A HUGE LEAP FORWARD IN IMPACT ACCOUNTING: HIGHLIGHTING METHODOLOGY DEVELOPMENTS

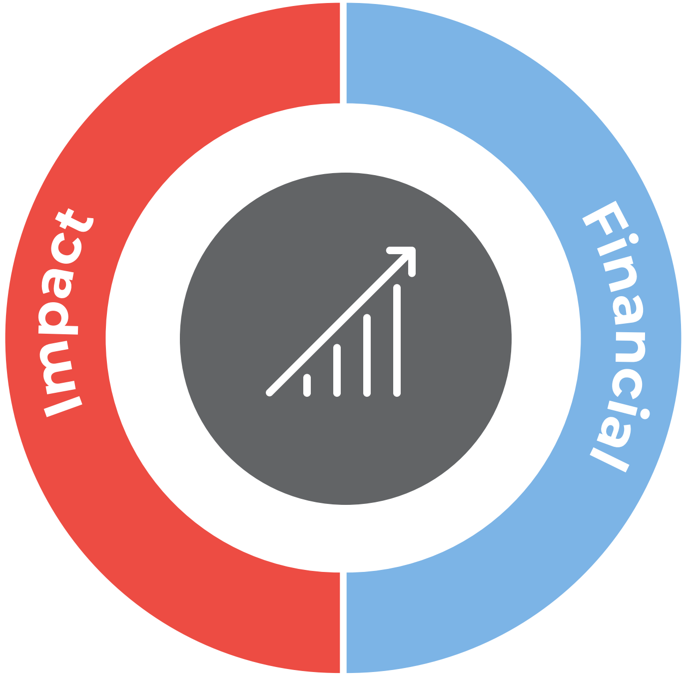
09/25/24

THE CHALLENGE

THERE ARE GAPS INHERENT IN THE CURRENT SYSTEMS OF BOTH FINANCIAL ACCOUNTING AND SUSTAINABILITY DISCLOSURE

Financial accounting…	Current ESG & sustainability metrics…
Has been developed and evolved over hundreds of years to create comparable and decision-useful information	Captures inputs, activities, and outputs rather than outcomes and impacts
Is incomplete by only focusing on financial performance	Are hard to compare across sustainability topics and corporate entities
Not designed to match structure of modern economies or explain gaps between book value and market value	Lack transparency, clarity, and decision-usefulness for many kinds of decision makers

THE SOLUTION: IMPACT ACCOUNTING



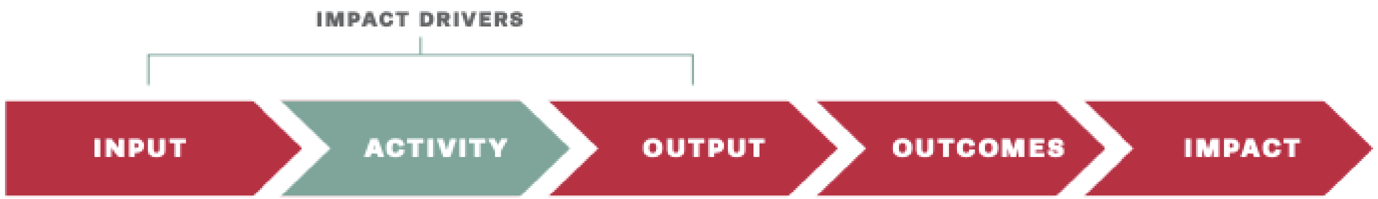
- “The system for measuring and valuing the impacts of corporate entities and generating impact information to inform decisions related to sustainability performance”*
- Translates environment and social impact into the language of currency.

BENEFITS

- Uses impact pathways and valuation techniques to measure and quantify the relative importance of impacts, not just outputs
- Can be meaningfully compared across entities, impacts, and financial performance
- Builds on accepted sustainability reporting standards to enable harmonization across frameworks
- Brings social and environmental impact to the forefront of decision-making

HOW IMPACT ACCOUNTING WORKS

Impact Pathway Per Topic



Preparers Provide:

Entity Data

- ✓ Aligned with and expands on reporting standards (GRI, ESRS, ISSB)
- ✓ Applicable across value chain, with outlined methods for modelling and estimating data gaps

Methodology Provides:

Measurement and Valuation of Impacts (Value Factors)

- ✓ Based on best available, established and innovative, research and scientific techniques
- ✓ Contextualized, where appropriate, to local context

Result:

Monetary Impact information

- ✓ A common unit of measurement between financial and impact information
- ✓ Comparable across entities and topics

IFVI

Samples

Entity Data

Measurement and Valuation of Impacts (Value Factors)

=

Monetary Impact information

GHG Emissions

Scope 1, 2, and 3 Emissions (Upstream and Downstream)

Aligned with:
- *ISSB*
- *GRI*
- *ESRS*

Social Cost of Carbon Models (DCSIM and GIVE) = $236 per ton of CO_2e

=

GHG Emissions x $236 = GHG Emissions Impact

Water Consumption

Water consumption (m3) organized by the location of water consumption

Aligned and expanded:
- *ESRS*
- *GRI*

Value factors established and applied nationally (at minimum) or sub-nationally (preferred)

=

Value Factors per location x water consumption = Water Consumption Impact

USE CASES

- Fully allocated profit and loss
- Taxation / regulation risk management
- Relative comparisons (industry competitors, best in class, planetary boundaries / norms, etc.)
- Topical and holistic performance comparisons
- Portfolio allocation / investment decisions
- Materiality assessments
- Impact management / prioritization (shareholder engagement and advocacy)

With additional data…

- Effects on financial performance (comparisons of impact and abatement costs)
- Impact on intangible value of entity

	Note	Company and investors	Employees	Clients	Suppliers	Government, local communities and others	Beneficiaries of nature	Total
Financial		**€ 10.000.000**	**€ 15.000.000**	**€ -100.000.000**	**€ 40.000.000**	**€ 20.000.000**		€ -15.000.000
Payments from clients				€ -100.000.000				€ -100.000.000
Payments to suppliers					€ 40.000.000			€ 40.000.000
Employee salaries (and related taxes)	1		€ 15.000.000			€ 10.000.000		€ 25.000.000
Interest payments		€ 5.000.000						€ 5.000.000
Income tax paid	2					€ 10.000.000		€ 10.000.000
Net profit/loss	3	€ 20.000.000						€ 20.000.000
Cost of capital		€ -15.000.000						€ -15.000.000
Manufactured				**€ 150.000.000**	**€ -35.000.000**			**€ 115.000.000**
Client value of products and services	3			€ 150.000.000				€ 150.000.000
Value of the goods delivered by suppliers	4				€ -35.000.000			€ -35.000.000
Intellectual		**€ 2.000.000**						**€ 2.000.000**
Development of immaterial assets and technology	5	€ 2.000.000						€ 2.000.000
Human		**€ 2.000.000**	**€ 3.500.000**		**€ 1.000.000**	**€ 2.500.000**		**€ 9.000.000**
Creation of human capital	6	€ 2.000.000	€ 5.000.000		€ 1.000.000	€ 3.000.000		€ 11.000.000
Well-being effects of employment			€ 4.000.000			€ 2.000.000		€ 6.000.000
Workplace health and safety incidents			€ -500.000			€ -500.000		€ -1.000.000
Opportunity cost of labour			€ -5.000.000			€ -2.000.000		€ -7.000.000
Social		**€ 1.000.000**				**€ -4.500.000**		**€ -3.500.000**
Change in brand value and customer loyalty	7	€ 1.000.000						€ 1.000.000
Child labour (in the value chain)						€ -1.000.000		€ -1.000.000
Forced labour (in the value chain)						€ -500.000		€ -500.000
Underpayment (in the value chain)						€ -3.000.000		€ -3.000.000
Natural							**€ -6.400.000**	**€ -6.400.000**
Use of scarce materials	8						€ -500.000	€ -500.000
Use of scarce water							€ -400.000	€ -400.000
Water pollution							€ -1.000.000	€ -1.000.000
Fossil fuel depletion	9						€ -400.000	€ -400.000
Contribution to climate change							€ -2.500.000	€ -2.500.000
Land use and transformation							€ -600.000	€ -600.000
Air pollution							€ -1.000.000	€ -1.000.000
Total		15.000.000	18.500.000	50.000.000	6.000.000	18.000.000	-6.400.000	116.100.000

Source: Framework for Impact Statements, Impact Institute

IFVI

WITHOUT IMPACT ACCOUNTING

REAL DATA FROM COMPANIES IN SAME INDUSTRY

	Company 1	Company 2	Company 3	Company 4
Financial Performance				
2023 Revenue (Bn)	85.15	34.12	33.81	58.97
2023 Net Income (Pre-tax) (Bn)	20.27	6.55	15.42	3.26
Market Capitalization 12/31/2023 (Bn)	337.32	$553.37	461.21	162.56
Earnings Per Share	$14.09	$5.43	$2.86	$1.86
GHG Emissions				
Total GHG Emissions	18,693,146	3,724,000	2,923,291	10,804,246
Scope 1 Emissions	384,622	171,000	77,662	650,587
Scope 2 Emissions	298,566	374,000	14,629	475,107
Scope 3 Emissions	18,009,958	3,179,000	2,831,000	9,678,552

WITH IMPACT ACCOUNTING

INSIGHTS THAT CAN DRIVE DECISIONS

	Company 1	Company 2	Company 3	Company 4
$ Carbon Emissions	$4,411,582,456	$878,864,000	$689,896,676	$2,549,802,056
$ Scope 1	$90,770,792	$40,356,000	$18,328,232	$153,538,532
%Scope 1	2%	5%	3%	6%
$ Scope 2	$70,461,576	$88,264,000	$3,452,444	$112,125,252
% Scope 2	2%	10%	1%	4%
$ Scope 3	$4,250,350,088	$750,244,000	$668,116,000	$2,284,138,272
% Scope 3	96%	85%	97%	90%
$Emissions/$Revenue (%)	**5.18%**	**2.58%**	**2.04%**	**4.32%**
$Emissions/Net Income	**21.76%**	**13.42%**	**4.47%**	**78.21%**
2023 P/E	9.98	114.51	36.08	15.50
Net Earnings	$33,816,000,000.	$4,832,700,000	$12,784,200,000	$10,490,400,000
Net Earnings less Emissions	$29,404,417,544	$3,953,836,000	$12,094,303,324	$7,940,597,944
Emissions Adjusted P/E	11.47	139.96	38.13	20.47
Change in P/E Ratio	**15%**	**22%**	**6%**	**32%**

THOSE USHERING IN THE ERA OF IMPACT ACCOUNTING ARE IN THE ROOM

Impact accounting is over a decade in the making, having been pioneered by leading companies, investors, academics, and non-profits.

This work has frequently been applied based on distinct and proprietary approaches, but is evolving towards more collaboration, transparency, quality, and comparability. We'd like to acknowledge, among others, the efforts of:

CAPITALS COALITION

value balancing alliance

GIST IMPACT

WifOR INSTITUTE

SOCIAL VALUE INTERNATIONAL

VALUING IMPACT

IFVI

FOR IMPACT ACCOUNTING TO FULFILL ITS POTENTIAL, IT NEEDS TO BE…

Public Good

Our methodology and its development process is fully available to the public at no cost.

Independent

We are independent from commercial or membership structure potential influences.

Credible

The expertise of our team, Board, and methodology oversight committee (VTPC), demonstrate our steadfast commitment to due process, rigor, and inclusion of broad perspectives.

Collaborative

We're focused on bridging gaps and expanding the practice of impact accounting through partnerships that promote impact and scale.

AVAILABLE IN FALL 2024

A common baseline for impact accounting that is accessible, credible, and comparable

General Methodology 1
Final

General Methodology 2
Exposure Draft

GHG Emissions
Final

Water Consumption
Exposure Draft

Water Pollution
Interim

Air Pollution
Interim

Waste
Interim

Land Use
Interim

Adequate Wages
Exposure Draft

Occupational Health and Safety
Exposure Draft

PUBLIC COMMENT

September 24th – December 7th

General Methodology 2
Exposure Draft

Water Consumption
Exposure Draft

Occupational Health and Safety
Exposure Draft

- Broad stakeholder feedback is essential to the quality, practicality, and value of the public good impact accounting methodology
- Exposure Drafts are in the General Methodology (covering Measurement and Valuation Techniques), Environmental Topic Methodologies, and Social Methodology series.
- Public comment features targeted questions and general feedback, submitted by form or open letter
- Open webinar will be held on October 29th

ENVIRONMENTAL METHODOLOGIES

Covering most significant environmental impacts, 130+ different types of pollutants, tailored for the unique contexts of 200+ countries/regions

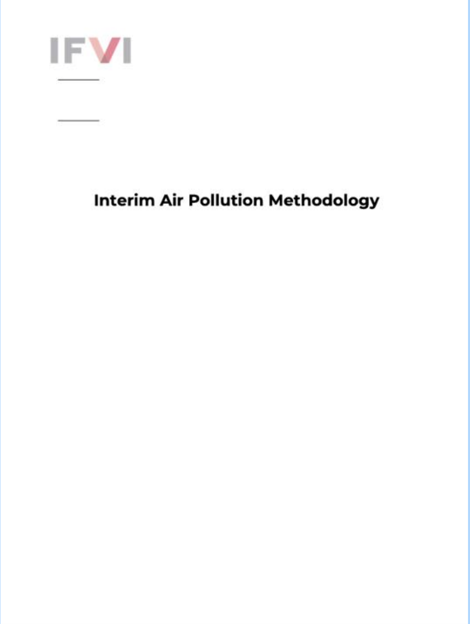
GHG Emissions Final	**Water Consumption** Exposure Draft
Water Pollution Interim	**Air Pollution** Interim
Waste Interim	**Land Use** Interim

- ✓ Supports investors and companies in confronting climate change and other environmental issues
- ✓ Covers nearly all contexts across industries and locations around the world
- ✓ Built in guidance and supplemental resources on how to use the methodologies, the data needed, and how they work
- ✓ Unprecedented level of granularity for a public good, beginning in October

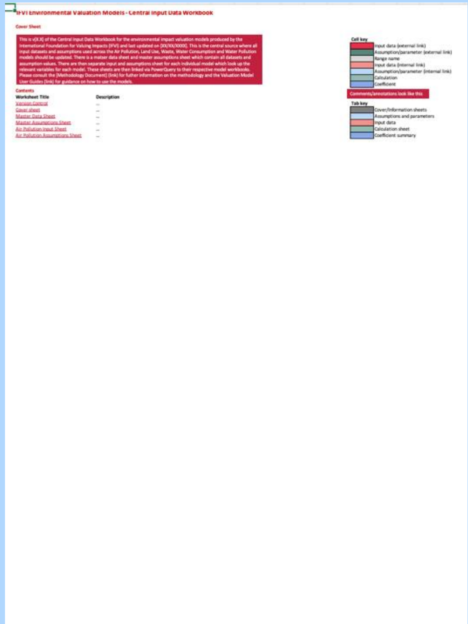
UNPRECEDENTED RESOURCES

The Interim Environmental Models are a Groundbreaking Level of Transparency, Granularity, and Support for a Public Good

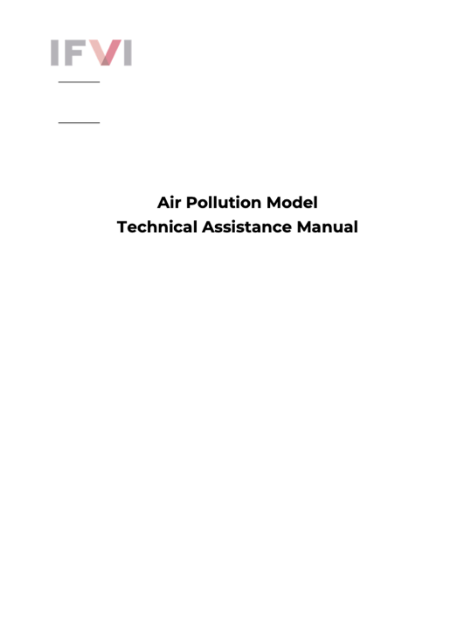
Methodology



Models



Technical Assistance Manual



Global VF* Database

*Value Factors

A VISION FOR THE FUTURE

A just and sustainable global economy based on the full contribution of business to people and the planet.

Future Topics

General Methodology 3
Expected

General Framework for Product Impacts
In Development

Wage Equity
In Development

Waste and Circularity
In Development

Industry Specific Methodologies
Interim in Development

Education and Training
Expected

Tax Impacts
Expected