

MEETING MINUTES

Valuation Technical & Practitioner Committee

Meeting type: Supplemental Meeting

Date: October 30th, 2024

Location: Virtual

Contact: Dan Osusky (dosusky@ifvi.org)

This paper has been prepared for discussion of the Valuation Technical and Practitioner Committee (VTPC).

The mandate of the Valuation Technical and Practitioner Committee (VTPC) is to direct, validate, and approve the impact accounting research and methodology produced by the cooperation of International Foundation for Valuing Impacts (IFVI) and the Value Balancing Alliance (VBA). The VTPC has been established under Terms of Reference to ensure independence and multi-stakeholder perspectives.

This paper does not represent the views of IFVI, the Value Balancing Alliance, or any individual member of the VTPC. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of impact accounting methodology.

Objective:

- The objective of the meeting was to inform the formal vote on the *Framework for Industry Specific Product Impacts* for public comment approval.
- An additional objective included a discussion on the Methodology Architecture.

Meeting Agenda:

Time (Eastern Time)	Topic
9:00 – 9:10 a.m.	Welcome and Updates
9:10 – 10:00 a.m.	Framework for Industry Specific Product Impacts: For Public Comment Approval
10:00 – 10:50 a.m.	Methodology Architecture
10:50 – 11:00 a.m.	Next Steps

Welcome and Introduction Updates

- All members of the VTPC (“member” or “members” hereinafter) are welcomed to the meeting and the technical staff provided the following comments:
 - Thanked members for attending the supplemental VTPC meeting and mentioned planning of the 2025 Work Plan, which includes adjustments to the meeting schedule.
 - The agenda for the supplemental VTPC meeting included the following:
 - a) To discuss the updates to the *Framework for Industry-Specific Product Impacts* along with a formal vote for public approval. It was noted that a quorum had not been reached at the start of the meeting which may lead to the possibility of a virtual vote via email.
 - b) To discuss the updates to the Methodology Architecture White paper shared via email.

Framework for Industry-specific product Impacts

- The technical staff presented the background and purpose of the Framework:
 - In accordance with General Methodology, impact accounts should provide a comprehensive assessment of the societal value created and/or eroded by an entity.
 - For the Methodology to enable a comprehensive assessment, it must consider impacts linked to the products of entities across the value chain.
 - a) Product impacts are complex, requiring analysis of effects on consumers and business customers across diverse industries and product portfolios.
 - b) Product impacts may also be significant in magnitude.
 - The purpose of the *General Framework for Product Impacts* statement:
 - a) Build on GM1 and GM2 and clarify the concepts, definitions, methods, and principles for the unique requirements of product impacts.
 - b) Inform and explain the process for developing Industry-specific Methodologies.
 - c) Guide preparers to develop impact pathways for industries and products in the absence of official impact pathways.
- The technical staff also presented the Framework updates in response to the VTPC feedback:
 - Name
 - a) Feedback Received
 - The previous title was *General Framework for Product Impacts*.
 - Specify that we are not referring to all product impacts, but just to the industry-specific ones.
 - b) Summary of Revisions
 - The title has been changed to *Framework for Industry-specific Product Impacts*.
 - Attribution
 - a) Feedback Received
 - Feedback requested clarification as to whether a portion of an impact is attributed to enabling infrastructure or only to entities in the value chain.

- b) Summary of Revisions
 - Addition adapted from the GHG Protocol: “The full amount of an impact is typically attributed to entities in a value chain without consideration of enabling infrastructure, or goods and services provided by adjacent value chains.”
 - This revision allows for comparability of scope across topic and industry-specific methodologies.
- o Reference Scenario
 - a) Feedback Received
 - Feedback requested the inclusion of clarifying examples.
 - b) Summary of Revisions
 - A box was added explaining the steps to set the reference scenario and a table was included with three examples.
- o Relationship between utility & well-being
 - a) Feedback Received
 - Feedback requested clarification of the concepts in section “2.4 Relationship between utility and impact on well-being,” specifically whether utility and impact are one and the same.
 - Feedback requested clarification of the application of consumer surplus, externalities, internalities, and market price.
 - Request to clarify whether markets are assumed to be well-functioning throughout the statement.
 - b) Summary of Revisions
 - Well-being & utility: The text maintains a conceptual distinction between the economic concept of utility, and the concept of a product impact, consistent with GM2.
 - In Appendix B, a delineation was added between the value connected to a product in a well-functioning market, namely consumer surplus and market price, and that in a market that is not well-functioning, namely externalities and internalities.

- Other
 - a) Summary of Revisions
 - Additional examples have been included; minor corrections have been made; updates have been added to both the glossary and the bibliography; a final paragraph (paragraph 51) was added to reiterate that the impact measurement and valuation process is iterative.
- Thereafter, the technical staff provided an overview of the key elements of the framework.
 - Scope and Value chain considerations
 - a) All entities are in-scope of the methodology
 - “All entities, whether they sell final products or intermediate products, may generate product impacts.”
 - b) Although the impacts typically occur in the use-phase of the final products
 - “The significance of a product impact is typically understood from the perspective of the use phase of a good or service.”
 - “Affected stakeholder categories that are commonly impacted by product impacts include end-users and society in general.”
 - “Entities that provide inputs to downstream entities in a value chain may need to trace the inputs they sell to the end of the value chain to identify relevant product impacts and assess their significance.”
 - Standardized evidence-based process
 - a) The standardized 3-step approach should be applied
 - b) And the process should be evidence-based
 - “Evidence should corroborate the significance of a product impact and the causal relationship with an entity’s activities as part of establishing that a product impact is material from an impact materiality perspective.”
 - “Further, an evidence-based approach provides demonstrable support for any claim that a product results in a specific impact. To be complete, product

impacts should be presented with information related to assumptions, data, evidence, and methods so that users of impact information understand what is measured.”

- Attribution

- a) Final products receive full attribution

- GHG Protocol analogy
 - When an entity manufactures a car, all emissions associated with the vehicle throughout its use phase are considered part of the entity's Scope 3 emissions.
 - Product impact framework:
 - *“Entities that sell final products likely receive full attribution for a product impact as the entity typically has influence over the factors that contribute to the underlying impact.”*
 - *“The fact that an entity that sells a final product receives full attribution does not prevent the full or partial attribution of the same impact to another entity. For instance, when a manufacturer sells a final product to a retailer and the retailer sells the same final product to a consumer, the manufacturer and the retailer may receive full attribution for the product impact.”*

- b) Intermediate products receive partial attribution

- GHG Protocol analogy
 - When supplying components for a car, an entity should allocate a portion of the car's overall emissions based on a relevant allocation factor, such as energy consumption, mass, or volume.
 - Product impact framework:
 - *“Inputs to a product may be partitioned based on the underlying physical relationship, an economic relationship, or an industry-specific practice. Inputs are partitioned in a way that best reflects the causal relationship between the inputs and the activities of entities across*

the value chain. If specific allocation rates have been agreed upon by entities in a value chain through any formal agreement, those allocation rates should be considered.”

c) Full attribution with independence of other factors

- GHG Protocol analogy

- When producing a car, the full emissions associated with the vehicle are included in the entity's scope 3 emissions, regardless of other enabling factors such as road or energy infrastructure

- Product impact framework:

- *“The full amount of an impact is typically attributed to entities in a value chain without consideration of enabling infrastructure or services provided by adjacent value chains. Accordingly, entities that sell final products typically receive full attribution for a product impact despite the fact that other entities and factors external to the entity’s value chain may have contributed to the impact.”*

- Default reference scenario

- a) In alignment with GMI, a reference scenario is set for each final product and/or use scenario to measure absolute impact

- b) “The default reference scenario uses a counterfactual in which the entity’s products and comparable substitutes do not exist.”

“A comparable substitute refers to any substitute product that has overlapping use scenarios with the product being assessed. Comparable substitutes may provide only a subset of the use scenarios of the product being considered.”

“The default reference scenario should be set such that any material impacts that result from the most common use scenarios of the product being considered are captured.”

“The default reference scenario does not measure product impacts against the next best alternative product because such a reference scenario may not consider impacts linked

to the most common use scenarios but only use scenarios that are in addition to the next best alternative.”

- c) A step-by-step approach to set a reference scenario is presented*, as well as a table with illustrative examples**
- Identify a final product at the end of a value chain.
 - Identify and describe the most common use scenarios for the product
 - For each use scenario, determine any substitute products with overlapping uses. Include those substitutes as products that do not exist in the reference scenario.
 - Example 1
 - Final Product: Car
 - Industry: Automotive
 - Use scenario: Point-to-point personal mobility
 - Reference scenario: Private and public transportation are unavailable
 - Example 2
 - Final Product: Apple
 - Industry: Food and Beverage
 - Use scenario: Nutrient intake as part of a balanced diet
 - Reference scenario: Nutrient dense foods are unavailable
 - Example 3
 - Final Product: Smartphone
 - Industry: Information, Communication, & Technology
 - Use scenario: Instantaneous verbal communication
 - Reference scenario: Smartphones and landline phones are unavailable
 - Product clusters and top-down approaches
 - a) The statement allows the simplification of measuring product impacts by:

- Clustering products based on shared characteristics, use scenarios, data required, or well-being dimensions affected by the product
 - Using alternative top-down approaches if no other better alternatives are available (e.g., estimates of the aggregated impact of the total industry, estimates of consumer surplus, etc.)
- Relationships to market prices
 - a) The types of value connected to a product in economic theory include the following:
 - Market price
 - Consumer surplus
 - Internality
 - Externality
 - b) However, the statement establishes a clear distinction between utility and impacts to the well-being of people.
 - c) See Appendix B for a full description.

Framework for Industry-specific product Impacts Discussion

- Members provided the following comments:
 - A member emphasized that there needs to be clarification in the definitions of intermediate product and final product. The definition of these terms in the Framework deviates from the System of National Accounts.
 - The member also stated that they had no solutions about the exact framing for the Framework but will send their comments in written form via email.
 - The technical staff asked whether the focus on the definitions is point of clarification or substance.
 - The member responded by stating that it is a point of substance and highlighted the need to focus on the System of National Accounts. For example, a wholesale company does not produce but sells food. Therefore, the System of National Accounts treats these wholesalers as providing a service. The Framework should clarify whether wholesalers are only delivering a service and whether product impacts should be attributed to all products sold. The member emphasized that the distinction between final product and intermediate good is very important.
 - Additionally, the member expressed their dissatisfaction with the definitions in the GHG protocol and hopes that the Framework does not adhere to those definitions.
 - The technical staff stated that they would also like to hear additional comments less focused on the terminology but also on the Framework's approach to handling intermediate and final products.
 - The member responded by stating that the Framework should align the definitions to the System of National Accounts. The System of National Accounts is the main standard for providing data points for society, policies and politicians.
 - A member voiced that they like the improvements and noted that the Framework is a tangible document.
 - The member asked whether the technical staff could explain how the Framework accounts for value added, specifically for a car manufacturer and its value chain. The member emphasized that there will be double counting if all value is attributed at the end. Additionally, the member asked for clarification with regards to whether it is the energy created to produce the vehicle or move the vehicle around?

- The technical staff proceeded to provide an overview of the attribution slide to respond to the question.
 - The technical staff responded by stating that similar to the GHG Protocol, attribution is not based on value added but rather reflects the causal relationships between inputs and outputs of entities across the value chain. Double counting may occur when summing impacts of entities across the value chain; however, following the GHG Protocol example, information on value chain impacts is essential for effective business steering and optimizing the overall value creation. Double counting across entities when considering upstream, own operations, and downstream is therefore not considered problematic. Nevertheless, it should be ensured that double counting across impact accounts of one entity should be avoided at any time.
 - The technical staff also stated the importance of aligning not only with other standards such as GHG Protocol but also making sure that our methodologies are aligned with each other. As aligning with other standards such as the System of National Accounts can create inconsistencies across our methodologies.
 - The technical staff also stated that upstream factors such as energy produced which enable the creation of the car may get some attribution. However, companies involved in constructing the roads, installing traffic lights or painting the roads would not receive attribution.
 - A member voiced that there is double counting which is wrong and may lead to wrong decision making in companies. However, it is an acceptable trade off.
 - The member also voiced that they liked the improvements. However, Appendix B may cause more confusion than clarification and voiced the following:
 - a) Consumer surplus, market price, internalities and externalities are included but they expected to see consumer surplus along with producer surplus.
 - b) The consumer surplus is not included in the price, so do we see it as an externality?
 - c) A traditional economist may find this section of the document confusing.
 - A member expressed that the technical staff should note that utilities and well-being are not the same and suggested changing it to “utilities and well-being are not necessarily the

same" in the Framework. The term "necessarily" is important and noted that different assumptions could make both terms the same.

- The technical staff acknowledged previous feedback on this issue and appreciated the clarification, as they are working to meet the needs of different audiences.
- The technical staff provided an overview of the reference scenario slide.
 - A member voiced that one of the objectives of the Framework was to inform the investors. However, it is not evident in this discussion, in this case, the gross approach should be included to make different industries comparable.
 - The technical staff responded by stating that the Framework uses a gross approach to enhance the comparability across industries.
 - A member voiced that the impact of a product relies on whether it has a substitute or not. For example, the chemical industry, if it is assumed that there are no substitutes, the world's economy would crash, and people may die. However, there are products that do have substitutes. Therefore, it will be useless to calculate the absolute impact, stating food insecurity as an example.
 - The technical staff responded by stating that the default reference scenario does not assume that all enabling infrastructures and supporting services disappears.
 - The technical staff also voiced that chemicals are intermediate products, and the disappearance of chemicals would not factor into how the Framework measures product impact.
 - Additionally, the technical staff stated that the focus should be on where chemicals are used, rather than emphasizing that the absence of chemicals would harm the economy. This Framework centers on the final product. However, more research would have to be done to understand the reference scenarios of other industries in earlier stages of the value chain.
 - A member voiced that the Framework would work well for a venture capitalist because it is rewarding innovative products. However, most companies cannot make the argument that their product is innovative or does not exist but can make the argument that it can be improved or scalable. Therefore, capital will most like flow to the innovative product.
 - The technical staff noted that the Framework captures the differences using a gross approach. For example, when comparing an innovative car to a traditional car, the innovative

car would have higher positive impact and thereby a net positive impact with the traditional car as reference. In this example for a net approach, the traditional car would have zero impact. When taking a gross approach, the traditional car would have a positive impact for enabling mobility, but the innovative car would most likely have a higher positive impact than the traditional car. The difference between both positive impacts would allow for calculating the net impact too. Other impacts such as emissions will be reflected in the respective Topic Methodologies.

- A member noted the need for more guidance, as judgment is involved in the process. A pragmatic solution is necessary, including considerations like identifying the appropriate substitutes for comparison across studies.
- The technical staff stated that the next steps includes the following: meeting minutes will be shared, a virtual ballot on the Framework will be sent out along with potential proposed revisions or clarification related to attribution, reference scenario and Appendix B.

Methodology Architecture

- The technical staff provided an overview of the Methodology Architecture which included the following:
 - Methodology Architecture: Overall vision of the impact accounting methodology prior to its complete development, illustrating alignment with sustainability reporting standards.
 - General Methodology: Establishes a system of impact accounts and enables published methodology based on consistent concepts, definitions, methods, and principles.
 - Standardized Impact Pathways
 - a) Topic Methodologies: Impact accounting methodologies focusing on a specific sustainability topic, applicable across industries and organized by Impact driver.
 - b) Industry-specific Methodologies: Include guidance for the measurement and valuation of industry-specific product impacts.
- The technical staff proceeded to explain that the provisional methodology architecture is intended to
 - a) offer stakeholders an overall vision of the impact accounting methodology prior to its complete development,
 - b) help the VTPC to inform the work plan,
 - c) illustrate alignment of the impact accounting methodology with existing sustainability reporting standards
 - d) provide clarity around the scope of individual methodologies that have been and are intended to be developed.
- The technical staff also highlighted the following key area of feedback from the June VTPC meeting:
 - A stakeholder-based approach to the topic architecture is too complex and should not be prioritized
 - Further emphasis should be made on the flexibility of understanding how different components of the impact accounting methodology relate, as well as the interoperability with reporting standards
 - There are mixed views on the role of certain economic impacts, as well as remaining questions about some areas of alignment and consistency.

- The technical staff also stated the elements of the Methodology Architecture which included the following:
 - The proposed methodology architecture consists of two elements: the primary topic architecture and a flexible tagging system that allows to connect the different methodology statements to the frameworks and structures of the impact and reporting ecosystem.
 - a) Primary Topic Architecture: The Primary Topic Architecture categorizes Topic Methodologies to structure individual topic statements in an easily understandable way, allowing for straightforward navigation across different sustainability topics.
 - b) Tagging System: The Tagging System links each Methodology statement to key frameworks, standards, and organizational layers, allowing users to filter and navigate topics by areas like Capitals, Stakeholders, Reporting Requirements, and Value Chain Level
- The technical staff also stated that the list of topic methodologies is informed by an extensive review of the following three areas:
 - Impact Valuation Ecosystem
 - a) Value Balancing Alliance (VBA)
 - b) Harvard Business School – Impact Weighted Accounts
 - c) GIST Impact
 - d) Impact Institute
 - e) WifOR Institute
 - f) Impact Economy Foundation
 - Reporting Standards
 - a) European Commission
 - b) EFRAG
 - c) GRI
 - d) IFRS ISSB
 - Other resources and frameworks
 - a) Capitals Coalition
 - b) Impact Management Platform
 - c) OECD

- d) United Nations Statistical Commission
 - e) United Nations Environment Programme
- The technical staff presented two possible approaches for a primary architecture:
 - Three-dimension approach:
 - a) Environmental e.g., GHG Emissions and Water consumption
 - b) Human & Social e.g., Adequate Wages, Occupational Health and Safety
 - c) Economic e.g., Taxes and Profits/Ownership
 - Two-dimension approach:
 - a) Environmental e.g., GHG emissions and Water Consumption
 - b) Social e.g., Adequate Wages, Occupational Health and Safety, Taxes, and Profits/Ownership
- Thereafter, the technical staff provided an overview of each approach which included the following:
 - Three-dimension approach
 - a) The three-dimension approach builds off the design principles of existing impact accounting methodologies (including, legacy VBA methodology, GIST, WifOR, etc.). This approach consolidates social and human capital into a broader social dimension for simplicity and to further align with standards (e.g., ESRS and GRI) and frameworks (e.g., Triple Bottom Line or Sustainable Development Goals).
 - Pros
 - Aligned with the design principles of the impact valuation ecosystem, which distinguishes topics by changes in primary capital affected (social and economic capital).
 - Less potential risk of “over-aggregating” topics
 - Cons
 - Potential confusion with common understanding of triple bottom line as social, environmental impact along with financial performance (rather than broader economic impact)

- Confusion of economic topics where methodologies are not the same as traditional economic metrics
 - Two-dimensions approach
 - a) The two-dimension approach categorizes topics as Social or Environmental. Those topics that are categorized in the economic dimension above are categorized under the social dimension. It does not align with some existing methodological approaches but has its own precedents across the ecosystem.
 - Pros
 - Aligns with common understandings “people, planet, and profit” – wherein the ‘profit’ dimension is captured by the existing paradigm of financial accounting and impact accounting covers impacts on people and planet
 - Avoid the risk of misinterpretation that topics that would be covered in an Economic Dimension
 - Cons
 - Potential confusion or irritation to list economic topics like Profits/Ownership or Taxes under a social dimension.
 - Groups a large number of topics under one dimension, which reduces ease of navigation between topics.
- The technical staff also provided an overview of the tagging system which included the following:
 - The Tagging System enhances understanding by connecting each Methodology statement to various frameworks, standards, and value chain levels.
 - This system enables users to filter and identify relevant topic methodologies based on key areas: Primary and Secondary Capitals, Primary Stakeholders, Reporting Requirements, and Value Chain Level.
 - By clarifying these interconnections, the Tagging System supports diverse audiences in navigating impact information according to their specific frameworks and areas of focus.

Methodology Architecture Discussion:

- Members provided the following comments:
 - A member asked about the practical use cases of the two approaches for the primary architecture as well as the tagging system.
 - The technical staff clarified that the assumption is not that every topic is material to every company; instead, it is tailored to meet the specific needs of each company. Additionally, the methodologies may inform materiality assessments.
 - A member voiced the following:
 - It would be interesting to have the fundamentals in terms on how these approaches work. However, the capital and stakeholders' approaches are more consistent and mutually exclusive and an exhaustive way to measure an impact.
 - A question to pose is whether these approaches would be accepted and understood. However, at this point we are not ready for a consensus.
 - The tagging system is smart and leverages new technology. However, if this is adopted, it is important that the wider audience understands the work.
 - From an evolution perspective, the three-dimension approach is preferable as it would take a more expansive view of double materiality and what is the purpose of an IP&L. While either approach has its merits, the two-dimension approach would have too many indicators under two headings.
 - A member voiced the following:
 - Although the primary topic architecture and tagging system are complimentary and compatible, they prefer the primary topic architecture because it is clear. However, they see the benefits of the tagging system for other users.
 - They also asked whether the primary topic architecture or tagging system is complimentary to the System of National Accounts. They believe the three-dimension approach is aligned with the System of National accounts. They stated that it is important to align with this standard which is why they prefer the three-dimension approach.

- Additionally, human & social should be separated, at least as sub-indication, as there is a tendency to focus more on the human pillar and ignore the social pillar.
- A member voiced that they agree with all that has been said. Additionally, they are in favor of the three-dimension approach in part because GDP contribution should be included because economic impacts is such a heavy use case for political stakeholders and can be part of impact analysis.
- The member also voiced that they like the tagging system. However, related to the primary topic architecture, taxes can be considered primarily economic not social, and therefore would be a potential inconsistency in the presented two-dimension approach.
- Another member voiced their preference for the three-dimension approach.
- A member stated they prefer the two-dimension approach, especially if it is called Social-Economic. The member emphasized that it is important to think about the end user. At this point, the end user needs to be well-versed in our work, however, the goal should be to make it accessible to everyone.
- The member also voiced that previous comments are understandable. If the three-dimension approach is chosen, additional clarification is required, especially for the economic approach including taxes and profits.
- A member voiced the following:
 - Governance needs to be included such as anti-corruption, bribery etc.
 - While we can match the dimensions, they provide little insight into business value, which is the language CFOs understand.
 - It would be worth looking at individuals and organizations that use this information as well as how these approaches align with the Sustainable Finance Disclosure Regulation (SFDR).
- A member voiced the following:
 - They prefer the three-dimension approach much more than the two-dimension approach as many methodologies leave the economic dimension out.

- They agree that human & social should be separated, and that tagging is easy and should be done. No one will disagree with the tagging system.
- A member voiced from a practical perspective, people, especially business decision-makers, do not consider ESG or sustainability performance in the same way they consider financial and economic performance. What is most important is ensuring a clear bridge between the two, highlighting how the general logic of economics can also be applied to considering social and environmental impacts, but the way to do that could vary. With that said, the three-dimension approach is helpful.

Conclusions and Next steps

- To conclude the meeting, the technical staff provided the following updates:
 - VTPC meeting minutes will be sent out next week for review along with the virtual ballot as well as any revised paragraphs or points of clarification on the Framework.
 - The final VTPC meeting is on November 21st. The agenda includes the following: Adequate Wages and Wage Equity, Waste and Circularity, and the 2025 Workplan.
 - Asked that the VTPC members promote the public comment period within their networks. A template email to promote the public comment period has been shared via email.
- The technical staff thanked the members for their participation, and the meeting was concluded.

Appendix A: Attendance

VTPC Members		
Name	Attendance	Representative (If Absent)
George Serafeim (Chair)	Absent	
Sonja Haut (Vice Chair)	Present	
Mohammed Abdulrahman Al-Akil	Absent	
Tom Beagent	Absent	
Dr. Duoguang Bei	Absent	Xu Hu
Jens Berger	Absent	
Sarah Bratton Hughes	Absent	
Adrian De Groot Ruiz	Present	
Christian Hell	Present	
Klaus Hufschlag	Absent	
Amma Lartey	Absent	
Jun Suk Lee	Absent	
Kelly McCarthy	Present	
Crystal Pay	Absent	
Dr. Amanda Rischbieth AM FAICD	Present	
Dr. Marta Santamaria	Present	
Pavan Sukhdev	Absent	
Sebastian Welisiejko	Present	Emilia Cerra
Observers:		
Yulia Romaschenko	Present	
Richard Scholz	Present	

Technical Staff	
Name	Organization
Dan Osusky	IFVI
Ryan Daulton	IFVI
Mosunmola Olowu	IFVI
Michael Verbücheln	VBA
Francisco Ortin Cordoba	VBA