investors. Alternatively, a future state may exist in which investors use sustainability-related financial disclosures to prepare impact accounts from an external

[20] See the definition of 'sustainable' in *Key terms and concepts*. (2023). Impact Management Platform. See section '1.1 Purpose of the GRI Standards' in Global Reporting Initiative. (2021). *GRI 1. Foundation 2021*.

perspective to inform investing decisions. The Exposure Draft requested feedback on the proposal to distinguish between preparers and users to facilitate a conversation around how the reporting landscape may evolve.

BC35. The Exposure Draft also proposed that the Methodology be flexible enough to be used by two different types of preparers: entities themselves and investors from an external perspective. In contrast to general purpose financial reporting, which has a clear preparer of financial information in the entity, the preparers in impact accounting are not as clearly established. By applying to two different types of preparers, the Methodology maintains flexibility to remain useful across a range of potential future states and allows for wider adoption and experimentation in the interim. Lastly, the Exposure Draft proposed that the primary users of impact information include managers of an entity, existing or potential investors, and affected stakeholders of an entity's impacts.

BC36. A majority of the respondents were supportive of the proposals. Several respondents remarked on the fact that impact accounting is in the early stages of development and it is critical to categorize preparers and users separately to identify their roles and information needs. Several respondents also expressed support for maintaining flexibility in the Methodology by allowing for two types of preparers. Several respondents also expressed that while it is useful to maintain flexibility in the near term, over time entities should be the primary preparers of impact accounts. The reasons provided included comparability of impact information, proximity to data, and that entities are often most accountable for impacts. Relatedly, a number of respondents suggested that investors should only be mentioned as preparers at the beginning of the statement, as opposed to repeatedly throughout the statement, to establish that entities are more likely to be primary preparers in the future.

BC37. The final version of the GM1 statement retains the distinction between preparers and users, and establishes that the Methodology is being designed to be applied by both entities and investors as preparers. In response to the feedback, the fact that entities and investors may be preparers is stated in paragraph [20] and otherwise throughout the statement preparers are referred to collectively. Furthermore, it should be acknowledged that while entities and investors may be considered the preparers of impact accounts as articulated in GM1, there are many other types of organizations who provide necessary support and infrastructure for this preparation, including consultants, technology companies, data providers, and others.

3 Qualitative characteristics of impact information

3.1 Applying the qualitative characteristics of impact information

BC38. The principles that are used in the Methodology, referred to as the qualitative characteristics of impact information, are adapted from the qualitative characteristics of the ESRS, FASB, and IFRS, including the IFRS *Conceptual Framework* and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.[21] The qualitative characteristics in ESRS, FASB, and IFRS contain the same principles, except for the qualitative characteristic of timeliness, which is not included in ESRS and was not included in GM1. As is in the aforementioned standards, the characteristics in the Methodology are categorized into fundamental qualitative characteristics and enhancing qualitative characteristics. Minor edits were made to adapt the characteristics to the application of impact accounting.

BC39. The decision to adopt the qualitative characteristics of general purpose financial reporting and sustainability-related disclosure standards was made for the sake of harmonization, in particular harmonization with the sustainability-related disclosure standards, and because the qualitative characteristics themselves are well established. The technical staff reviewed principles used in impact management frameworks and protocols, including the technical principles of the Capitals Coalition, the general characteristics in the Impact-Weighted Accounts Framework of the Impact Economy Foundation, and The Principles of Social Value International. While the principles in those frameworks and protocols are not the same as those in ESRS, FASB, and IFRS, the underlying concepts are closely aligned and the technical staff decided to not include any supplemental principles above and beyond those in ESRS, FASB, and IFRS.

BC40. Respondents had no comments related to the adoption of the qualitative characteristics from standard setters. Several respondents provided feedback specific to the qualitative characteristics of relevance and faithful representation. That feedback is summarized in the respective sections below.

BC41. A comment letter requested clarification on how to apply the qualitative characteristic of timeliness. ESRS excludes the timeliness characteristic "as reporting dates and timing are governed by EU legislation (Directive 2013/34/EU) and are in accordance with the publication requirements for the management report as required by EU respective national legislations."[22] The qualitative characteristic of timeliness was not included as the Methodology at this stage of development is not a reporting standard and the parameters that determine the timeliness of impact information requires further development. The decision to exclude timeliness was also made to align with ESRS. Related to timeliness, paragraph [24] indicates that the qualitative characteristics

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[21] See European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards*; FASB. (2018). *Statement of Financial Accounting Concepts No. 8;* IFRS. (2023). *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information;* and IFRS. (2018). *Conceptual Framework for Financial Reporting*.

[22] EFRAG. (2023). *ESRS 1 General Requirements, Basis for Conclusions*.

should apply when impact accounts are prepared and at the time when impact information is disclosed.

3.2 Relevance

BC42. The qualitative characteristic of relevance and impact materiality were both featured for targeted feedback during the public comment period of the Exposure Draft. In the following paragraphs, the proposals made in the Exposure Draft are explained, the feedback received during the public comment period is summarized, and the conclusions drawn in the final version of the GM1 statement are stated.

BC43. Resource constraints and data availability are two of several reasons that may make it infeasible or impractical to measure and value all of the impacts of an entity. To prepare impact accounts, a preparer must decide which impacts to include in impact accounts. Further, when impact information is derived from impact accounts and used to inform decision-making, the preparer must decide the types of impact information to consider.

BC44. The Methodology addresses this need through the concept of impact materiality. Impact materiality is defined as an entity-specific aspect of the qualitative characteristic of relevance. The application of an impact materiality perspective is used by a preparer to determine the impacts and types of impact information that are relevant to users. By describing impact materiality as entity-specific, the Methodology intends that preparers should assess which impacts are relevant to the activities of the entity and ensure that impact accounts are comprehensive, in that they contain all relevant impacts. As the burden for assessing relevance is entity-specific, the Methodology does not include mandatory impacts or a uniform threshold for impact materiality. Practically, this means that preparers should use the guidance in section '3.2 Relevance' to determine whether an impact or piece of impact information is relevant enough to be included in impact accounts or any presentation of impact information, respectively.

BC45. The Exposure Draft defined three perspectives that should be considered when assessing the relevance of an impact or impact information. The Exposure Draft proposed that preparers consider 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.

The Exposure Draft provided a detailed explanation of what is meant by the third perspective, the significance of an impact; however, the Exposure Draft did not elaborate on the first and second perspectives.

BC46. In reviewing feedback, several respondents expressed a need to clarify whether only one or all three of the perspectives must be met for impact information to be relevant. Although not explicitly stated in the Exposure Draft, it was the intention of the technical staff that only one of the three perspectives must be met to achieve relevance. Respondents also requested further development and guidance related to the first two perspectives. Several respondents suggested that guidance for assessing relevance should be more prescriptive. Respondents also provided feedback that the perspectives could be combined into two perspectives; however, the manner in which the perspectives should be combined was inconsistent across the feedback.

BC47. In response to feedback, the GM1 statement includes paragraph [27], which elucidates that only one of the three perspectives needs to apply for an impact or impact information to be relevant.

BC48. A significant addition made was to develop the decision-usefulness perspective in paragraph [26 (a)] and the transparency perspective in paragraph [26 (b)] of the Exposure Draft. To clarify the decision-usefulness perspective, the concepts of predictive and confirmatory value were adopted from ESRS 1 and the degree of influence of an entity over the factors that contribute to the underlying impact were indicated as something that a preparer should consider when assessing relevance.[23] To clarify the transparency perspective, language was added to describe that impact information is more relevant if an expectation for transparency and accountability to affected stakeholders exists. Further, it is clarified that expectations for transparency are determined through stakeholder engagement and set out in authoritative intergovernmental instruments.[24]

BC49. Lastly, the three perspectives were reordered in GM1. A decision was made to not combine the perspectives as no clear consensus on how to do so was prescribed by the feedback and the VTPC determined that the three perspectives constitute discrete approaches for assessing relevance. The final three perspective are:

a. the significance of the impact on affected stakeholders;

b. the capacity of the impact information to influence the decisions of users; and

c. the need for transparency and accountability towards affected stakeholders.

3.3 Faithful representation

BC50. As stated in paragraph [BC39], the qualitative characteristic of faithful representation is adopted from ESRS, FASB, and IFRS. Respondents provided no significant feedback on the qualitative characteristic of faithful representation, except for feedback related to the principle of conservatism, which is summarized in the following paragraphs.

BC51. The inclusion of a principle of conservatism as part of the qualitative characteristic of faithful representation was featured for targeted feedback during the public comment period of the Exposure Draft. In the following paragraphs, the proposals made in the Exposure Draft are explained, the feedback received during the public comment period

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[23] Adapted from European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards* and IFRS. (2018). *Conceptual Framework for Financial Reporting*.

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

is summarized, and the conclusions drawn in the final version of the GM1 statement are stated.

BC52. At its current stage of development, impact accounting lacks the equivalent level of assurance and audit, regulatory authority, and widespread adoption as general-purpose financial reporting. To minimize the risk of impact washing and to enhance the reliability of impact information, a principle of conservatism was included as a proposal in the Exposure Draft as part of the qualitative characteristic of faithful representation. The proposal was in contrast to the qualitative characteristics of the ESRS, FASB, and IFRS, which do not include the principle of conservatism. The FASB recently removed the conservatism principle from its qualitative characteristics as it was in conflict with the neutrality component of faithful representation.[25] The VTPC believed that in light of the risk of impact washing, the likelihood and frequency of assurance being conducted on impact accounts in the near term, the likelihood of relying on estimated data combined with the goal of producing decision-useful information, and the importance of establishing impact accounts as a credible discipline, a conservative approach in cases of uncertainty may generate impact information that is more relevant and faithfully represented. The proposal in the Exposure Draft stated, "In cases of uncertainty, preparers of impact accounts should default to avoiding the overstatement of positive impacts and the understatement of negative impacts."

BC53. In reviewing feedback, a large majority of the respondents supported the inclusion of the conservatism principle as it was proposed in the Exposure Draft. A few respondents suggested that the principle of conservatism should be removed on the grounds that the principle of faithful representation is well established in general purpose financial reporting and is sufficient to prevent impact washing. In response to the feedback, GM1 retains the approach taken in the Exposure Draft.

3.4 Comparability

BC54. As stated in paragraph [BC39], the qualitative characteristic of comparability is adopted from ESRS, FASB, and IFRS. Respondents provided no significant feedback on the qualitative characteristic of comparability.

3.5 Verifiability

BC55. As stated in paragraph [BC39], the qualitative characteristic of verifiability is adopted from ESRS, FASB, and IFRS. Respondents provided no significant feedback on the qualitative characteristic of verifiability.

3.6 Understandability

BC56. As stated in paragraph [BC39], the qualitative characteristic of understandability is adopted from ESRS, FASB, and IFRS. A respondent provided feedback that paragraph D30 from IFRS S1 should be included at the end of this section.[26] The addition was

[25] FASB. (2018). *Statement of Financial Accounting Concepts No. 8*.
[26] Adapted from IFRS. (2023). *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*.

made with minor edits in the final version of the statement. Respondents provided no additional significant feedback on the qualitative characteristic of understandability.

3.7 Use of the enhancing qualitative characteristics of impact information

BC57. This section was adopted from the IFRS Conceptual Framework with minor edits to achieve the objective of the General Methodology and the purpose of impact accounting.[27] Respondents provided no feedback on this section.

[27] See section 2.37 and 2.38 in IFRS. (2018). *Conceptual Framework for Financial Reporting*.

4 Fundamental concepts of impact accounting

4.1 Impact as the basis for impact accounting

BC58. Whereas the first three sections of GM1 present the vision for the Methodology, establish its intended preparers and users, and set out its principles, section 4 introduces conceptual ideas that relate to the mechanics of measuring and valuing impacts. Organizations in the impact management ecosystem have developed frameworks and protocols in recent decades that provide extensive guidance on how to measure and value impacts (see paragraph [BC7]). To promote harmonization, the first source for definitions specific to impact management is the Impact Management Platform. The concepts in this section lay the groundwork for the measurement and valuation methods that will be developed in Topic and Industry-specific Methodologies.

4.2 The definition of impact

BC59. The proposed definition of impact in the Exposure Draft was an amalgamation of definitions from the impact management ecosystem in order to meet the specific needs of valuation. A review of definitions can be found in the resources published by the Impact Management Platform.[28]

BC60. The definition incorporates the idea that impacts affect human well-being. While the unit of measurement in impact accounting is monetary, the base unit of impact accounting is the well-being of people. Monetary valuation is used to translate effects on the well-being of people into a commensurable unit. This approach to the definition varies from that of the Impact Management Platform, which defines impact as "the effect(s) of organizations' actions on people and the natural environment."[29] Well-being was incorporated directly in the proposed definition in the Exposure Draft to clearly establish that impact accounting is a system for measuring effects on human well-being as opposed to a system of qualitative information, metrics, and targets. Consistent with the Impact Management Platform definition, the definition indicates that impacts include effects on both people and the natural environment.

BC61. A small number of respondents indicated that the definition of impact is overly anthropocentric and may not account for remote impacts on the natural environment or impacts to non-human species. It is the intention of the VTPC that the Methodology captures impacts to the natural environment and biodiversity that are remote in time and space as long as those impacts are material to the entity, using the concept of impact materiality as developed in the Methodology. The framing of the Methodology as anthropocentric is intended to explicitly acknowledge that monetary valuation based on rigorous scientific research inherently involves an anthropocentric perspective. Such an approach is not intended to imply the non-existence of intrinsic and non-human value, but rather the limitation in measuring it. As stated in paragraph [50], impacts beyond an anthropocentric perspective will be considered to the extent possible and

[28] See *Key terms and concepts*. (2023). Impact Management Platform.
[29] Ibid.

over time as a potential area for methodological development. A respondent noted that the definition of human well-being should be more explicitly stated and encouraged that the definition be linked to the OECD's well-being framework. The concept of human well-being in GM1 was not redeliberated in response to the feedback as the topic is currently under development for future components of the methodology.

4.3 Comparisons between financial and sustainability topics

BC62. To paraphrase paragraph [10], there are many ways to conceptualize and implement impact measurement and valuation, and additional approaches complement the impact accounting system being developed in the Methodology. One of the ways to conceptualize impact management is from the perspective of capitals. This section is meant to introduce the idea of capitals in the Methodology. This section does not include any requirements for preparers or users in this section.

BC63. A respondent expressed concern that the definition of capitals should not be entity-specific as capitals are distinct from any entity and are universal. The proposed definition of capitals in the Exposure Draft was taken from the Impact Management Platform.[30] For the sake of harmonization, the definition was not changed.

4.4 Fair presentation

BC64. A number of respondents raised questions over the relationship between sections '4.6 Reference scenario' and '4.11 Attribution.' Respondents requested clarity on the scope and measurement boundaries for an impact and if those parameters are the same for upstream, own operations, and downstream impacts. In response to the comments, the sections were redeliberated as described below. In summary, the default reference scenario results in the measurement of absolute impacts and the prescribed attribution method allocates the portion of an impact that is linked to the entity in a way that best reflects the underlying causal relationship.

BC65. The decisions made pertaining to the default reference scenario and attribution stem from the objective the IFVI and VBA partnership to produce a methodology that measures an entity's true contribution to society. An additional objective of the Methodology is to provide impact information that enables investment decisions based on risk, return, and impact. The default reference scenario and attribution method serve those objectives by starting with a broad scope for impact measurement, specifically absolute impact, which in turn allows for analysis that can attribute the appropriate portion of that impact to the entity. Measuring marginal impact only from the outset may result in overly narrow boundaries for impact measurement and possibly inconsistencies given the ambiguous nature and data availability of establishing counterfactuals, running the risk of either not capturing all material impacts or all dimensions of a material impact, thus limiting overall usefulness.

BC66. Section '4.4 Fair presentation' was added to bolster the objective of providing impact information the enables investment decisions based on risk, return, and impact. For an

[30] Adapted from *Key terms and concepts*. (2023). Impact Management Platform.

investor to measure the risk, return, and impact of an entity in combination, impact information must provide a comprehensive assessment of all the impacts generated by that entity. Otherwise, an investor would measure the return and the corresponding risk of an investment in the entirety of an entity, but the impact information would relate to only certain components of the entity. Section 4.4 in the final version of GM1 adopts the concept of fair presentation from financial accounting to ensure that impact accounts provide for a comprehensive assessment of the societal value created and/or eroded by an entity.[31] Fair presentation is not intended to imply that impact information cannot or should not be analyzed or presented on a disaggregated basis, for example by single sustainability topic, in order to inform certain decisions.

BC67. The concept of fair presentation complements the application of impact materiality. Impact materiality requires that preparers include all impacts in impact accounts that are relevant, whereas fair presentation requires that when considered altogether those impacts provide for a comprehensive assessment. Fair presentation may over time require preparers to include impacts in impact accounts for which a standardized impact pathway has not been published as part of the Methodology. See section 5.5 of GM1 for further explanation on how a preparer should account for impacts for which no standardized methodology exists.

4.5 Impact pathway

BC68. The impact pathway was featured for targeted feedback during the public comment period of the Exposure Draft. In the following paragraphs, the proposals made in the Exposure Draft are explained, the feedback received during the public comment period is summarized, and the conclusions drawn in the final version of the GM1 statement are stated.

BC69. Impact pathways are foundational for measuring the impacts of corporate entities. The stages of an impact pathway and how those stages are defined vary across frameworks, guidance, and protocols in the impact management ecosystem. The proposal in the Exposure Draft was to use the definitions, except for the definition of impact as described above, and the impact pathway logic of the Impact Management Platform.[32]

BC70. The majority of the comments received did not express concern with the presentation of the impact pathway. Several respondents suggested including conceptual elements such as circularity effects, conditional relationships, feedback loops, and spill-over or ripple effects to the impact pathway. In response to feedback, no changes were made to the presentation of the impact pathway. No additional conceptual elements were added as the majority of the feedback stated the presentation was clear and sufficient.

[31] Adopted from IFRS. (2023). *IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*.

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

4.6 Reference scenario

BC71. In the Exposure Draft, it was proposed that the reference scenario throughout the Methodology would assume that the entity's activities, and any comparable substitutes, do not exist. Implicit in the proposal was that the Methodology would include a default reference scenario and that preparers would not be given the flexibility to determine whether impacts should be measured on a marginal or absolute basis.

BC72. The decision to propose an absolute impact approach in the Exposure Draft was made to promote comparability between entities, both within the same industry and across different industries. The decision was made in part because the reference scenario for measuring absolute impact is nearly always the same, it assumes that the entity's activities do not exist; however, the reference scenario for measuring marginal impact is more open ended and subject to the particularities of each impact and the perspective of the preparer, introducing comparability concerns. The decision was also made to ensure that all material impacts and all dimensions of a material impact are accounted for in the Methodology.

BC73. No respondents suggested that the decision to take an absolute approach should be redeliberated. A respondent provided feedback requesting clarification as to how the reference scenario relates to the definitions of outcome and impact. The final version of GM1 includes an addition in paragraph [60] which clarifies that the change in people's well-being in the definition of an impact refers to the change between the outcome and the default reference scenario. To further establish that all impacts should be measured on an absolute basis, the final version of the GM1 statement uses the term default to describe the reference scenario. Lastly, the final version of GM1 also explicitly uses the term absolute impact to describe the types of impacts that the Methodology measures.

4.7 The perspective of monetary valuation

BC74. The Exposure Draft proposed that all impacts in the Methodology be valued from the perspective of affected stakeholders. The decision stemmed from the mandate of the IFVI and VBA partnership to develop a methodology that reveals an entity's contribution to society. This framing naturally lends itself to quantifying impacts within the Methodology from a value-to-society perspective as opposed to a value-to-business perspective. The Methodology correspondingly does not at this point in time set out to measure and value the dependencies of an entity on society. Research and analysis based on the Methodology may be conducted to establish links between the two perspectives and allow for the quantification of impacts from a value-to-business perspective.

BC75. The only feedback provided on this section was to consider replacing the term affected stakeholder with affected stakeholders to acknowledge that affected stakeholders cannot always be easily categorized as a single, coherent group. This change was made throughout the final version of the GM1 statement.

4.8 Value chain

BC76. The Exposure Draft proposed that impact accounts encompass impacts linked to an entity's own operations along with those throughout its downstream and upstream value chain. The definition of value chain was adopted from ESRS 1 *General Requirements*.[33] This approach was taken to provide comprehensive information on the impacts that an entity is responsible for across the entire value chain and to align with established frameworks and standards. Respondents provided no feedback on this section of the Exposure Draft and no edits were made.

4.9 Stakeholders

BC77. The Exposure Draft proposed common categories of stakeholders adopted from ESRS 1 *General Requirements*.[34] The proposal was made to harmonize and maintain consistency in the terminology used to describe stakeholder categories. The categorizations used in the Methodology may evolve over time as the Methodology develops. Respondents provided no significant feedback on the use of stakeholders or the categories presented in the Exposure Draft and no edits were made.

4.10 Time periods and accrual impact accounting

BC78. As stated in paragraph [73], impacts triggered by an entity's activities do not necessarily materialize in the same period. The impacts may materialize in the future or in the same period, or the impacts may have already materialized from activities of an upstream supplier that are connected to the entity through a business relationship. The Exposure Draft proposed that impacts should be recognized in the period in which the related activities of the entity for which impact accounts are being prepared occur. The proposal represented a conceptual linkage to accrual accounting, which depicts the effects of transactions on an entity in the periods in which those effects occur, even if the resulting receipts and payments occur in a different period.[35]

BC79. In preparing the Exposure Draft, the technical staff deliberated on whether to recognize impacts when they materialize or when the activities that they are linked to occur. The proposal in the Exposure Draft was to recognize impacts when the related activities occur. The decision was made to ensure comparability between financial accounting and impact accounting. If impact accounting recognized impacts when they materialize, the activities reflected in impact accounts would not necessarily be the same as the activities reflected in financial statements. For example, consider a situation in which an entity purchases a factor of production that was manufactured in the present period, but the entity does not plan to use that factor to manufacture and sell goods until the next period. If the impacts linked to that factor were recognized in the year of purchase and the revenue and costs of the goods created from that factor were recognized in the

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[33] See European Commission. (2023). *Annex II Acronyms and Glossary of Terms, European Sustainability Reporting Standards*.

[34] See section 3.1 in European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards*.

[35] See section 1.17 in IFRS. (2018). *Conceptual Framework for Financial Reporting*.

next period, the impact accounts and financial statements would not reflect the same underlying phenomena. The decision was further made to avoid scenarios in which an entity would have to estimate the impacts of factors of production that it had not yet purchased.

BC80. A respondent requested clarification on how an impact may materialize in a period that is prior to the period in which the activities of the entity occur. The final version of GM1 includes an example in paragraph [73] describing a potential scenario and as a result no changes were made in response to the feedback. No additional feedback was provided on this section.

4.11 Attribution

BC81. The Exposure Draft proposed that an entity can be wholly or partially responsible for an impact and that all impacts should be assessed for the appropriate level of attribution to the entity. The Exposure Draft also acknowledged the potential for double counting of impacts if aggregating between two or more entities. This decision was made to allow for complete information on value chain responsibility at the entity level. The Exposure Draft further proposed that the appropriate level of attribution should be based on the responsibility of the entity for the impact, without providing additional guidance except for the fact that responsibility is linked to the control an entity has over activities that cause an impact.

BC82. In reviewing feedback, respondents expressed the following:

a. the proposal to account for complete information on value chain responsibility was well received even if it leads to double accounting of impact across entities in a value chain;

b. additional guidance discerning when an entity is wholly or partially responsible for an impact was needed; and

c. additional guidance on how to reconcile instances of double counting would help to clarify the approach.

BC83. In response, the technical staff conducted research on attribution methods in the impact management ecosystem, GHG Protocol, and lifecycle assessment literature. A brief summary is included herein. One approach, used by the Impact-Weighted Accounts Framework, is to categorize impacts into pre-defined categories of responsibility and, depending on the category, attribute impacts based on the added value contribution of each entity in a value chain.[36] Another approach, used by Social Value International, involves taking a stakeholder-focused approach to attribution.[37] A

[36] See section 'B.2: Suggested formula to determine impact contribution' from Impact Economy Foundation. (2022). *Impact-Weighted Accounts Framework*.

[37] Social Value International. (2012). *A Guide to Social Return on Investment*.

third approach, used by the Capitals Coalition protocols, is predicated on using a counterfactual scenario to assess attribution.[38]

BC84. The GHG Protocol uses an allocation approach to attribute GHG emissions to an entity. Allocation in the GHG Protocol is based on a physical or economic relationship to partition input and output flows.[39] It was concluded that this allocation approach was the best suited method as it incorporates economic and physical relationships, provides for flexibility as the Methodology develops, and provides the clearest description of how to conceptualize the responsibility of an entity for an impact, and aligns with other core components of the methodology. Specifically, the GHG Protocol states that an allocation approach should be selected that "best reflects the causal relationship between the production of the outputs and the resulting emissions."[40] The language has been adapted in paragraph [75] to "that best reflects the causal relationship between the inputs and outputs and the impact." Approaches to allocation in the lifecycle assessment literature is similar to the approach in the GHG Protocol.[41]

BC85. The final version of GM1 also acknowledges that double counting of impacts may occur across the value chain in paragraph [78] and in response to feedback provides examples of when double counting may occur in paragraph [79].

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[38] Capitals Coalition. (2019). *Social & Human Capital Protocol* and Capitals Coalition. (2016). *Natural Capital Protocol*.

[39] See Greenhouse Gas Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, *Supplement to the GHG Protocol Corporate Accounting.*

[40] See section 8.3 Allocation methods of Greenhouse Gas Protocol. (2011). *Corporate Value Chain (Scope 3) Accounting and Reporting Standard, Supplement to the GHG Protocol Corporate Accounting and Reporting Standard.*

[41] ISO. (2014). *ISO 14044:2006 Environmental management—Life cycle assessment*.

5 Impact materiality and the preparation of impact accounts

5.1 Impact materiality as the basis for impact accounts

BC86. The Exposure Draft proposed that the Methodology utilize an impact materiality perspective as opposed to a financial materiality or dynamic materiality perspective. This decision was related to several other decisions reflected in the Methodology, such as to only consider the perspective of affected stakeholders when valuing impacts in section '4.7 The perspective of monetary valuation.' The GM1 statement does not elaborate on the dichotomy between financial materiality and impact materiality. It is the intention of the VTPC that impact information may in many applications be decision-useful for users of general purpose financial reports. Further, as described in paragraph [82], it is the intention of the VTPC to establish that impact measurement and valuation may be useful in helping to assess the relevance of an impact.

BC87. The practical application of impact materiality is developed in paragraph [81] when it is stated that impact materiality is an entity-specific aspect of the qualitative characteristic of relevance. Preparers apply impact materiality by assessing the relevance of either an impact or impact information using the three perspectives in paragraphs [26 (a) to 26 (c)].

BC88. Several respondents said that while they understand the practical value of defining impact materiality as an entity-specific aspect of relevance, there is value in requiring mandatory disclosures or developing lists of impacts at the industry level that are likely to be material. A decision was made to not include mandatory impacts as the majority of respondents supported an entity-specific application of impact materiality and the Methodology safeguards against an incomplete presentation of impact information through the concept of fair presentation, the definition of the qualitative characteristic of relevance, and paragraph [90] in section '5.5 Impacts for which a standardized impact pathway is not available.' Further, Topic and Industry-specific Methodologies are designed to provide guidance on impacts that are likely to be material for a wide range of entities.

BC89. Respondents also provided feedback that paragraphs 83 to 84 in the Exposure Draft should be consolidated into section 5.1 to reduce redundancies and to enhance the clarity of the section. Paragraph 83 in the Exposure Draft provided guidance on how to apply impact materiality. Paragraph 84 in the Exposure Draft set out the scope of impact materiality using the description developed in ESRS 1 *General Requirements*.[42] In response to the feedback, all guidance related to the application of impact materiality is contained in section 5.1 and the scope of impact materiality is set out in section 5.2, in its own dedicated section. Note that additional feedback related to impact materiality is summarized in section '3.2 Relevance' of this document.

[42] See section 3.4 in European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards*.

5.2 The scope of impact materiality

BC90. This section contains a single paragraph that outlines the scope of impact accounting, and more specifically the scope of what types of impacts may be considered material. The scope is described across several dimensions, including actual and potential, positive and negative, intended and unintended, direct and indirect, time horizon, and value chain stage. The language is adopted from ESRS 1 *General Requirements* to harmonize the scope of impact accounting with that of impact materiality in ESRS.[43] By explicitly stating that all impacts across the aforementioned dimensions are in-scope for impact accounting, this section establishes that a wide-range of impacts should be considered when preparing impact accounts. No significant feedback was provided on this paragraph except that described in paragraph [BC89] above.

5.3 The preparation of impact accounts

BC91. The Methodology primarily includes methodological advice for measuring and valuing the impacts of an entity. This section provides practical guidance outlining the steps to identify, measure, and value impacts and to prepare impact accounts at a point in time. The steps are adapted from the Global Reporting Initiative.[44] As stated in paragraph [13], IFVI and VBA may publish additional documents that support the interpretation and application of the Methodology, separate from the Methodology itself.

BC92. The proposal was included in the Exposure Draft to demonstrate to preparers at a high level the process to prepare impact accounts. The proposal also established that preparing impact accounts is an ongoing process that requires investment in information systems and staff capacity. In general, preparers of impact accounts should adhere to the Methodology to the fullest extent possible and should disclose any deviations from it when shared with users of impact information. No comments were provided on this section during the public comment period and no changes were made.

5.4 Sustainability context and impact identification

BC93. Similar to section 5.3, this section provides practical guidance outlining the steps to understand the sustainability context of an entity's activities and business relationships and to engage with stakeholders across the value chain. The guidance is adapted from the Global Reporting Initiative and Social Value International.[45] The guidance in this section introduces the minimum requirements for due diligence related to the impact management of an entity and is not intended to be comprehensive or complete.

BC94. This section also provides guidance on how to identify impacts related to an entity. Similar to the guidance related to understanding an entity's sustainability context, this guidance is not intended to be comprehensive or complete. Paragraph [89] introduces an example materiality map that categorizes impacts into value chain stages and

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[43] See section 3.4 in European Commission. (2023). ESRS 1 General Requirements. *Annex I European Sustainability Reporting Standards*.

[44] Global Reporting Initiative. (2021). *GRI 1: Foundation 2021*.

[45] Global Reporting Initiative. (2021). *GRI 1: Foundation 2021* and Social Value International. (2019). *Standard on applying Principle 1: Involve Stakeholders*.

stakeholder categories. The materiality map was proposed in the Exposure Draft as a tool for identifying impacts. The materiality map was not intended to be the only tool for identifying impacts, as a substantial number of resources are available for impact materiality assessments outside of the Methodology, nor was the materiality map intended to represent the default categorization of stakeholders in the Methodology. The presentation of impacts and any categorization of impact types is a research topic that is under development.

BC95. No significant comments were provided on the section by respondents and the only change made was to relocate paragraph 82 in the Exposure Draft to section 5.5 to minimize redundancy.

5.5 Impact measurement and valuation

BC96. The proposals in this section were included in the Exposure Draft to establish that preparers should over time include impacts in impact accounts even if standardized impact pathways have not been published for those impacts as part of the Methodology. This section is not intended to imply that first time preparers must measure and value all material impacts in order to generate decision-useful impact information. Instead, as preparers become more sophisticated at measuring and valuing impacts, they should over time account for all material impacts and strive to achieve the objective of fair presentation outlined in section 4.4.

BC97. Respondents provided no feedback on this section and no major changes were made.