Consultation Draft:

Impact Performance Reporting Norms

For Investors in Private Markets

Draft October 2023

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Executive Summary

Overview

We propose and invite feedback on the draft Impact Performance Reporting Norms below. The goals of this public consultation are as follows:

- To make impact performance reporting simultaneously less onerous for report preparers and more useful for report users;
- To facilitate the flow of impact information within and across investment organizations so that it can inform decisions about investment and engagement;
- To provide a shared set of open-access, non-proprietary criteria against which independent reviewers may assure, evaluate, or verify impact performance reports, enhancing appropriate consistency across independent reviewers; and
- To offer a market-tested prototype for future impact performance disclosure standards by voluntary standard-setters and national regulators.

The draft Norms are designed to support investors in reducing the risk of "impact-washing" and "cherry-picking," which are commonly expressed concerns, by identifying the suggested content that would be included (and not included) in a report, as well as the general structure and format of that content.

Towards this end, the draft Norms combine elements of existing impact management practice with the "Qualitative Characteristics of Useful Information" from the Conceptual Framework for Financial Reporting (Conceptual Framework) of the International Financial Reporting Standards (IFRS) Foundation. Impact performance reports that follow these Norms would be more akin to annual financial disclosures provided privately to asset owners and allocators than to impact reports that are produced primarily for marketing, communications, and fundraising purposes. Ideally, they can replace and improve on, rather than add to, existing annual impact performance reporting, and exist alongside documents produced for marketing, communications, and fundraising.

The draft Norms are intentionally aspirational. Few investors will be able to provide all of the suggested content at first. At the same time, they are designed so that most investors will immediately be able to use the structure and format to provide much of the content, and then fill in remaining gaps over time. Given that impact reporting is at an earlier stage than financial reporting and information is not always available, preparers are encouraged to follow a "disclose-or-explain" approach to the suggested content.

The draft Norms leave discretion to the preparer as to the exact format and presentation of information. The boundaries of preparer discretion are set in general terms by the six characteristics of useful information, which are adapted from the Conceptual Framework. This approach is intended to strike a suitable balance between standardization and flexibility in impact performance reporting. The draft Norms recommend a visually sparse format without photos, icons, or colors, thus reducing production time and cost for preparers while enhancing relevance and faithful representation for report users. The baseline assumption is that impact performance reports would be prepared annually, not quarterly, though this also is left to the preparer's discretion.

The presumption is that impact performance reports would only be shared privately with capital providers, not publicly. However, publicly funded entities such as international organizations and foundations, as well as privately-held organizations wishing to lead in the transition towards greater transparency, may wish to make their impact performance reports publicly available.

The draft Norms do not duplicate or compete with existing standards, frameworks, and guidance. Rather, they fill a gap in the landscape: impact disclosure standards for investors in private markets (see Appendix D). They can be used in complementary fashion with the primary impact standards, frameworks, and guidance that investors already use. They can be used either for standalone impact performance reports or integrated impact and financial reports.

Impact management in general, and impact reporting specifically, is a rapidly evolving field. While no standard currently guides the content and structure of impact reports by investors, there are several emerging standards that pertain to impact management practices (e.g., Gold Standard Fund Requirements, Impact Principles, SDG Impact Standards) and/or impact accounting (e.g., Capitals Coalition, International Foundation for Valuing Impacts, and Social Value International). Each of these standards aims to "raise the bar" in various ways and to various degrees. These Norms are calibrated to represent an achievable stepping stone that exceeds much existing practice, while leaving ample opportunity for investors that wish to go further. Some of these opportunities are noted in the footnotes. As market practices change, the draft Reporting Norms will evolve, and practices that seem exceptional today may become more common.

The Norms may be implemented in whole or in part, and at any pace, at the discretion of the report preparer. If implemented in part, reports should at a minimum include "1. Investor Overview and Impact Thesis" and "3. Impact Performance". Expectations of the depth of implementation, along with the length of the report, should be commensurate with fund size, to avoid disadvantaging smaller and/or emerging fund managers. Differing levels of data availability in reporting entities' context should also be taken into account by report users.

Improved impact performance reporting is not a panacea, but it is a leverage point. Complementary changes in decision-making processes, criteria, and incentives – and more broadly, the goals of the various actors and the rules and constraints within which they operate – will all amplify the effect of improvements in reporting, and vice versa.

Over time, these Norms will increase the ability of report preparers and users to benchmark impact performance against comparable peers, enable capital to be allocated to impact more efficiently and effectively, and increase the confidence of the market as a whole in the impact of impact investing. Eventually, the Norms may serve as a reference for regulators considering disclosure and labelling requirements for impact investments.

Consultation Process

In Q4 2023, Impact Frontiers is holding a public consultation on the draft Impact Performance Reporting Norms, as well as a supplementary resource for third-party reviewers such as assurance providers, evaluators, and verifiers. Feedback will be sought via written submission as well as participation in webinars and online discussion boards. In Q1 2024 Impact Frontiers will revise the Norms based on feedback and publish version 1.0 in Q2 2024. See Appendix A for a summary of the process to-date.

Section 1: Foundations

Section 1 proposes a shared understanding of the primary users and objectives of impact performance reports and interprets the Conceptual Framework's six qualitative characteristics of useful information in the context of impact performance reports.

1. Users and Objectives

The primary users of an entity's impact performance report are assumed to be its providers of capital, though there are many other users as well. A reporting entity can be a for-profit or non-profit corporation or government agency, a subsidiary thereof, a fund, or a special purpose vehicle. The objective of the report is assumed to be to provide information about the impact of the entity and its investees on the stakeholders and/or aspects of the natural environment experiencing the impact, so that asset owners and allocators can make decisions about whether and how to provide or withdraw capital and/or non-financial engagement to the entity that are informed by the interests and experiences of stakeholders and the natural environment.

2. Characteristics of Useful Information

The characteristics of useful information, along with the suggested content and structure below, define the boundaries within which report preparers may exercise discretion and flexibility:

- **Relevance** defines information that is important enough to affect the decisions of users, and the concept of materiality defines what information should and should not be included in a report. Relevance and materiality should be defined from the perspective of the stakeholders and aspects of the natural environment experiencing the impact, under the assumption that the information could, in principle, influence the decisions of asset owners and allocators. Information relevant to estimation of enterprise value, financial risk, and return could additionally be considered material (i.e., "double materiality").
- **Faithful Representation** means that information is complete, neutral, and accurate. A complete depiction of impact performance would include all material outcomes and impacts that are known or could reasonably be expected to be known. Neutral means there is no bias in which information is selected or in the way that information is presented. In the context of financial accounting and reporting, the term bias refers to slanting, weighting, emphasizing, deemphasizing, or otherwise manipulating the information in the report to make it more likely that users of the report will receive the information positively or negatively. Accurate information need not be perfectly precise, but it does need to be free of material misstatement. Preparers will likely struggle to achieve all three characteristics. Stakeholder engagement and independent review can increase users' confidence in reports' faithful representation.
- **Verifiability** means information can be checked and confirmed.
- **Timeliness** means information is available in time to influence users' decisions.
- **Comparability** enables comparison of information between different entities or between different periods for the same entity. Consistency of concepts being measured (e.g., goal-based or thematic taxonomies, five dimensions of impact); of the structure and format of reports; and of metrics, as appropriate, can all enhance comparability for report users. As the Conceptual

Framework states, "Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different."

- **Understandability** means information is presented clearly and concisely in a way that users with reasonable knowledge can understand. For instance, impact performance reports can avoid generic or duplicative information while still presenting a complete picture. Information that is intrinsically complex or difficult to understand should still be included if omission would compromise relevance or faithful representation. Users may wish to engage specialist third parties to aid in the interpretation of reports or in their assurance, evaluation, or verification.

Section 2: Content and Structure

Section 2 proposes a shared expectation for the content and structure of impact performance reports:

1. **Investor Overview and Impact Thesis**: The reporting entity's purpose and vision; impact thesis; portfolio-level stakeholder and materiality analysis; and for organizations managing multiple funds, the scope of the assets covered in the report and how they fit into the organization's strategy.
2. **Impact Management Framework, Process, and Systems**:[1] How impact influences decision-making throughout the investment process; frameworks or tools; and management of impact data.
3. **Impact Performance**: Reporting on positive and negative / unintended impact, based on measurements as far down the impact pathway (i.e., towards outcomes and impacts) as possible, including (as relevant) measurement over time, against targets, relative to goal- or theme-based taxonomies, and against the data categories within the five dimensions of impact, including investor contribution. A combination of qualitative and quantitative information is recommended, with neither being intrinsically preferable to the other. Discretion is left to the preparer as to the formatting and organization of the Impact Performance section, as well as the metrics, analytical methods, targets, and thresholds used. The preparer should disclose what approach they are taking, along with their rationale. Preparers are encouraged to report on every portfolio company or asset individually, but the largest entities may need to synthesize results across the portfolio.
4. **Governance (Optional)**: How the impact is reflected in the governance of the fund.[2]
5. **Case Study (Optional)**: Cases should be labeled as exemplary-positive, exemplary-negative, disconfirming (e.g., of a hypothesis or theory of change), or typical. Preparers should not include only exemplary-positive cases. Exemplary-positive cases are recommended to be paired with contrasting cases (e.g., composite exemplary-negative cases, disconfirming cases, or typical cases).
6. **Independent Review (Optional)**: Conclusion of independent reviewers.

Note: A separate document provides a set of suggested questions that independent reviewers can use to assess impact performance reports against the draft Reporting Norms.

[1] Signatories to the Impact Principles may simply provide a link to their most recent Signatory Disclosure Statement.
[2] Based on the governance portion of the S1 standard of the International Sustainability Standards Board.

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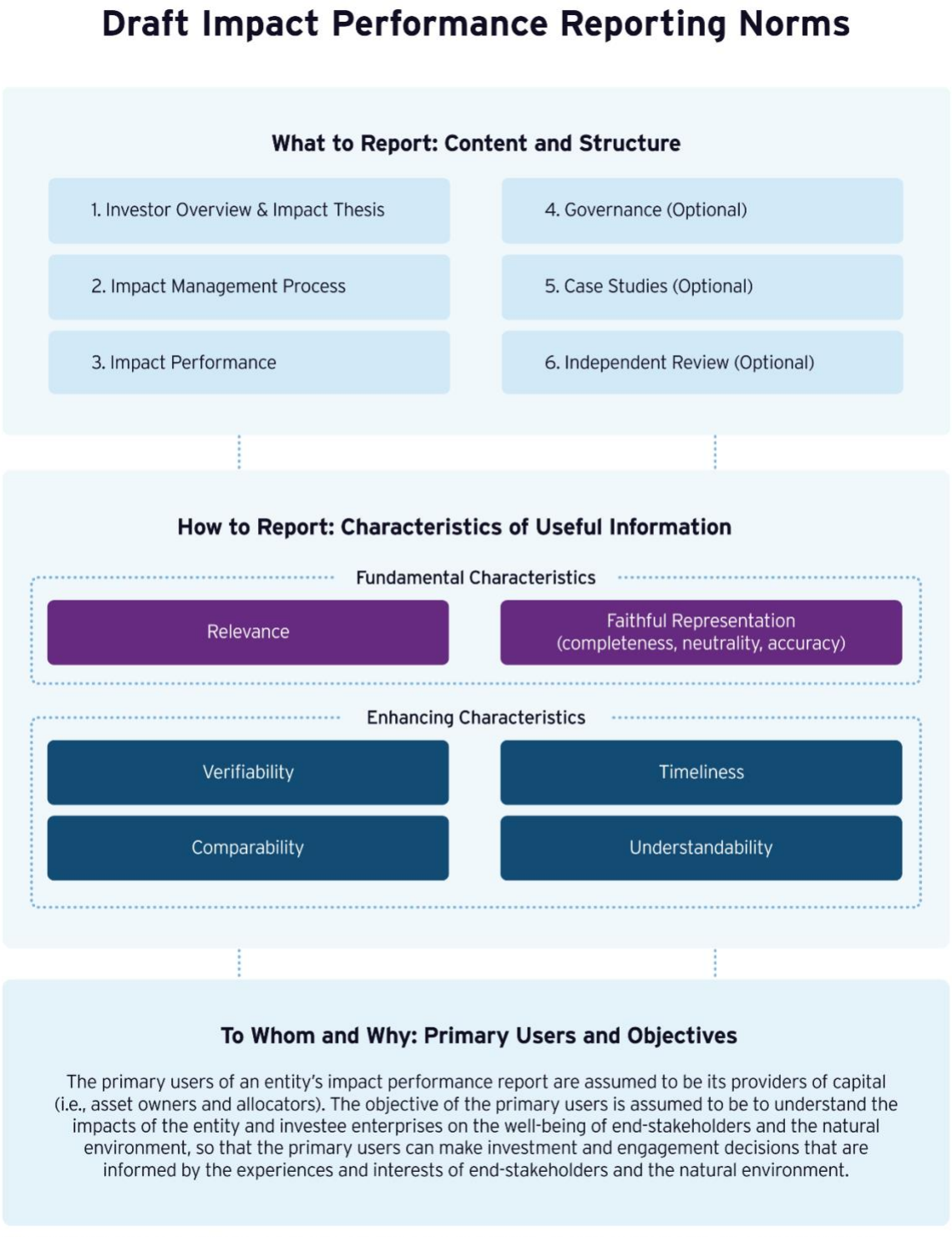
Visual Summary



*Modeled on the Conceptual Framework for Financial Reporting published by the International Accounting Standards Board.

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Context, Benefits, and Next Steps

Context: Sources and Interoperability

Following the establishment of the Impact Principles in 2019, significant progress has been made in investor reporting of impact management practices. The next step is the disclosure of actual impact performance. At present, impact performance reports vary in the quality and scope of information provided, limiting the usefulness of those reports to asset owners seeking to allocate capital for impact.

The draft Impact Performance Reporting Norms bring together relevant aspects of various preexisting concepts, frameworks, guidance, and standards into an integrated package, adding or changing only what is necessary to customize for the use-case of impact performance reporting by investors.

Investors acquainted with the Conceptual Framework on Financial Reporting of the International Accounting Standards Board will find the characteristics of useful information familiar. For investors already disclosing aspects of their impact management practices or performance following other standards, the draft Reporting Norms indicate where investors may simply refer to their existing disclosures. References to existing standards are cited throughout for easy review by readers.

The "gap" in standards, frameworks, and guidance that the Norms are intended to fill is illustrated by the System Map for Investors and Financial Institutions created by the Impact Management Platform.[3] For context, the System Map "provides a visual representation of the international public good resources for investors and financial institutions to manage their sustainability impacts" and is agreed-upon by the relevant standard-setters. It maps out the uses and intended users of applicable standards and guidance, frameworks and tools, indicators and metrics, and databases. While many areas of the System Map are crowded with resources, the area corresponding to disclosures of impact performance by investors is almost entirely blank, with the PRI Reporting and Assessment Framework being the only resource cited. This is the gap that the Norms aspire to fill. (See Appendix D for a version of the Systems Map with the drat Reporting Norms overlaid.)

For independent reviewers, the Norms are designed to serve as suitable criteria against which impact performance reports may be assured, evaluated, or verified. A companion document, Supplement on Independent Review of Impact Performance Reports, is designed to be interoperable with the assurance standards of the International Auditing and Assurance Standards Board (IAASB), notably Assurance and Engagements Other Than Audits or Reviews of Historical Information (ISAE3000 (Revised)),[4] Non-Authoritative Guidance on Applying ISAE3000 (Revised) to Sustainability and Other Extended Reporting Engagements, and the ISSA 5000 standard now in public consultation. The Supplement on Independent Review is equally designed to be interoperable with the AA1000

[3] The Impact Management Platform is a collaboration between the leading providers of sustainability standards and guidance that are coordinating efforts to mainstream the practice of impact management. Partners in the Platform are working together to promote interoperability between their existing sustainability resources, address gaps, and engage with policymakers and regulators. https://impactmanagementplatform.org/

[4] In August 2023 the IAASB opened consultation on a new draft International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*.

Assurance Standard by AccountAbility. We are also exploring interoperability with ISO 17021, ISO 17029, and the forthcoming ISO 14019-1.

Benefits

Broad uptake of the Norms can establish a shared foundation for comparability, consistency, integrity, and quality in impact performance reporting. It can reduce the time and cost incurred by report preparers while increasing the usefulness of reports for users.

Benefits For Report Preparers

Report preparers will benefit from a generally accepted consensus on the content, structure, and format of impact performance reports, rather than having to develop their own approach from scratch. They will also benefit from guidance about the characteristics that make reports useful to users. Improved reporting can enhance the confidence of preparers' existing capital providers and help attract future ones. Over successive years of reporting, report preparers will be able to consistently assess their impact performance, learn from experience, improve, and demonstrate that improvement to asset owners and allocators.

To the extent that capital providers align their expectations on the draft Norms, report preparers will also benefit from reduced bespoke reporting needs of individual capital providers. Report preparers newer to impact performance reporting can use the guidelines as an aspirational roadmap to follow as they build their reporting practice. To the extent that reports are shared publicly, preparers will be able to benchmark their performance against peers, contextualize their performance in the broader market, and benefit from learnings from other successful strategies.

Benefits For Report Users

Report users can expect greater clarity, completeness, and comparability of reports. Nearly as importantly, users can expect a reduction in non-relevant information and reduced bias in the selection and presentation of information. Report users will be able to follow the evolution of preparers' impact performance over time and identify entities with strong current performance as well as entities on a trajectory for strong future impact performance. Impact performance reports prepared according to these draft Norms will provide an excellent basis for deeper engagement and discussion of impact with report preparers. Finally, as uptake increases, report users will increasingly be able to benchmark reporting entities' performance against comparable peers and contextualize entities' performance within the report user's portfolio. To realize these benefits, report users may need to enhance their own ability to interpret and critically evaluate impact performance reports.

Benefits For Independent Reviewers

Independent reviewers – including assurance, evaluation, and verification providers – will benefit from having a generally accepted set of suitable criteria (i.e., Norms) against which to assess investors' impact performance reports, that were developed through a process of public consultation by a non-profit organization with relevant subject expertise. Independent reviewers will inevitably develop their own internal interpretations, but the draft Reporting Norms, along with the Supplement on Independent Review, provide extensive common ground. This will ensure a high baseline level of

consistency across providers that will enhance market confidence and help forestall the proliferation of inconsistent frameworks with opaque criteria from disparate providers.

Widespread uptake may lead to greater understanding by investors of types and levels of independent review available, the process, standards, and criteria by which an investor's impact performance report will be assessed, and the expected qualifications of reviewers. That said, the Norms recognize that individual decisions to seek independent review or not are best left to report preparers in consultation with report users and other external stakeholders.

Next Steps: Implementing the Draft Reporting Norms

The draft Reporting Norms are intentionally aspirational. Few investors will be able to provide all of the suggested content at first. At the same time, they are designed so that most investors will immediately be able to use the structure and format to provide much of the content, and then fill in remaining gaps over time.

Report preparers are encouraged to take a phased approach to implementation, and to communicate transparently with their report users about the extent to which they follow the draft Norms. During the implementation process, preparers might include a note to the effect that "we are beginning adoption of the Norms as of [year] and anticipate being aligned with them by [year]."

As noted in the Executive Summary, the draft Norms may be implemented in whole or in part, and at any pace, at the discretion of the report preparer. If implemented in part, reports should at a minimum include "1. Investor Overview and Impact Thesis" and "3. Impact Performance." Expectations of the depth of implementation, along with the length of the report, should be commensurate with fund size to avoid disadvantaging smaller and/or emerging fund managers. Differing levels of data availability in reporting entities' context should also be taken into account by report users.

There are many possible ways to sequence the implementation process. Preparers have flexibility to design a process that will fit their goals and needs. Illustrative examples include:

- Drafting "1. Investor Overview and Impact Thesis" and "2. Impact Management Framework, Process, and Systems" in the first year of implementation; "3. Impact Performance" in the second year; and optional 4.-6. in the third year and beyond.

- Completing a first rough draft of 1.-3. in the first year; revising in the second year to enhance alignment with the characteristics of useful information; and seeking independent review in the third year.

The most important thing that report users such as asset owners and allocators can do is to consider committing to the draft Norms, once finalized, as their preferred or primary format for receiving annual impact performance reports from the funds or other intermediaries in which they invest. If a plurality of users can commit to the Norms as a shared baseline expectation for reporting, this will significantly reduce the burden for report preparers of providing bespoke customized reports for individual users.

Proposal: Transition Period

One proposal on which we invite feedback is a "Transition Period" spanning three years from when the report preparer decided to align with the draft Reporting Norms. During the transition period, report preparers would strive to follow the Norms to the best of their ability. For their part, report users would agree to review the resulting reports with a forgiving eye. Moving the market towards more candor in reporting will require that the first movers towards transparency be rewarded, not penalized, for their efforts. The transition period can also be an opportunity to share the report with other stakeholders such as investees and local communities, to enhance the degree to which reports represent the interests and experiences of the stakeholders and aspects of the natural environment experiencing the impact.

Proposal: Pilot Program

Another proposal on which we invite feedback is that of a pilot program in which asset managers, asset owners and allocators, and independent reviewers would individually and collectively pilot the Norms, share learnings, and provide feedback to further improve the Norms. Participants would have a shared goal of publishing their first Norms-aligned impact performance reports in 2025. Towards this goal, participants would receive capacity-building support and facilitated interactions with peers. Online Zoom "office hours" could be held to offer support to early adopters, share early learnings, and address questions and challenges that have arisen. Successful pilot participants would be well-positioned as leaders in the movement toward greater transparency and integrity in impact performance reporting.

Proposal: Optional Preparer Statement

Lastly, we invite feedback on the idea of including an optional statement at the end of reports that could be signed by the relevant preparer team members responsible for impact, as well as an executive or Board-level sponsor.

As an example, the statement could say of each signer that:

- "For the periods presented in the report,
- He or she has reviewed the report;
- Based on his or her knowledge, the report does not contain any untrue statement of material information or omit to state material information necessary in order to make the statements made, in light of the circumstances, not misleading;
- Based on his or her knowledge, the impact performance report fairly presents, in all material respects, the impacts of the entity and its investees; and
- Procedures are in place to ensure that material information is made known to them, particularly during the period in which the report is being prepared."[5]

This would be an optional inclusion, would not be legally binding, and would not be expected until the third year of Norms-aligned reporting at the very earliest. A signed statement such as this would signify a high degree of alignment with the Norms.

[5] This statement is modeled after "Certification of Quarterly and Annual Reports," the one signed by executives of publicly listed companies in the United States when they file a Form 10-K financial disclosure with the Securities and Exchange Commission. https://www.sec.gov/rule-release/33-8124

Terms and Definitions

For the purposes of this document, the following terms and definitions apply:

1. **Agreed-Upon Procedures:** An engagement in which the practitioner performs the procedures that have been agreed upon by the practitioner and the preparer, where the preparer has acknowledged that the procedures performed are appropriate for the purpose of engagement. The practitioner communicated the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. [6]

2. **Asset Manager:** An entity acting on behalf of clients (i.e., asset owners, allocators, and other capital providers) to manage assets via accounts and/or funds and to make investment decisions. The Norms assume asset managers are the **preparers** of impact performance reports.[7]

3. **Asset Owners and Allocators:** Entities that allocate capital to asset managers, who in turn invest that capital in companies, projects, and real assets. They may hold legal title to the assets or may advise those that do. Examples include endowments, family offices, insurance companies, investment consultants, outsourced chief investment officers, pensions, sovereign wealth funds, and wealth management firms. The Norms group together asset owners, asset allocators, and any other capital providers as **users** of impact performance reports. Note that an organization may include multiple entities (e.g., funds, divisions, etc.), some of which function as asset managers, and others of which function as asset owners and allocators. Funds-of-funds may function as both preparers and users of impact reports.

4. **Assurance:** An engagement in which an assurance practitioner aims to obtain sufficient and appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of intended users other than the report preparer about the subject matter.[8]

5. **Entity**: A clearly defined economic unit that isolates the accounting of certain transactions from other subdivisions or accounting entities. An entity can be a corporation or government agency, as well as a subsidiary within a corporation, a fund, or a special purpose vehicle. The accounting entity must have a separate set of records detailing its assets and liabilities from those of the owner.

6. **Evaluation:** A systematic process to determine merit, worth, value or significance.[9] In the context of impact evaluations, this may refer more specifically to a systematic effort to measure the net change in outcomes amongst a particular group, or groups, of people, or aspects of the natural environment, that can be attributed to a specific program.[10] (In this context, attribution refers to

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[6] International Auditing and Assurance Standards Board, "ISRS 4400 (Revised), International Standard on Related Services Agreed-Upon Procedures Engagements," 2022, https://www.ifac.org/_flysystem/azure-private/publications/files/ISRS-4400-Revised-Agreed-Upon-Procedures-final.pdf.

7 Third-party report preparers may also benefit from these Norms.

8 International Auditing and Assurance Standards Board, "ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information," 2013, https://www.ifac.org/_flysystem/azure-private/publications/files/ISAE%203000%20Revised%20-%20for%20IAASB.pdf.

[9] "What is Evaluation?" American Evaluation Association, https://www.eval.org/Portals/0/What%20is%20evaluation%20Document.pdf.

[10] "Principles for Impact Evaluation, International Initiative for Impact Evaluation, https://www.3ieimpact.org/sites/default/files/principles-for-ie.pdf.

whether the change in outcome would likely have occurred in the absence of the program, not to the proportion of the change associated with the program.)

7. **Fund:** Shorthand for a pooled investment vehicle that an entity creates to pool money from multiple investors.[11]

8. **Fund-of-Funds:** A pooled investment fund that invests in other types of funds. Funds of funds may be report preparers, report users, or both. The draft Norms were designed primarily to guide impact performance reporting by entities that invest in operating companies and assets rather than in financial intermediaries, hence may not be sufficient for use by funds of funds.

9. **Impact:** The effect of entities' actions on people and/or the natural environment over the short-, medium-, and long-term.[12] For avoidance of doubt, in the Norms, the term "impact" implies a change in outcomes caused by an entity. In contrast, an outcome is a level of well-being[13] experienced by people and/or the condition of the natural environment, which may or may not be caused by factors other than the entity.

10. **Impact Pathway:** The impact pathway describes the link between entities' inputs, activities, and outputs with their effects on people and the natural environment – that is, their outcomes and impacts.[14] The impact pathway may also be referred to as the "chain of outcomes," "logic model," "outcomes chain," "results chain," or "theory of change." As a shorthand, this document sometimes uses the phrase "as far down the impact pathway as possible." This means as far as possible down the sequence leading from inputs, activities, and outputs to outcomes and impacts.

11. **Impact Performance Report:** A report on the impacts of an entity. It may also include information about relevant goals, practices, and other contextual information.

12. **Impact Thesis:** An entity's strategy for delivering on one or a range of impact objectives for an investment or a portfolio of investments. An investor's impact thesis should include both the desired enterprise impacts on people and the natural environment and the investor's contribution to that impact. Implicit in a portfolio-level impact thesis is that the investor has discretion on the portfolio construction, investment selection, and engagement process for that impact strategy, and that the impact thesis applies to all of the investments in the portfolio rather than a subset.

13. **Independent Reviewers:** An individual or a group independent of the report preparer that is engaged in increasing the confidence of the user in the reported information.

14. **Input:** The resources and relationships that entities draw upon for their business activities, as well as the contextual elements that define their business activities.[15]

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[11] https://www.sec.gov/education/glossary/jargon-z#PIV

[12] The Platform previously published the following definition of impact: "A change in an aspect of people's well-being or the condition of the natural environment caused by an organization." The new definition was chosen for simplicity, but Platform notes that the two definitions are intended to be substantively equivalent. Impact Management Platform, "Key terms and concepts: Impact," https://impactmanagementplatform.org/terms-and-concepts/

[13] Well-being defined as in OECD Well-being Framework.

[14] Impact Management Platform, "Impact and the impact pathway," https://impactmanagementplatform.org/impact/#impact-pathway

[15] Impact Management Platform, "Input," https://impactmanagementplatform.org/terms-and-concepts/

15. **Investee:** The project, company, real asset, or fund receiving capital to finance its business activities (e.g., operations and design, production, and sales of products or services).[16]

16. **Investor:** A person, entity, or government that puts money into another entity.[17] In the draft Norms, the term investor refers to both asset managers (across asset classes) as well as asset owners.

17. **Limited Assurance:** An assurance engagement that is less intensive and less costly than reasonable assurance (see below), but that also results in a lower level of confidence in the resulting conclusion. For a limited assurance engagement, the conclusion is worded so that instead of reading "in my opinion, this report is X", it reads "during the course of my work I have found nothing to suggest that this report is not X".[18]

18. **Logic Model:** A structured table that links inputs and activities to measurable outputs and outcomes.[19] Can be a tool to represent an impact pathway, impact thesis, or theory of change.

19. **Material:** Information is considered material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users make on the basis of the reported information.[20] The concept of materiality is interpreted in the context of impact reporting under "Relevance" in Section 1.2.

20. **Metric:** A standard of measurement. Metrics are used to measure the state of something at a point in time. Repeated measurement makes it possible to determine change over time.[21]

21. **Misstatement:** A difference between the subject matter information (in this context, impact performance information) and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.[22]

22. **Norm:** Something that is usual or typical; a pattern of social behavior that is typical or expected of a group.[23] In this context, the term "norm" was chosen to imply something less prescriptive, uniform, and binding than a "standard."

23. **Outcome:** The Impact Management Platform recognizes two usages of this term, without preference for either: 1) A change or event resulting from entities' activities and outputs, providing a causal link between the activities/outputs and their impact(s) on people and/or the natural environment; or 2) The level of well-being experienced by people or condition of the natural environment that results from the actions of the entity, as well as from external factors.[24,25]

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[16] Global Impact Investing Network, "COMPASS: The Methodology for Comparing and Assessing Impact," The GIIN, https://thegiin.org/research/publication/compass-the-methodology-for-comparing-and-assessing-impact/.
[17] Cambridge Dictionary, "Investor," CambridgeWords, https://dictionary.cambridge.org/us/dictionary/english/investor.
[18] https://www.icaew.com/technical/audit-and-assurance/assurance/what-is-assurance/assurance-glossary
[19] Organization for Economic Co-operation and Development, "Glossary of Key Terms in Evaluation and Results Based Management," n.d., https://www.oecd.org/dac/evaluation/2754804.pdf.
[20] IASB, "ISAE 3000 (Revised)."
[21] Impact Management Platform, "Metrics," https://impactmanagementplatform.org/terms-and-concepts/
[22] IASB, "ISAE 3000 (Revised)."
[23] Adapted from Oxford languages.
[24] Impact Management Platform, "Outcome," https://impactmanagementplatform.org/terms-and-concepts/
[25] Learn more on the two usages here.

Although usage 2) is used throughout this document, preparers may use either definition in their impact performance reports and are encouraged to disclose the definition used.

24. **Output:** The direct result of entities' activities, including products, services, and by-products.[26]

25. **Reasonable Assurance:** An assurance engagement in which the assurance practitioner or internal committee reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis of the practitioner's conclusion. The conclusion is expressed in a form that conveys opinion on the outcome of the measurement or evaluation of the underlying subject matter (i.e., an impact performance report) against suitable criteria (e.g., a reporting standard, or these Norms in the absence of a standard).[27]

26. **Stakeholder:** An individual or aspect of the natural environment that can reasonably be expected to be significantly affected by the entity's activities, products, and services, or whose actions can reasonably be expected to affect the ability of the entity to successfully implement its strategies and achieve its objectives.[28] These include (but are not limited to) clients/end-beneficiaries, entity management and staff, suppliers, and affected local people and communities (including marginalized and vulnerable groups). These may also include non-governmental organizations, civil society organizations, governmental entities, and other groups insofar as they faithfully represent affected stakeholders.[29] In this context, the entities' capital providers are not included as stakeholders, as it would be inappropriate for the entity to report on its impacts on capital providers to those same capital providers. For the avoidance of doubt, the term "stakeholder" is intended to emphasize reports' inclusion of stakeholders that are experiencing outcomes below socially or environmental thresholds (i.e., below acceptable levels), and stakeholders that have relatively little power, status, or voice, and whose interests are thus at greatest risk of not being taken into account in users' decision-making.

27. **Targets:** Measurable, outcome-oriented, and time-bound goals that the entity or its investees aim to achieve in relation to material impacts, risks, or opportunities. They may be set voluntarily by the entity or investees or derive from legal requirements.[30] Targets are distinct from thresholds as defined below.

28. **Theory of Change:** A method that explains how a given intervention is expected to lead to a specific change, drawing on a causal analysis based on available evidence.[31]

29. **Thresholds:** In this context. the term "thresholds" refers specifically to the level or range of an outcome that divides sustainable from unsustainable performance. These ranges are set with reference to social norms or planetary limits that have been identified through scientific research. Thresholds are critical contextual reference points for entities assessing whether an outcome is sustainable or unsustainable. They are distinct from other types of targets that entities might set

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[26] Impact Management Platform, "Output," https://impactmanagementplatform.org/terms-and-concepts/

[27] IASB, "ISAE 3000 (Revised)."

28 Impact Management Platform, "Key terms and concepts: Stakeholder." https://impactmanagementplatform.org/terms-and-concepts/. IMP definition based on underlying work from: Global Reporting Initiative (GRI); OECD Due Diligence Guidance for Responsible Business Conduct; OECD Well-being Framework; Value Reporting Foundation (VRF) Integrated Reporting Framework).

29 Adapted from "Engaging All Affected Stakeholders," World Economic Forum, 2017. https://socialvalueuk.org/wp-content/uploads/2023/01/WEF-Engaging-all-affected-stakeholders-AG3-December-2017-4.pdf.

[30] ESRS Glossary, "Targets"

[31] Impact Management Platform, "Theory of Change," https://impactmanagementplatform.org/terms-and-concepts/

themselves which are not explicitly linked to a scientific assessment of what constitutes a sustainable outcome.[32]

30. **Well-being:** The state of being or doing well in life; happy, healthy, or prosperous condition; moral or physical welfare. The OECD Well-being Framework states that the 11 dimensions of well-being are comprised of the outcomes that matter most to people.[33]

[32] Impact Management Platform, "Impact Pathway," https://impactmanagementplatform.org/terms-and-concepts/
[33] Impact Management Platform, "Well-being," https://impactmanagementplatform.org/terms-and-concepts/

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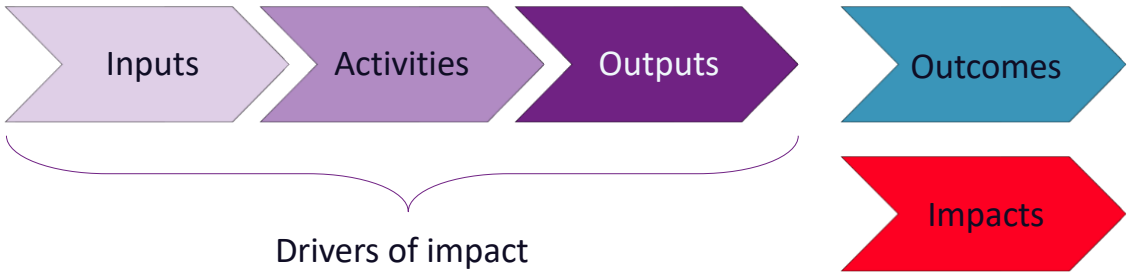
Impact Pathways

The impact pathway is defined by the Impact Management Platform as "the sequence that links organizations' actions with their effects on people and the natural environment." The impact pathway depicts the causal chain of an entity's inputs, activities, outputs, and the resulting changes in well-being for stakeholders and/or the natural environment.

An impact pathway can be expressed in many forms, including a theory of change, logic model, outcomes chain, or systems map. While the impact pathway represents a simplified version of complex relationships between multiple outcomes and impacts (intended and unintended, positive and negative, primary and secondary), thinking through this sequence of elements can help an entity articulate its impact thesis, identify possible outcomes, and select appropriate metrics to measure its impacts.

In the model below, which depicts a common form of an impact pathway, "Inputs," "Activities" and "Outputs" are considered drivers of impact. "Outcomes" are shown as the endpoint of the causal chain and denote a level of well-being while "Impacts" specify the change in the level of well-being that was caused by the entity. In some cases, a sequence of outcomes (with corresponding impacts) is portrayed.

Note: The draft Reporting Norms adopt usage 2) from the Impact Management Platform definition for "outcome"; based on this usage, outcomes mark the end of the impact pathway. For alternate usages and interpretations, see Impact Management Platform: The impact pathway.



The different elements and how they are delineated can depend on context, the preparer's chosen definitions of terms and their judgment in applying those definitions. Preparers are encouraged to define their chosen usage of these terms for the sake of clarity.

Because each outcome or impact can be influenced by multiple drivers, understanding the various impact pathways gives a clear picture of what drivers an entity can manage in order to produce the desired positive impacts or mitigate potential negative impacts. The draft Reporting Norms recommend that preparers measure and disclose the furthest element along the impact pathway possible.

Draft Impact Performance Reporting Norms

The draft Reporting Norms are intended to build consensus on:

1. The objectives and users of impact performance reports;
2. The qualitative characteristics that make an impact performance report useful; and
3. The suggested contents and structure of impact performance reports, with bounded flexibility for preparers to customize to their individual circumstances.

While the third – content and structure of reports – is most tangible, all three elements are mutually reinforcing, and none are more important than the others.

The Norms combine elements of existing impact management practice with concepts from the Conceptual Framework on Financial Reporting[34] (hereafter "Conceptual Framework") of the International Accounting Standards Board (IASB). The Conceptual Framework "sets out the fundamental concepts for financial reporting that guide [IASB] in developing International Financial Reporting Standard (IFRS)." Excerpts from the Conceptual Framework are provided so that impact management professionals previously unfamiliar with it can pick up the main points without leaving the document.[35]

The characteristics of useful information are essential due to the flexibility left to the preparer in contents and format. Some aspects of impact performance reporting may not make sense to standardize yet. Others may not make sense to standardize at all. Preparers will necessarily have to exercise discretion in what information to present and how to present it, and users will have to exercise discretion in how to interpret the information.

The characteristics of useful information can guide preparers and users in the exercise of this discretion. They pick up where prescriptive standards leave off. Throughout impact performance reports and especially in areas left to preparers' discretion, preparers are encouraged to strive for the two fundamental characteristics of relevance and faithful representation (i.e., completeness, neutrality, and accuracy). For their part, users and independent reviewers are encouraged to apply professional skepticism to areas that are left to preparers' discretion, and to evaluate the extent to which the information provided is relevant and faithfully represented.

Note on usage: All aspects of these Norms are entirely voluntary, and the Norms accordingly use wording such as "investors can" or "investors may." In selected instances, the word "should" is used instead of "can" or "may." The word "should" is used to indicate areas where reviewers of the pre-consultation draft felt that the proposed Norm should be encouraged especially strongly, with exceptions rare (for instance, presenting negative as well as positive results).

[34] IFRS, "Conceptual Framework for Financial Reporting," 2018, https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/.

[35] Readers are encouraged to review the CFFR Chapters 1 and 2, and 7.1-7.6 and 7.20-7.22 on Presentation and Disclosure.

Section 1: Foundations

1. Users and Objectives of Impact Performance Reports

The primary users of an entity's impact performance report are assumed to be the providers of capital to the entity (i.e., asset owners and allocators). Other users may include policymakers, regulators, civil society organizations, current and prospective employees of the entity, and/or stakeholders affiliated with companies in the entity's portfolio, including managers, employees, suppliers, customers, and local communities.

The draft Norms focus on the needs of these primary users under the assumption that they seek to understand the impacts of the entity and investee enterprises on the well-being of stakeholders and the natural environment, so that they can make investment and engagement decisions that are informed by the experiences and interests of stakeholders and the natural environment.

The draft Norms assume that impact performance reports would be shared privately with asset owners rather than publicly. However, publicly funded entities such as international organizations and non-profits may wish to make their impact performance reports publicly available.

Users may need to interpret impact performance reports in light of information that comes from other sources and is not specific to the entity. For instance, information such as scientific thresholds, social norms, and contextual information about stakeholders and the natural environment may all influence users' interpretation of impact.

Impact performance reporting is at a nascent stage as compared with financial reporting. The Norms begin the process of incorporating elements of the Conceptual Framework alongside existing practices of impact management. This integration can be taken further as the market matures. Impact performance reports prepared in accordance with the Norms may represent an improvement over existing impact reports, but they do not give as complete a view of impact performance as financial statements prepared using the Conceptual Framework and IASB's standards give of financial performance.

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Excerpts from Conceptual Framework, Chapter 1

1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

1.3 The decisions described in paragraph 1.2 depend on the [financial] returns that existing and potential investors, lenders and other creditors expect.

1.4 To make the assessments described in paragraph 1.3, existing and potential investors, lenders and other creditors need information about: (a) the economic resources of the entity, claims against the entity and changes in those resources and claims; and (b) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's economic resources.

1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

1.6 General purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

1.7 General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

1.8 Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing Standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

1.9 To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive. As with most goals, the Conceptual Framework's vision of ideal financial reporting is unlikely to be achieved in full, at least not in the short term, because it takes time to understand, accept and implement new ways of analysing transactions and other events. Nevertheless, establishing a goal towards which to strive is essential if financial reporting is to evolve so as to improve its usefulness.

2. Characteristics of Useful Information

The following sections interpret the six qualitative characteristics of useful information from the Conceptual Framework in the context of impact performance reporting.

> Excerpts from Conceptual Framework Chapter 2 (emphasis added)
>
> 2.5 The fundamental qualitative characteristics are relevance and faithful representation.
>
> 2.20 Information must both be relevant and provide a faithful representation of what it purports to represent if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.
>
> 2.23 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Relevance

In financial reporting, the concept of relevance defines what information should and should not be included in a report. National securities regulations typically focus on the needs of current shareholders and their ability to understand the financial performance of a company. If the information could affect investors' estimates of enterprise value, the company's share price, and/or investor decisions to buy or sell its securities, that information is considered material and should be included in a financial report.

In impact performance reports, entities are similarly recommended to include all relevant information and to exclude information that would be unlikely to change users' decisions or that could obscure users' view of relevant information.

However, the definitions and criteria for relevance are different for impact performance reports published by impact investors than for financial reports typically published by companies and investors. (See Appendix E for definitions of materiality by major sustainability frameworks and standards.)

Relevance in the draft Reporting Norms focuses on the needs of primary users – asset owners and allocators – under the assumption that they seek to understand the changes in the well-being of stakeholders and the natural environment caused by the entity and investee enterprises, so that the primary users can make investment and engagement decisions that are informed by the experiences and interests of stakeholders and the natural environment. Report users may additionally seek to understand the relationships between well-being of stakeholders and enterprise value.

Therefore, relevance in the Norms should be defined to include information about impacts significant from the perspective of the stakeholders and the natural environment (i.e., "impact materiality"), including intended and unintended impacts, and positive and negative impacts. Preparers may additionally include information relevant to enterprise value and/or financial risk and return (i.e., "double materiality"), for instance as part of an Integrated Report.

The assumption is that if stakeholders were experiencing an impact that is significant from their perspective, the primary users of the report would want to know about it, regardless of whether the impact may affect the entity's financial performance.

Information about the significance of impacts to stakeholders is itself relevant. If available information suggests that the impact is more or less significant to the stakeholder than it is to the preparer or user, this difference in significance will be relevant to note in the report.

There are no prescriptive rules about what specific pieces of information are material. IFRS provides the following guidance in "IFRS Practice Statement 2: Making Materiality Judgements:"

> "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.
>
> When making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements—its primary users—when they make decisions on the basis of those statements.
>
> When assessing whether information is material to the financial statements, an entity applies judgement to decide whether the information could reasonably be expected to influence decisions that primary users make on the basis of those financial statements. When applying such judgement, the entity considers both its specific circumstances and how the information provided in the financial statements responds to the information needs of primary users.
>
> Because an entity's circumstances change over time, materiality judgements are reassessed at each reporting date in the light of those changed circumstances."

For preparers of impact performance reports, determining the materiality of information requires judgment calls that take into account the specific characteristics of the entity, investee enterprises, affected stakeholders, the natural environment, and the contexts in which they operate. Preparers also take into account the specific interests and needs of the capital providers who are the report's primary users.

In making these judgment calls, practitioners weigh the benefits of including additional information that may be material against the risk of including information that is not material. More disclosure is not always better. Inclusion of non-material information may obscure users' view of material information and compromise understandability.

In private markets, report preparers and users are often able to engage one another directly, and it may be helpful to discuss what information would be material to the user and why. This discussion may identify opportunities to shorten the length of impact performance reports, reducing time and expense for preparers and users alike while increasing focus on the most important pieces of information.

Enterprises and investors commonly conduct top-down stakeholder and materiality assessments to determine what outcomes and impacts to disclose. While widespread, this approach risks excluding impacts that, while individually small in magnitude, collectively would be significant to the stakeholders

618 experiencing them and hence material to the report user. The greater the scope of impacts that are
619 managed, the greater the confidence that the report does not exclude material information.[36]

Excerpts from Conceptual Framework Chapter 2

2.6 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

2.7 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

2.11 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

[36] Financial accounts record all revenues, costs, assets, and liabilities, no matter how small, that meet a required level of certainty. This level of certainty permits estimation and models. That is, accountants do not conduct an ex-ante materiality assessment to decide which revenues, costs, assets, and liabilities to include in the financial accounts. In contrast, sustainability, and impact investors, facing the cost and logistical challenge of measuring all impacts on all stakeholders and aspects of the natural environment, typically conduct an ex-ante materiality assessment to determine which impacts are expected to be material, and then measure those. When preparing an impact performance report, they then (perhaps implicitly) conduct a second materiality assessment to determine what subset of the available information to include in the report. While understandable from a cost and technical perspective, this practice creates a risk that material impacts are excluded from reports because they were never measured in the first place – but would have been material, had they been measured, and that the resulting portrayal of performance is incomplete, biased, or both. Initiatives in impact accounting often aim to measure all impacts – based on sampling and estimation techniques – to reduce this risk. The draft Reporting Norms assume that the preparer and its investees do not have processes in place to disclose all impacts. Preparers that do have such processes in place or wish to build them are encouraged to consult the Gold Standard Fund Requirements and/or the SDG Impact Standards. Additionally, to learn more, see the resources of the Capitals Coalition, the International Foundation for Valuing Impacts, and Social Value International. At a minimum, for alignment with the Norms it is recommended that preparers update information on an annual basis if any material information manifests during the reporting period.

Faithful Representation

In financial reporting, information is said to provide a faithful representation to the extent that it is complete, neutral, and accurate.

In principle, a complete depiction of impact performance would include the relevant outcomes, impacts, and metrics that are known or could reasonably be expected to be known at the time the report is prepared. It would include both positive and negative impacts, and both intended and unintended impacts. It would include measures from as far down the impact pathway as possible. It also could include information such as data categories of the five dimensions of impact[37], impact pathways, logic models, system maps, etc. As described above in "Relevance," it would include consideration of even small individual impacts that might collectively be material to the user.

A depiction of "impact performance," as opposed to just "impact," in principle means not only a description of an entity's positive and negative outcomes and/or impacts, but also a consideration of the balance between different kinds of positive and negative impacts in that entity's particular context, the tradeoffs among them, and the decisions made to manage those impacts.[38]

However, complete information is rarely available or cost-effective to obtain. The Conceptual Framework also recognizes the cost constraint on reporting (see paragraphs 2.39 – 2.43 in Appendix F). Related to the need for judgment calls about materiality, judgment is required to gauge how much completeness is appropriate in light of the cost of obtaining and disclosing the information, the significance of the impacts from the perspective of stakeholders and the natural environment, and the significance of the information to primary users of the report.

Consideration of neutrality and accuracy can help report preparers in making these judgment calls.

A neutral depiction means there is no bias in which information is selected to include in the report, or in the way that information is presented. In the context of financial reporting, the term "bias" refers to slanting, weighting, emphasizing, deemphasizing, or otherwise manipulating the information in the report to make it more likely that users of the report will receive the information positively or negatively. Colloquially, a "neutral" depiction would be one free of "green-washing" or "impact-washing."

When preparing representations of social and/or environmental impact, concepts such as bias and neutrality merit handling with particular care. A representation that appears neutral and unbiased to a report preparer or to users may not appear so to others, even when all involved are acting in good faith and making best efforts. Report preparers, users, and independent reviewers alike are encouraged to check for bias and neutrality from multiple perspectives, for instance by ensuring that report drafts are

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[37] Impact Frontiers, "Five Dimensions of Impact," Impact Frontiers, March 10, 2022, https://impactfrontiers.org/norms/five-dimensions-of-impact/.

[38] Financial equivalents of "impact performance" might include, for instance, various measures of profitability or return on equity, taking into account both revenues and costs. Organizations that strive to estimate a monetary value of their impact could disclose the positive and negative impacts arising from their decisions which would show an impact equivalent of measures of net financial performance. More commonly, organizations take stock of disparate positive and negative impacts and form a view of impact performance, without creating a monetary estimate of impact or netting out negative against positive. Either approach can be taken in impact reports prepared in alignment with the Norms.

reviewed by individuals that can represent the various groups of stakeholders and/or aspects of the natural environment represented in the report.

For impact performance information to be accurate, it does not need to be perfectly precise; rather, accuracy requires that reported information be free of material misstatement; estimates, approximations, and forecasts are explicitly identified; and estimates are developed through reasonable assumptions and inputs-based information of sufficient quality and quantity. Claims of impact are made more credible to the extent that they are evidenced by data from as close to the stakeholders experiencing impact as possible. While it may not be possible for users or independent reviewers to verify the source data, estimates, or assumptions that underpin the report, preparers can follow consistent and rigorous processes, and the following of those processes can be documented and independently reviewed.

Preparers of impact performance reports are likely to struggle with all three: completeness, neutrality, and accuracy. Users for their part may question whether reports are complete, neutral, and accurate enough to inform their decisions.

This is where effective stakeholder engagement and thoughtful independent review may add value. Independent review is covered under "Verifiability" and in other sections. Possible methods of stakeholder engagement both at the level of the entity's impact theses and at the level of performance of individual investee enterprises are explored in Appendices G and H.

As part of the "Foundations" for the draft Reporting Norms, stakeholders are the best source of information about their own needs and preferences, about the impacts they are experiencing, and about the relative importance of those impacts.[39] In the case of the natural environment, sources of information may include scientists, technical experts, and local communities who are most proximate to and/or skilled with the measurement and interpretation of environmental phenomena.

Entities engaging directly with stakeholders are also encouraged to consider that engagement may be received as 'empowering' or 'extractive' – or even perceived as a means towards control or influence – and therefore needs careful consideration. It is encouraged to refer to written resources[40] or practitioners with specialist expertise in engaging stakeholders.

Just as materiality in the draft Reporting Norms is defined from the perspective of the stakeholders and aspects of the natural environment experiencing the impact, so are the characteristics of completeness, neutrality, and accuracy that together make for faithful representation. When questions arise about whether information in a report is faithfully represented, a useful criterion to consider is whether the stakeholders or aspects of the natural environment experiencing the impact would consider it a faithful representation, in a hypothetical scenario in which they were able to review the impact performance report.[41]

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[39] This does not imply that such information is self-reported, nor exclude that it is.

[40] For instance, see Chicago Beyond's guidebook "Why Am I Always Being Researched?" https://chicagobeyond.org/researchequity/; resources from MIT D-Lab's Lean Research initiative https://d-lab.mit.edu/research/lean-research/lean-research-tools-resources; and Facilitating Power's Spectrum of Community Engagement https://movementstrategy.org/wp-content/uploads/2021/08/The-Spectrum-of-Community-Engagement-to-Ownership.pdf.

[41] This scenario need not always be hypothetical. It is widely considered good practice in impact evaluation to share study results with the participants in the study, both as an equitable practice and as a way of sense-checking those results.

One way of ensuring the faithful representation of impact is to engage stakeholders in the production and/or review of information presented in the report. Preparers are encouraged to provide any available evidence corroborating that the content of the report reflects the experiences, preferences, and views of the stakeholders experiencing the impact. Report preparers, users, and independent reviewers may also solicit review of reports by diverse stakeholder groups.

The absence of photos, icons, and colors from impact performance reports enhances their ability to provide a faithful (i.e., complete, neutral, and accurate) representation of impact. As noted in Part 1, it is difficult or impossible for preparers to ensure or users to verify that any image or set of images creates a faithful representation of an investment's impacts. Legal analysts have even gone so far as to suggest that visual elements of disclosures that connote emotions or moods should be considered along the information being provided.[42]

[42] See Kate Ruff's summary of an argument by Peter Huang: "The 'moody investor' refers to someone who experiences investment decisions affected by the emotional content of disclosures. Information can be presented in ways that elicit or minimize an emotional reaction through color, font, language, and imagery. Similar to how graphic pictures on cigarette packs change behaviors of smokers more than text-based warnings do, investors are expected to make different decisions when given information in a more emotionally enticing way. By minimizing or enhancing the affective content of information "securities issuers and securities brokers have opportunities to exploit securities markets without facing any legal and regulatory consequences from the SEC" (Huang, 2005, p. 128). For example, news of losing a contract can be conveyed in opaque, verbose language while news of signing a new one can be conveyed through short, evocative words…Recognizing that reasonable investors are moody (as opposed to uninfluenced by affect) would create to an information environment that would better protect investors and thus better fulfill the objective of the United States' Securities Exchange Act of 1934." Ruff, Katherine, 2022. "In support of making up users," Critical Perspectives on Accounting, Elsevier, vol. 88 https://www.researchgate.net/publication/351432238_In_support_of_making_up_users. Citing Huang, P. H. (2005). Moody investing and the Supreme Court: Rethinking the materiality of information and the reasonableness of investors. Supreme Court Economic Review, 13, 99–131 http://www.jstor.org/stable/3655302.

Excerpts from Conceptual Framework Chapter 2

2.12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent.

2.13 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. [IASB's] objective is to maximise those qualities to the extent possible.

2.14 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations.

2.15 A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

2.16 Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated.

2.18 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

2.19 When monetary amounts in financial reports cannot be observed directly and must instead be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

See Appendix F for further guidance from the Conceptual Framework.

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Comparability

Comparability enhances the usefulness of impact performance reports. However, in the Conceptual Framework it is not a fundamental characteristic of useful information. That is, information can be relevant and faithfully represented without being comparable.

For primary users of impact performance reports who are making decisions between alternatives, consistency enhances the usefulness of impact performance reports by making them easier to compare. Information is also more useful if it can be compared with information provided previously by the preparer.[43]

More generally, comparability enables users to find similarities or differences between two items with regard to one or more attributes. At a general level, attributes could be ideas or "constructs" such as sectors, geographies, themes, stakeholder characteristics, dimensions of impact, or goals, among other possibilities. This is termed "construct equivalence." At a more granular level, similarities and differences can also be assessed through usage of standardized metrics, termed "measurement equivalence."[44]

Financial accounting and reporting includes elements of both. The emphasis over time has shifted from a focus on measurement equivalence to a more balanced approach that includes a greater emphasis on construct equivalence.[45] A 2016 article by Ruff and Olsen summarizes:

> "Current financial standards manage variation with what might be described as bounded flexibility, or choice within limits, coupled with consistency (pick a method and stick to it) and disclosure (fine print gives details on methods used)."[46]

Preparers can enhance comparability (and forestall false equivalence) in many ways:

- Linking performance to widely used taxonomies of goals or themes (e.g., United Nations' Sustainable Development Goals, Global Impact Investing Network's IRIS+ thematic taxonomy);
- Disaggregating and analyzing data based on stakeholder characteristics;
- Disclosing information that includes as many data categories within the five dimensions of impact as possible;
- When applicable, using and referencing standardized metrics.

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[43] ISSB and IFRS Foundation, "IFRS S1," 40.

[44] "Creating Flexible Standards: Construct-based equivalence and bounded flexibility," Common Approach to Impact Measurement, https://www.commonapproach.org/wp-content/uploads/2020/07/FlexibleStandardsBriefing.pdf.

[45] "Uniformity in Accounting: A Historical Perspective." Barbara Merino and Teddy Coe, Journal of Accountancy, August 1978.

[46] The excerpt continues: "Different businesses with different strategies in different industries choose different methods for asset valuation, depreciation, and so on, and must disclose the methods they use. Financial statements aren't perfectly comparable. Instead, we expect users to be aware of the different approaches and to understand how different measurement choices affect reported profit and other important numbers. Said differently, today's financial standards achieve some degree of comparability, while allowing variation in measurement, by putting the onus on the user to recognize the significance of different accounting policies." Ruff, K. & Olsen, S. (2016). The Next Frontier in Impact Measurement isn't Measurement at All. Stanford Social Innovation Review, ssir.org/articles/entry/the_next_frontier_in_social_impact_measurement_isnt_measurement_at_all.

Comparisons based on only one or two dimensions of impact (for instance, number of people reached, which falls within the How Much – Scale dimension) in the absence of the others (for instance, degree to which stakeholders were underserved, type and depth of impact on each person, significance of that impact to them, etc.) are unlikely to provide a faithful representation of impact, and prevent users of the information from making valid comparisons that take contextual and causal factors into account.

This challenge is compounded as enterprises and investors understandably tend to include information about the dimensions of impact on which they are relatively stronger than peers and exclude information about the dimensions of impact on which they are not. Users' need for comparability creates a strong rationale for preparers to report across all of the dimensions of impact, not just those that are central to preparers' goals or that cast the preparer in a favorable light.[47]

Finally, reports that follow a consistent structure and format can be more easily compared. For these reasons, the draft Reporting Norms include proposals for the suggested content and structure of impact performance reports (Section 2). Additionally, it is encouraged to disclose in a machine-readable format for users to easily incorporate into their systems.

Excerpts from Conceptual Framework Chapter 2

2.24 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

2.25. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

2.26 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

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

[47] Comparability is cited by practitioners both as a rationale for and against estimation of the monetary value of impact. From one perspective, conversion of disparate impacts into a commensurable measure makes comparability possible. From another perspective, it compromises comparability by 'making unlike things look alike,' as per paragraph 2.27 of the Conceptual Framework above.

Verifiability

Verifiability helps assure users that the information in an impact performance report faithfully represents the entity's material impacts.

For entities reporting impact, direct verification of information might involve commissioning appropriate social research relating to the affected stakeholders and/or aspects of the natural environment. Indirect verification might mean checking the calculations and methods by which source data were aggregated and analyzed.

Although some aspects of impact performance may not be directly observable (e.g., counterfactual scenarios), the evidence that suggests performance as well as the rationale by which that evidence is used and/or the process of how that information was created can be documented and reviewed.

Installing a fund-level accountability mechanism is one way to collect material information directly from stakeholders. Reporting entities are recommended to follow evolving industry practice,[48] including establishing effective grievance mechanisms,[49] to monitor and verify the impact risk and performance of investees and engage with them to address unexpected events related to impact.

To enhance verifiability, report preparers should note sources of data and describe the methods by which reported figures were calculated.

Excerpts from Conceptual Framework Chapter 2

2.30 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

2.31 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology.

2.32 It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

[48] International Finance Corporation. 2021. "Operating Principles for Impact Management," Principle 5 (referencing the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the IFC Performance Standards) https://www.impactprinciples.org/sites/default/files/202106/Impact%20Principles%20Brochure%20Revised.pdf.

[49] Accountability Counsel, https://www.accountabilitycounsel.org/institution/impact-investing/.

Timeliness

Considerations of timeliness are similar for impact performance reporting as for financial reporting, with the addition that material adverse impacts are best disclosed and responded to promptly to mitigate harm.

Existing standards recommend that investors publish impact performance reports with the same frequency as financial reports.[50,51] This would typically be at least annually, but in some cases, preparers may determine that a different cadence is appropriate for their asset class and investment strategy. For many investors, there may not be a need for quarterly impact updates on a routine basis, so long as any unusual material information that arises during the quarter is communicated to users in a timely fashion. Section 2: Content and Structure was designed so that the performance section is the only one that would need to be updated every year.

> Excerpts from Conceptual Framework Chapter 2
>
> 2.33 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

[50] International Finance Corporation. 2021. "Operating Principles for Impact Management," 6. https://www.impactprinciples.org/sites/default/files/2021-06/Impact%20Principles%20Brochure%20Revised.pdf.

[51] The United Nations Development Programme. 2020. "SDG Impact Standards for Private Equity Funds." https://sdgimpact.undp.org/assets/SDG-Impact-Standards-for-Private-Equity-Funds-Version_1_0.pdf.

Understandability

Clarity and concision make information easier to understand and thus more useful to primary users of impact performance reports. Concise impact performance reporting avoids generic information that is not specific to the preparer entity and does not duplicate information.[52] However, clarity requires that enough information be presented to explain context and connections between related information and to provide a complete picture of impact performance. In some cases, users may wish to engage third parties to aid in interpretation of complex information.

Preparers are encouraged to strive for understandability, but not at the expense of faithful representation. This is because faithful representation is a fundamental characteristic of useful information, whereas understandability is an enhancing characteristic. It is recommended that impact performance reports not include photos, icons, or colors to faithfully represent investment's impacts, as this may enhance understandability at the expense of relevance and/or faithful representation.

Preparers may wish to consider additional summaries suited to the needs of stakeholders and civil society organizations. Preparers or users may seek independent review of these summaries to ensure that the content does not materially differ from that in the impact performance report and is not misleading.

Excerpts from Conceptual Framework Chapter 2

2.34 Classifying, characterizing and presenting information clearly and concisely makes it understandable.

2.35 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading.

2.36 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyze the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

[52] SSB and IFRS Foundation, "IFRS S1," 42.

Section 2: Content and Structure

The suggested structure of impact performance reports is as follows:

1. Investor Overview and Impact Thesis
2. Impact Management Process
3. Impact Performance
4. Governance (Optional)
5. Case Studies (Optional)
6. Independent Review (Optional)

The following guidelines describe suggested content to include in each section. Including content not listed below is cautioned against, given the risk that excess information may obscure users' view of material information.

Note on formatting:

In service of faithful representation and comparability, it is recommended that impact performance reports not include photos, icons, or colors. Images are not recommended as it is difficult or impossible for preparers to ensure or users to verify that any image or set of photos creates a faithful (i.e., complete, neutral, and accurate) representation of an investment's positive and negative impacts on its various stakeholders. (See Section 1 for more on the qualitative characteristics of useful information.)

It is recommended to use charts sparingly and preparers should consider whether charts contribute to a faithful representation of an investment's impacts, and are not intended to emphasize, deemphasize, or otherwise manipulate information in ways that make it more likely that users of the report will receive the information positively or negatively. Preparers can use diagrams (for instance, to illustrate impact pathways), and tables may be used to present data in a space-efficient way.

Entities may wish to prepare other documents for purposes of marketing, communications, and fundraising that include photos, icons, and/or colors. Those documents would be distinct from and exist alongside impact performance reports produced in alignment with the Norms. This would follow the precedent set by publicly traded companies that publish both polished annual reports that are user-friendly for laypeople, and also disclosures such as Form 10-Ks in the US that follow strict regulatory guidelines about format and content to enhance comparability by professional analysts.

1. Entity Overview and Impact Thesis

Note: Once written, this section may need not be updated unless material changes have occurred.

1.1 Entity Description

1.1.1 Provide an overview of the portfolio that is the subject of the report (e.g., assets under management (AUM), asset class(es), sector/thematic focus, regional focus, year launched, overview of capital providers).

1.1.2 If the reporting entity is part of a larger organization, provide a brief overview of that organization. Indicate approximately what proportion of the larger organization the reporting entity represents (e.g., as a share of the organization's total AUM).

1.2 Impact Thesis

Note: Signatories to the Impact Principles may complete Section 1.2 by providing the portion of their Disclosure Statement relating to Strategic Intent (i.e., Principles 1 and 2) and investor contribution (Principle 3).

1.2.1 Describe the impact thesis of the portfolio. This may take any form of Impact Pathway, including but not limited to a theory of change, logic model, outcomes chain, or system map.[53] The Impact Pathway should describe how the entity's and investee enterprises' activities and outputs affect or are expected to affect outcomes[54] and impacts[55] on stakeholders and the natural environment. If relevant, describe how activities contribute to broader impact and/or sustainability objectives such as climate goals or the Sustainable Development Goals (SDGs).[56] Reference supporting evidence if available and articulate assumptions made. As different entities use the terms outcomes and impacts differently, please define how you are using these terms.[57]

1.2.2 Describe the role of investor contribution (financial and/or non-financial) in the impact thesis.

1.2.3 Describe how the impact thesis considers impact risk[58] and unintended consequences.

1.2.4 A portfolio-level impact thesis is relevant to the extent that it applies to or describes every investment in that portfolio, including through the lifecycle of holding those investments. Articulate the approximate extent or portion of the portfolio for which the above points hold or are expected to hold.

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[53] For an initial exploration of use systems mapping in impact management, see "Getting Started with Systems Mapping & Impact Management," Impact Frontiers, https://impactfrontiers.org/work/systems-mapping and https://impactfrontiers.org/wp-content/uploads/2023/08/Impact-Frontier-Systems-Mapping-Case-Study-v2.pdf.

[54] The level of well-being experienced by people or the condition of the natural environment that results from the actions of the organization, as well as from external factors.

[55] A change in an aspect of people's well-being or the condition of the natural environment caused by an organization.

[56] Preparers may refer to section 3.1.3 of the Gold Standard for the Global Goals Principles & Requirements for steps on defining SDG impacts and setting monitoring indicators.

[57] The Impact Management Platform provides two of the most common usages of the terms outcome and impact used by voluntary standard-setters. It is recommended to align with one of these usages. See Terms & Definitions above and Impact Management Platform, "Impact and the impact pathway," https://impactmanagementplatform.org/impact/#impact-pathway.

[58] Impact risk includes the risk that intended positive outcomes fail to occur, and that unintended negative outcomes occur.

1.3 Portfolio-Level Stakeholder and Materiality Analysis

This section identifies which outcomes and/or impacts, for which stakeholders and/or aspects of the natural environment, are defined as material, along with rationale and supporting evidence of the outcomes' or impacts' significance to the stakeholder and/or natural environment.[59]

1.3.1 Explain which approach to materiality was chosen and why (i.e., "impact materiality" or "double materiality").[60]

1.3.2 From the impact pathway above, what outcomes / impacts for what stakeholders has the preparer identified as material and why?[61] Describe the process taken to identify stakeholders and material outcomes / impacts, as well as the primary and/or secondary research methods by which stakeholders' views were surfaced.[62] If these outcomes and impacts cannot be measured directly, what proxies will be measured (e.g., activities, outputs), and how strong is the relationship between the proxy measure and the intended outcome or impact?

If the fund is sector- or theme-agnostic, such that specific outcomes and impacts either cannot be identified ex-ante or are too numerous to list, indicate in more general terms the minimum impact criteria necessary for an investment to qualify for inclusion in the portfolio. (These criteria implicitly indicate the entity's materiality analysis.)

Describe the selected material outcomes and impacts using the five dimensions of impact, noting any dimensions particularly relevant to the impact thesis.[63]

2. Impact Management Framework, Process, and Systems

Note: Once written, this section may need not be updated unless material changes have occurred. Signatories to the Impact Principles may complete this section by providing a link to their most recent

[59] Determination of material outcomes and/or impacts is a context- and entity-specific judgment call. There is often no one "technically correct" result, but different results may be supported by stronger evidence and reasoning than others. See Appendix G for guidance on stakeholder engagement.

[60] As discussed above, materiality in the draft Reporting Norms focuses on the needs of primary users – asset owners and allocators – under the assumption that they seek to understand the changes in the wellbeing of stakeholders and the natural environment caused by asset managers and investee enterprise. Therefore, materiality in the draft Reporting Norms is defined from either 1) the perspective of the stakeholders and aspects of the natural environment experiencing the impact ("impact materiality"), or 2) combination of stakeholders and the natural environment experiencing the impact and financial considerations ("double materiality"). It is up to the preparer to decide and disclose which approach they will follow.

[61] Preparers may refer to the ESRS Topic Standards, the GRI Sector and Topic Standards, and the 11 well-being dimensions in the OECD Well-being Framework.

[62] See Appendix H for information on stakeholder engagement at fund impact thesis level and portfolio company level. If secondary research is used, please include a brief assessment of the extent to which the findings from secondary research are generalizable to the preparer's context, along with rationale.

[63] For a list of the data categories within the five dimensions of impact, see https://impactfrontiers.org/norms/five-dimensions-of-impact/.

Disclosure Statement.[64] The entity's approach to identification and management of environmental, social, and governance ("ESG") risks and opportunities may be incorporated in this section.[65]

2.1. If your entity has an impact framework distinct from what is covered in Section 1, please describe it.

2.2. Describe how impact influences decision-making throughout the various stages of the investment process (pre-screen through exit), referencing any frameworks or tools (e.g., screens, analytical techniques, ratings, scorecards, etc.) that your entity uses at each stage. If the report does not include a separate section on governance (4. Governance (optional)), describe how the impact thesis, investment strategy, and portfolio-level goals are periodically reviewed and refined.

2.3. Describe how stakeholders and material outcomes / impacts are identified at the level of individual investees or assets, including any processes or methodologies used. Describe the process by which negative impacts, both expected and unexpected, are identified and managed, including environmental, social, and human rights.[66] Include any accountability processes and/or fund-level mechanisms that allow stakeholders to communicate concerns and seek redress for adverse impacts (i.e., grievance mechanisms, independent accountability mechanisms; see Appendix K for characteristics of effective accountability mechanisms)[67].

2.4. Describe how the entity collects, manages, and uses impact data, including how data ownership, privacy issues, and ethical and commercial issues regarding data gathering, usage, and disclosure are managed. Include any predefined processes for sharing data between the entity and its investees, including responsibilities for data collection and how, and to whom, data are reported.

3. Impact Performance

Note: This section includes qualitative and quantitative reporting on impact. Initial consultation suggests that methods of impact measurement, analysis, and reporting are diverse enough that no standardized reporting template will be suitable for a plurality of investors. In contrast, considerable consensus exists as to the nature of information that preparers should strive to provide, and that users should expect.

Therefore, rather than providing a prescriptive format or template, the draft Norms provide:

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[64] If Signatories to the Impact Principles optionally wish to provide additional information on their impact framework and process beyond what is included in their Disclosure Statement, they may provide it here. However, the intention of this Guidance is not to require any information beyond that which would be included in an Impact Principles Disclosure Statement.

[65] Preparers are encouraged to consider that some information typically defined as being related to ESG may not be necessary to include if it is not significant from the perspective of stakeholders and/or the natural environment. Conversely, some information typically excluded from ESG disclosures because it is not financially material may nevertheless be significant from the perspective of stakeholders and/or the natural environment and hence should be included in the report.

[66] Per ESRS S1-S4, negative impacts should be managed from the perspective of stakeholders.

[67] See, UN Guiding Principles on Business and Human Rights, Principle 31, available at https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf.

- Recommended content for preparers to include (described below);
- Qualitative characteristics of useful information for preparers to strive for (described above);
- Suggested formatting and visual elements to avoid in the interest of those qualitative characteristics (i.e., images, icons, and colors, as described at the beginning of this section)

A combination of qualitative and quantitative information is recommended, with neither being intrinsically preferable to the other.

Within these parameters, the draft Reporting Norms operate on a "disclose-or-explain" basis. That is, preparers have discretion about the formatting and organization of the Impact Performance section, as well as the metrics, analytical methods, targets, and thresholds used. Preparers should describe the approach they are taking, along with their rationale.

Preparers are encouraged to report on every investee or asset individually if possible. The largest entities may have many dozens or even hundreds of investments and may need to aggregate or synthesize results across the portfolio (See Appendix I for examples of portfolio-level and investment-by-investment reporting).

3.1. Impact Performance

Preparers are recommended to include – and users are encouraged to look for – the following information pertaining to material outcomes and impacts:

- Performance results in the reporting period relative to entities' own targets and to thresholds for sustainability, including:
  - Both positive and negative, intended and unintended impacts;
  - As far down the impact pathway as possible (i.e., outcomes or ideally impacts as opposed to proxy metrics based on activities or outputs; see Terms & Definitions for more on the impact pathway);
  - Over time (suggested to include current year, past two years, and potentially, future projections).
- Assessment across all five dimensions of impact and the associated data categories:
  - For Enterprise Contribution, consideration of the likelihood that stakeholders and/or the natural environment would have experienced the same outcome or impact in the absence of the enterprise, along with supporting contextual evidence from stakeholder engagement, market research, impact studies, or other sources.
  - For Investor Contribution:
    - Consideration of both financial and non-financial aspects of investor contribution, as well as consideration of the likelihood that the enterprise would have received similar financial or non-financial support from other investors in the absence of the preparer, along with any supporting contextual evidence;
    - Consideration of ways in which the entity's actions may contribute to systematic risks and/or direct negative impacts on stakeholders.

- Disaggregation of results by stakeholder characteristics (e.g., gender, race/ ethnicity, and other identifiers).
- Evidence that the content presented is a faithful representation of the experiences and views of the stakeholders experiencing the impact, from their own perspective. Measurement as far down the impact pathway as possible is likelier to faithfully represent the views of stakeholders experiencing the impact, and vice versa.
- Explanations of the following:
    - Definition of terms and metrics used;
    - Data sources, assumptions, calculations, and other methodological notes;[68]
    - Significant investees: investees that contribute 10% or more to the portfolio's performance on any measure of impact, or 20% or more or to the year-over-year change in any measure; and/or "top" and "bottom" investees by level of impact performance, and/or change in impact performance since prior reporting period;
    - Identification of tradeoffs that may exist between different types or dimensions of impact, or between aspects of impact and aspects of financial performance, along with what decisions have been made to manage those tradeoffs;
    - Definition of time period(s) to which the reported information corresponds. This includes:
        - Whether any investments or assets were included or excluded as a result of entering or existing the portfolio during the reporting period;
        - The time period(s) of the information about stakeholders and/or the natural environment (which may be prior to the reporting period); and
        - If relevant, whether changes in aggregate portfolio performance arise from changes in performance among existing portfolio companies versus from changes in portfolio composition (i.e., companies being added to or removed from the sample).

[68] Estimation of the proportionate "percentage of impact" associated with the report preparer's investment is not encouraged.

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Note on portfolio-level reporting

There are two suggested approaches to portfolio-level reporting, which is optional. Preparers that wish to aggregate or synthesize results across the portfolio may use either or both. The first is to report against a common set of metrics across investments. This approach is often used by investors focusing on greenhouse gas emissions and/or other aspects of the climate or natural environment.

The second approach is to define what characteristics the impacts will have in common with reference to the five dimensions of impact or other criteria, even if the specific metrics differ by investment.[1] In this approach, the preparer would use different metrics for different investments and provide a supporting narrative about how the metrics chosen align with the common characteristic(s) described.

Portfolio-wide metrics may take a variety of forms, including but not limited to:

- Totals (i.e., sum of an impact metric across investments)
- Averages and/or medians (i.e., average, weighted average, or median of portfolio companies on an impact metric)
- Measures of inequality[1], such as inequalities between groups (horizontal inequalities) and between top and bottom performers (vertical inequalities);
- Measures of deprivation (i.e., the portion of a population measuring below a given threshold)
- Percentages (i.e., percentage of stakeholders that meet defined impact criteria)
- "Red-yellow-green"-style indictors where definitions and criteria for each are clearly described

See Appendix J for additional guidance on portfolio-level metrics.

953 3.2 Unintended and/or negative impacts

954 If unintended and/or negative impacts are not addressed in Section 3.1, describe unintended and/or
955 negative impacts that occurred in the reporting year, including both unintended negative impacts of
956 investee companies and/or the reporting entity itself, along with actions taken to remedy the impact
957 and/or avoid similar impacts in the future.[69] The term "negative" can refer both to impacts that are

[69] The draft Reporting Norms assume that all investees generate both positive and negative impacts on various stakeholders, just as investors themselves generate both positive and negative impacts through their actions. Leaving this section blank therefore suggests that the preparer is unaware of the negative impacts that they and/or their investees may be generating, which in turn represents an impact risk in itself. It would be highly unusual for a portfolio to have no unintended or negative impacts, and evidence and rationale would need to be provided. While in principle negative impacts could and would be disclosed alongside positive impacts in 3.1, a separate section is provided to emphasize the inclusion of this content.

beneath an acceptable or sustainable level or threshold, or impacts that worsened significantly during the period.

Preparers who publish an annual Principle Adverse Impact (PAI) Statement in accordance with the EU Sustainable Finance Disclosure Regulation (SFDR) may include a link to their most recent statement here.[70] Prepares may need to disclose additional unintended or negative impacts, beyond the specific topics mandated by SFDR.

3.3. Management Commentary

Present the preparer's overall assessment of impact performance during the period along with supporting rationale. This is also an opportunity to share learnings that have emerged about impact during the period. In areas where performance is off track or impacts remain persistently below an acceptable level, please explain the drivers of performance as well as the plan for improvement.

4. Governance (Optional)

Note: This section is optional, particularly if the information has already been communicated to report users in other ways. Once written, this section may not need to be updated unless material changes have occurred.[71]

4.1 Entity Governance

Describe the governance body(s) (which can include a board-level or internal committee or equivalent body) or individual(s) responsible for oversight of impact for the entity. Specifically, identify that body(s) or individual(s) and disclose information about:

- How responsibilities for impact are reflected in the terms of reference, mandates, role descriptions, and other related policies applicable to that body(s) or individual(s);
- How the body(s) or individual(s) determines whether appropriate skills and competencies are available or will be developed to oversee impact;
- How and how often the body(s) or individual(s) is informed about impact;
- How the body(s) or individual(s) takes impact into account when overseeing the entity's strategy, its decisions on major transactions and its risk management processes and related policies, including whether the body(s) or individual(s) has considered trade-offs associated with impact risk and return and financial risk and return; and

70 Preparers are encouraged to consider indicators beyond those defined in SFDR Level 2 Regulatory Technical Standards.

71 It is modeled closely on the Governance portion of International Finance Reporting Standards Foundation S1 General Requirements. However, it is adapted to refer to the impacts the entity and its investees, rather than sustainability-related financial risks and opportunities which are the focus of S1. International Finance Reporting Standards Foundation. "IFRS – IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information," paragraphs 26-27. www.ifrs.org. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/#about.

- How the body(s) or individual(s) oversees the setting of targets related to impact, and monitors progress towards those targets, including whether and how related performance metrics are included in remuneration policies.

4.2 Parent and Holding Company Governance (if relevant)

Disclose the name of the entity's parent organization or holding company and the principal sustainable and responsible business practices to which that entity adheres. Describe the extent to which the entity's impact management practices and performance are representative of those of its parent organization or holding company.

4.3 Diversity, Equity, and Inclusion

Describe the entity's governance framework for diversity, equity, and inclusion (DEI). The draft Norms are intended to be used in combination with other reporting mechanisms specifically focused on DEI. Preparers are encouraged to include or reference in their disclosures one or more of the following:[72]
GIIN's IRIS+ Racial Equity Themes and Core Metrics Sets
ILPA Due Diligence Questionnaire (section 20) and Diversity Metrics Template
PRI Diversity, Equity, and Inclusion Due Diligence Questionnaire

5. Case Study (Optional)

This section presents one or more examples of the impacts of the entity's investments. If included, case studies should be selected and written in service of the qualitative characteristics of useful information above. There is significant risk that case studies detract from rather than contribute to a faithful representation of the impact of the portfolio as a whole. Case studies, individually and collectively, should not weight, emphasize, deemphasize, or otherwise manipulate information about impact to make it more likely that users will receive the report positively or negatively (i.e., "cherry-picking").[73]

Preparers are recommended to specify if the case(s) presented are:

- Exemplary cases (positive, negative, best, worst, etc.);
- Disconfirming cases (challenging a theory, belief, or hypothesis; cases that present contrasting outcomes and impacts);
- Typical cases that represent an average or median of a distribution with regard to defined criteria; or
- Composite cases (or a set of profiles that are each a composite of real cases).

Towards this end, preparers should not include only exemplary-positive cases. Exemplary-positive cases are recommended to be paired with contrasting cases (e.g., composite exemplary-worst cases,

[72] Preparers are also encouraged to review "What is DEI" from Rights CoLab, notably the mapping of DEI frameworks on page 4 and the categorization of metrics on pages 7-8. Asset owners and allocators are encouraged to consider the Due Diligence 2.0 Commitment.

[73] For this reason, many reviewers of a pre-consultation draft advocated that case studies be excluded entirely. The current approach is intended to test whether case studies can be included in a way that enhances rather than compromises faithful representation of the impact of the portfolio as a whole.

disconfirming cases, or typical cases). Composite cases may be useful to communicate information about investees in a way that does not reveal confidential information about investees or compromise the preparer's confidentiality agreements with investees.

Preparers are encouraged to document their process for selecting and presenting their cases. The selection and presentation of a case requires judgement and interpretation, and a well-documented process can enhance confidence that the selection and summary is reasonable.

Preparers are recommended to include the following information in case studies:

- The process and rationale by which the preparer selected the case study;
- Impact thesis for the investment;
- Overview of the investee including partner organizations relevant to impact creation;
- Performance on material positive and negative impacts of the investment, including investor contribution, in a manner consistent with recommendations in 1. Entity Overview and Impact Thesis and 3. Impact Performance of the report.[74]

6. Independent Review (Optional)

6.1 If the preparer chose to receive any type of independent review, explain the type chosen and why.

6.2 Paste the conclusion of the independent review, if sought.

[74] Completed version(s) of Impact Frontiers' Investor Contribution Claim Template may be used for this section if the contents are material.

Frequently Asked Questions

1) I have already published an impact report. Do I have to prepare a completely new one now?

An overarching assumption of the draft Reporting Norms is that impact performance reports may be different from and complementary to documents that are produced primarily for the purposes of marketing, communications, and fundraising. Investors may wish to create both, just as publicly traded companies publish both annual reports that tend to be user-friendly for laypeople, and also reports required by regulatory bodies that tend to be used by professional analysts and follow strict guidelines about format and content. Impact performance reports, as described here, are much more akin to the latter. However, this does not preclude investors from creating other impact publications in addition to their impact performance report.

2) Will this add to the number of reports I have to create?

The intention is for impact performance reports prepared in alignment with the draft Norms to replace existing annual impact reports that you may already produce and send privately to your capital providers. Report users (typically asset owners and allocators) are encouraged to reference the Norms as their preferred approach to impact reporting, to reduce the need for report preparers to produce customized reports for different users.

3) How is this different from existing frameworks, guidance, and standards?

The draft Norms are unique in that:

- They focus on disclosure of impact performance (i.e., on-the-ground results) by investors, and specifically on the documents that investors produce on a recurring basis to report on their impact to capital providers. This is distinct and complementary to guidance and standards pertaining to disclosure of impact management practices on the one hand, and goals-based or thematic taxonomies, and/or standardized metrics and KPIs, on the other;
- They usefully combine elements of the conceptual framework that supports financial reporting and best practices from the field of impact measurement and management;
- They are created through a process of open consultation facilitated for the public good by a non-profit with relevant expertise; and
- They can serve as a shared and non-proprietary reference for a wide range of service providers (e.g., assurance providers, consultants, evaluators, verifiers, etc.).

4) Should I create a standalone impact performance report, or an Integrated Report that also includes financial performance?

That is left to the preparer's discretion. If used to create an Integrated Report, the content and structure should be preserved as much as possible, and the characteristics of useful information should apply both to the report as a whole (including financial information as well) and to the presentation of impact within the report. Preparers of Integrated Reports are encouraged to explore the connections between

the financial and impact information disclosed.

5) Do I need to make the report publicly available?

That is left to the preparer's discretion. In principle, public availability of reports is desirable because it enhances transparency, communication with stakeholders, and potentially, accountability for impact. However, in some cases, publishing negative information about investees or other parties will create legal and/or ethical challenges. Moreover, the draft Norms are a voluntary standard. It may be that private entities will not publish a full and faithful representation of their impacts until required to do so by regulation.

We offer two pieces of guidance to preparers:

- Faithful (i.e., complete, neutral, and accurate) representations of impact provided privately to capital providers are preferred over less-faithful representations of impact made publicly available.
- The greater the reliance of the preparer on public funding (including non-profits reliant on tax-exempt status), the more likely it will be appropriate for them to make impact performance reports in alignment with the Norms publicly available.

6) Do I need to update every section of the report every year?

No. Preparers would need to update 3. Performance and, if desired, 5. Case Study every year. Preparers can update other sections if and when reported information has changed significantly from the previous year. Notably, impact management is ongoing throughout the investment lifecycle, regardless of when reports are published or updated.

7) I cannot follow the whole structure from the first year.

It is not necessary to follow the whole structure from the first year. The draft Norms are intentionally aspirational, and we recognize that many investors will not be able to provide all suggested content at first. Preparers are encouraged to use the draft Norms to prepare their impact performance report to the best of their ability under this new format using the data they have available. Particularly in the first few years of reporting, many preparers may only partially be able to complete some sections. It is recommended that preparers take note of any additional data they might need to collect when first reviewing the draft Reporting Norms and create a plan to be able to complete all sections within a reasonable timeframe. This timeframe may vary depending on the point in the fund's lifecycle, limited partnership agreements, and resources available. Report preparers can also engage with their report users (i.e., capital providers) to clarify expectations and discuss and agree on data needs with investees. Ideally, preparers would be able to cover all content within three years.

8) What if I (report preparer) manage multiple funds? Do I need to create one report for each fund?

Some information about multiple funds may be described collectively, while other information should be described separately. For example, 1. Investor Overview may be common to multiple funds within an

organization, whereas the impact thesis and performance would be separate for each fund.

9) Our current impact report includes interviews and photos. Can those be included in the impact performance report?

For maximum consistency, comparability, and decision-usefulness for primary users, asset managers are encouraged to follow the report structure in the draft Reporting Norms and employ a text-only format with common formatting rules. See Section 2, note on formatting.

10) I typically report only on impacts that are material to investors' estimates of financial risk and return. For this approach to impact reporting would I need to expand my definition of materiality?

Yes. As noted, the primary users of an entity's impact performance report are assumed to be its providers of capital (i.e., asset owners and allocators), though there are many other users as well. The objective of the impact performance report is assumed to be to provide information about the impact of the entity and its investees on the stakeholders and/or aspects of the natural environment experiencing the impact, so that asset owners and allocators can make decisions that are informed by the interests and experiences of stakeholders and the natural environment about whether and how to provide or withdraw capital and/or non-financial engagement to the entity.

An impact performance report would typically include information about outcomes and impacts of enterprises and investments that are significant to the stakeholders and aspects of the natural environment experiencing them. Existing financial reports include information that is material to investors' estimates of enterprise value. There is considerable overlap between the two sets of information, but debate remains about the degree of overlap. Since the target audience of the draft Norms is impact investors publishing impact performance reports, including impacts that are significant from the perspective of stakeholders and the natural environment is appropriate.

11) What can entities do to increase the likelihood of receiving quality data on outcomes from investees?

Entities and investees can agree on expectations regarding material outcomes and stakeholder engagement and what data needs to be reported. This can be documented in the investment term sheet. Entities may choose to assist investees with stakeholder engagement by allocating resources such as covering incentive costs for surveys or providing meeting space for focus groups. They may require that investees document and report back on the process of stakeholder engagement, including how any lessons learned will be implemented to improve the process going forward. Data expectations should be commensurate with the size and capacities of the underlying investees.

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Appendices

Appendix A: Consultation Process To-Date

Impact Frontiers, with the support of the Rockefeller Foundation, is facilitating a field-building initiative in 2023 and 2024 to build consensus on norms on impact performance reporting for investors. We launched the effort in Q4 2022, beginning with a review of reporting and assurance standards (see Appendix C). We solicited input from asset managers, asset owners, verifiers, assurance providers, and standard-setters.

Once we drafted an initial set of norms, we shared the draft with over 100 industry stakeholders and received feedback from 41 partners including 14 asset managers, four asset owners, seven consultants, five industry networks/associations, two research organizations, two advocacy organizations, and two assurance and verification practitioners.

In Q3 2023, Impact Frontiers also convened a group of 48 industry stakeholders in New York City (including 14 asset managers and 20 asset owners) and 21 in Tokyo (including 10 asset managers, 5 asset owners and 6 service providers, enterprises, and consultants) to discuss the common elements they considered necessary to include in impact performance reports and brainstorm ideas to overcome change management barriers.

Impact Frontiers incorporated feedback received through both individual draft review and the in-person convenings into this public consultation draft.

Appendix B: Acknowledgments

Impact Frontiers wishes to recognize the individuals below for reviewing and providing written feedback on a pre-consultation draft of this document. Their close reading and thoughtful comments led to a great number of significant improvements. Their presence on this list should not interpreted as an endorsement of this draft by them or their organizations, and all errors remain our own.

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Luyen Tran, International Finance Corp.
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Oyin Oduya, Wellington Management
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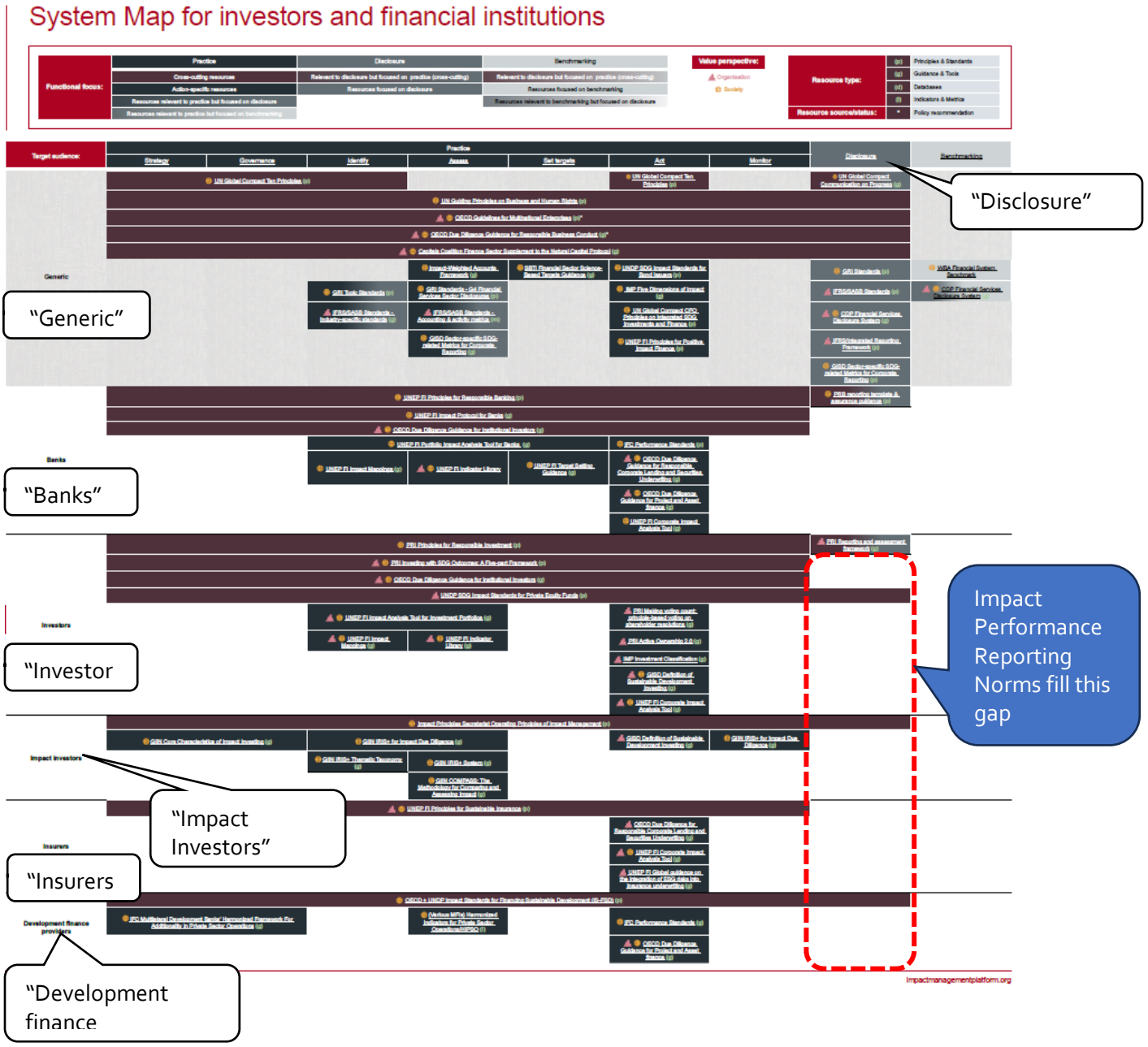
Finally, we wish to thank the Rockefeller Foundation for making this work possible.

Appendix C: Standards and Resources Consulted on Reporting and Assurance

1. Assurance and Engagements Other Than Audits or Reviews of Historical Information (ISAE3000 (Revised))
2. Non-Authoritative Guidance on Applying ISAE3000 (Revised) to Sustainability and Other Extended Reporting Engagements by The International Auditing and Assurance Standards Board (IAASB)
3. AA1000 Assurance Standard by AccountAbility
4. International Standard on Related Services 4400 (ISRS4400 (Revised)) by the IAASB.ISAE 3000
5. Raising the Bar: Aligning on the Key Elements of Impact Performance Reporting by BlueMark
6. Raising the Bar 2: BlueMark's Framework for Evaluating Impact Reporting by BlueMark

Appendix D: System Map for Investors and Financial Institutions

Note: For a higher-resolution view and additional detail, please visit Impact Management Platform, https://impactmanagementplatform.org/system-map/.



Appendix E: Materiality Definitions by Major Frameworks and Standards

	Intended Preparer	Definition
CDP	Investors, governments, and corporations	"CDP questionnaires reflect the double-materiality perspective: information necessary for understanding impacts of the company (<<inside-out>>) on the environment and information necessary for understanding position, performance and development of the company regarding climate change and environmental degradation (<<outside in>>)."[75]
CDSB	Corporations	"Environmental information is material if (1) the environmental impacts or results it describes are, due to their size and nature, expected to have significant positive or negative effect on organization's current, past or future financial condition and operational results and its ability to execute its strategy or (2) omitting, misstating, or misinterpreting it could influence decisions that users of mainstream reports make about the organization."[76]
CSRD	Corporations	"Article 19a(1) and Article 29a(1) of Directive 2013/34/EU require reporting not only on information to the extent necessary for an understanding of the undertaking's development, performance and position, but also on information necessary for an understanding of the impact of the undertaking's activities on environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Those Articles therefore require undertakings to report both on the impacts of the activities of the undertaking on people and the environment, and on how sustainability matters affect the undertaking. That is referred to as the double materiality perspective, in which the risks to the undertaking and the impacts of the undertaking each represent one materiality perspective. The fitness check on corporate reporting shows that those two perspectives are often not well understood or applied. It is therefore necessary to clarify that undertakings should consider each materiality perspective in its own right, and should disclose information that is

[75] CDP Europe. 2020. "ANNEX to CDP Europe's Response to the Public Consultation on the Revision of the Non-Financial Reporting Directive CDP Europe's Response," 9. https://cdn.cdp.net/cdp-production/comfy/cms/files/files/000/003/445/original/CDP_response_to_public_consultation_on_revision_of_the_Non-Financial_Reporting_Directive.pdf.

76 Climate Disclosure Standards Board. 2018. "CDSB Framework for Reporting Environmental Information, Natural Capital and Associated Business Impacts." Cdsb.net. CDP Worldwide. 2018. https://www.cdsb.net/sites/default/files/cdsb_framework_2.1.pdf.

		material from both perspectives as well as information that is material from only one perspective."[77]
ESRS	Corporations	"A sustainability matter is "material" when it meets the criteria defined for impact materiality (see section 3.4 of this Standard) or financial materiality (see section 3.5 of this Standard), or both. Impact materiality and financial materiality assessments are inter-related and the interdependencies between these two dimensions shall be considered. In general, the starting point is the assessment of impacts, although there may also be material risks and opportunities that are not related to the undertaking's impacts. A sustainability impact may be financially material from inception or become financially material, when it could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, its access to finance or cost of capital over the short-, medium- or long-term. Impacts are captured by the impact materiality perspective irrespective of whether or not they are financially material."[78]
GRI	Corporations	"Material Topics: topics that represent the organization's most significant impacts on the economy, environment, and people, including impacts on their human rights."[79]
IFRS S1	Corporations	"Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users'[80] assessments of an entity's enterprise value. The information relates to activities, interactions and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes."[81]

[77] The European Parliament and the Council of the European Union, "Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 Amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards Corporate Sustainability Reporting (Text with EEA Relevance)," EUR-Lex, December 16, 2022.

[78] European Commission, "ESRS 1: General Requirements," July 31, 2023.

79 Global Reporting Initiative. 2021. "GRI 3: Material Topics 2021." 2021. https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiQttvWqMb_AhXrKEQIHS-sB3QQFnoECCAQAQ&url=https%3A%2F%2Fglobalreporting.org%2Fpdf.ashx%3Fid%3D12453&usg=AOvVaw2ve3GIHzgEW4RjoYroDcNb.

[80] "Primary users" are defined in Appendix A of the IFRS S1 as "Existing and potential investors, lenders and other creditors."

81 International Financial Reporting Standards Foundation. 2022. "IFRS General Sustainability-Related Disclosures—Fundamental Concepts." https://www.ifrs.org/content/dam/ifrs/meetings/2022/october/issb/ap3b-general-sustainability-related-disclosure-fundamental-concepts.pdf.

IIRC	Corporations	"For the purposes of [Integrated Reporting], a matter is material if it is of such relevance and importance that it could substantively influence the assessments of providers of financial capital with regard to the organization's ability to create value over the short, medium, and long term. In determining whether or not a matter is material, senior management and those charged with governance should consider whether or not the matter substantively affects, or has the potential to substantively affect, the organization's strategy, its business model, or one of more of the capitals it uses or affects."[82]
SASB[83]	Corporations	"In identifying sustainability topics that are reasonably likely to have material impacts, the SASB applies the definition of 'materiality' established under the U.S. securities laws. According to the U.S. Supreme Court, information is material if there is 'a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of the information made available.'"[84]
SDG Impact	Three versions: for Enterprise; for Private Equity Funds; for Bond Issuers	"Material impacts in the context of these Standards are those impacts that affect the wellbeing of Stakeholders experiencing them and that would influence decisions of the entity acting in the interest of those Stakeholders, to maximise wellbeing and achieve sustainability and the SDGs by 2030 taking into account the sustainability risks and opportunities that are most significant for the entity's own value creation, because strong, resilient, and sustainable entities will have more capacity to contribute positively to sustainable development and the SDGs. Having a formal assessment process to determine which impacts are material helps entities identify which impacts to prioritise and manage to optimise their contribution to sustainability and achievement of the SDGs and maximise well-being of people and planet."[85]
SVI	Enterprises	"An impact is material when it is *relevant* and *significant* for decisions to optimize wellbeing of a stakeholder group. Significance is based on the combination of a) impact scale (i.e., number of people experiencing the impact)[86]; b) impact value (i.e., the value or worth of that impact to those

[82] International Integrated Reporting Council. 2013. "Materiality Background Paper For." 2013. https://static1.squarespace.com/static/60dc51e3c58aef413ae5c975/t/6182616fde447d580b15232b/1635934577686/IR-Background-Paper-Materiality.pdf.

[83] SASB in now under ISSB; this paper was published in 2017, pre-ISSB merger.

[84] Sustainability Accounting Standards Board. 2017. "SASB Conceptual Framework." http://www.sasb.org/wp-content/uploads/2019/05/SASB-Conceptual-Framework.pdf?source=post_page.

[85] The United Nations Development Programme. 2021. "SDG Impact Standards Glossary." https://sdgimpact.undp.org/assets/SDG-Impact-Standards-Glossary.pdf.

[86] Parentheses are not part of the original text and were added for clarity with approval from Social Value International

		experiencing it in light of all of the dimensions of the impact); and c) total impact value (the aggregate value or worth of impacts across all affected stakeholders). Impacts that are not significant can also be considered material if they are relevant to organizational objectives and/ or relate to societal norms."[87]
TCFD	Mainly public companies; investors may also follow	"Organizations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings."[88]

[87] Social Value International. n.d. "The Purpose of the Principles of Social Value and the SVI Standards." Accessed July 13, 2023. https://socialvalueuk.org/wp-content/uploads/2022/12/ThePurposeofthePrinciplesofSocialValueandtheSVIStandards-1.pdf.

[88] Task Force on Climate-related Financial Disclosures. 2021. "Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures." https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Implementing_Guidance.pdf.

Appendix F: Applying the Fundamental Qualitative Characteristics

The Conceptual Framework on Financial Reporting provides the following guidance on application of the fundamental qualitative characteristics of useful information:

2.21 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

2.22 In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting, which is to provide useful information about economic phenomena. For example, the most relevant information about a phenomenon may be a highly uncertain estimate. In some cases, the level of measurement uncertainty involved in making that estimate may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that phenomenon. In some such cases, the most useful information may be the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. In other such cases, if that information would not provide a sufficiently faithful representation of that phenomenon, the most useful information may include an estimate of another type that is slightly less relevant but is subject to lower measurement uncertainty. In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate.

2.39 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

2.40 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

2.41 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

2.42 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed Standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

2.43 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

Appendix G: Guidance on Stakeholder Engagement

The content of this appendix is based on practice standards from the GRI, Social Value International, the World Economic Forum and the UNDP SDG Impact Standards.

The process of direct stakeholder engagement begins with identifying stakeholders. This could include anyone that can affect or be affected by the activity. The list will likely need to be revised as analysis progresses. As stakeholders are involved in discussions, they may identify additional stakeholder groups or segments within groups.

Once stakeholders are identified, there are typically two phases of data collection: a qualitative phase and a quantitative phase. In cases of smaller stakeholder groups, it may be appropriate to cover both phases concurrently.

In the first, qualitative phase, a representative sample of all identified stakeholder groups is involved in discussions about what outcomes they experience that matter to them and thus are material to include in reporting. Potential qualitative research methods can include focus groups, interviews, and surveys. It is recommended to choose the method that will best suit the given stakeholder group (taking into account language and other potential barriers), and to use open questioning that allows stakeholders the opportunity to disclose unexpected information. Results of this phase may be especially useful in determining what outcomes and impacts are significant to the stakeholders experiencing them, and thus should be included in the report in the service of the completeness and neutrality aspects of faithful representation.

In the quantitative phase, a larger sample is engaged to determine the quantity, duration, value, and causality of relevant outcomes. Methods can include meetings or surveys, and frequency of data collection can be determined based on circumstances and resource capacity. Results from research of this nature enhances the accuracy aspect of faithful representation.

Once the results of stakeholder engagement are gathered, communicating these results back to stakeholders and explaining how learnings will be implemented to improve strategy, operations, and the stakeholder engagement process itself can help establish trust and accountability. This can influence the ongoing success of stakeholder involvement and engagement activities.

Preparers and investees can refer to existing standards for more specific guidance on identifying stakeholders, research and data collection methods, considerations for scope and frequency of data collection, resource requirements, and guidance on developing questions. Developing a systematic approach to stakeholder engagement based on best practices and codifying it in a planning document or policy can help clarify roles and expectations, improve efficiency, and minimize demands on stakeholders.

In general, the investee would be the entity best positioned to engage with its stakeholders, with investors playing a support of role in ensuring that stakeholder engagement happens with appropriate frequency and intensity, and in ways that are not perceived as extractive by the stakeholders themselves, and that are coordinated rather than duplicative across investors.

Stakeholder Engagement Process

The five step stakeholder engagement cycle from the World Economic Forum indicates a process of continuous improvement.

(Source: Engaging All Affected Stakeholders: Guidance for investors, funders, and organizations, the World Economic Forum "initiative to Accelerate Impact Measurement and Management Action Group 3", November 2017)

Appendix H: Materiality at fund impact thesis level and portfolio company level

The Draft Reporting Norms assume consideration of outcomes significant to stakeholders and the natural environment both in the portfolio-level impact thesis and in reporting on the impacts of individual investees or assets.

1. Investor Overview and Impact Thesis assumes that preparers will determine one or more material outcomes that they aim to pursue through a process of stakeholder identification and materiality assessment. After identifying possible outcomes that are likely to be material to stakeholders and the natural environment and mapping out the impact pathway (see Terms & Definitions) preparers determine which outcomes are likely to be material to stakeholders and the natural environment and hence likely to be included in impact reports.

Preparers will likely consult a variety of sources when seeking to understand stakeholder perspectives for a materiality assessment. The ideal source of information is direct stakeholder engagement.[89] [90] [91] However, engaging directly with stakeholders might be challenging for most report preparers at the impact thesis stage. An alternative option is to engage with third-party organizations which directly engage with stakeholders – for instance, civil society organizations, grassroots NGOs, industry associations, international organizations, and professional research institutions.[92] [93] Additionally, report preparers can conduct secondary research leveraging academic papers or resources from standard-setters that define likely relevant outcomes for specific impact areas (e.g., SDG targets, GRI).

After an investment is executed, asset managers will rely on investees to manage and disclose their performance on the outcomes set out above. Once they receive information from investees on the level of outcomes or impacts experienced by stakeholders or the natural environment (or proxies for the same), it falls to preparers to make final determinations on what information is material to report to users. Preparers can incorporate perspectives from investee-level materiality assessments in a continuous feedback loop to refine their portfolio-level materiality assessment.

[89] Social Value International, "Standard on Applying Principle 1: Involve Stakeholders." https://static1.squarespace.com/static/60dc51e3c58aef413ae5c975/t/60f058babaa9e46167496599/1626364102534/Standard-for-applying-Principle-1.pdf.
[90] WEF, "Engaging All Affected Stakeholders."
[91] Capitals Coalition, "Social & Human Capital Protocol."
[92] SVI, "Involve Stakeholders."
[93] WEF, "Engaging All Affected Stakeholders."

Appendix I: Examples of tables for portfolio-wide and investment-by-investment reporting

The following table presents an illustrative example of arrangement of portfolio-level impact data:

Material outcomes	Metrics		Baseline	Target	Threshold	Performance			Significant investees
	Name of metric	Rationale	Year	Year		2 years prior	Prior year	Current year	
Outcome 1	Metric 1.1								
Outcome 2	Metric 2.1								
Outcome 3	Metric 3.1								

The following table presents an illustrative example of arrangement of investee or asset-level impact data:

Investee name	(A) Material Outcomes	(B) Metrics		(C) Baseline	(D) Target	(E) Threshold	(F) Performance		
		Name of metric	Rationale	Year	Year		2 years prior	Prior year	Current year
Company X	Outcome	Metric							
	Outcome	Metric							
Company Y	Outcome	Metric							
		Metric							
	Outcome	Metric							
Company Z	Outcome	Metric							
…									

Appendix J: Examples of Portfolio-level Metrics

The following table presents illustrative examples of portfolio-level metrics:

	Total Impacts	% of Portfolio	Average Performance
WHAT	Total reduction in GHG emissions	% of portfolio invested in SDG 1	Average increase in low-income stakeholder wages
WHO	# of formerly unemployed women now earning a living wage	% of portfolio invested in low-income communities	Average level below poverty line of target stakeholders at baseline
CONTRIBUTION	$ invested in growing new or undersupplied capital markets	% of portfolio engaged actively	Average size of flexible investments

Note that some metrics include multiple dimensions of impact. For example, in the WHO, # of formerly-unemployed women now earning a living wage also includes an element of HOW MUCH – the living wage – and an element of enterprise contribution because the enterprise is causing a change in outcome for the women. It is common and encouraged to have multiple dimensions of impact in one metric. Note that some of these metrics show a level, and some of them show a change.

Appendix K: Effectiveness Criteria For Non-Judicial Grievance Mechanisms[94]

Principle 31 of The UN Guiding Principles on Business and Human Rights states that to be effective, non-judicial grievance mechanisms should be:

(a) Legitimate: enabling trust from the stakeholder groups for whose use they are intended, and being accountable for the fair conduct of grievance processes;

(b) Accessible: being known to all stakeholder groups for whose use they are intended, and providing adequate assistance for those who may face particular barriers to access;

(c) Predictable: providing a clear and known procedure with an indicative time frame for each stage, and clarity on the types of process and outcome available and means of monitoring implementation;

(d) Equitable: seeking to ensure that aggrieved parties have reasonable access to sources of information, advice and expertise necessary to engage in a grievance process on fair, informed and respectful terms;

(e) Transparent: keeping parties to a grievance informed about its progress, and providing sufficient information about the mechanism's performance to build confidence in its effectiveness and meet any public interest at stake;

(f) Rights-compatible: ensuring that outcomes and remedies accord with internationally recognized human rights;

(g) A source of continuous learning: drawing on relevant measures to identify lessons for improving the mechanism and preventing future grievances and harms;

Operational-level mechanisms should also be:

(h) Based on engagement and dialogue: consulting the stakeholder groups for whose use they are intended on their design and performance and focusing on dialogue as the means to address and resolve grievances.

[94] United Nations Human Rights Office of the High Commissioner, "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework," 2011.

Appendix L: Introduction to Independent Review

The Norms are not intended to encourage nor discourage any individual report preparer from seeking independent review. The report preparer bears primary responsibility for ensuring the suitability of the report for the purposes of the user.

For reference, here is a brief, non-authoritative, and non-exhaustive summary of several types of independent review, along with the manner of conclusion reached by each type:[95]

- Assurance: Conclusion provides confidence that statements made in the impact performance report are accurate and fairly presented in all material respects.[96]
- Agreed-Upon Procedures: The reviewer issues a report of findings based on specific procedures performed on the subject matter. It is not an audit or assurance.
- Impact / Outcomes Evaluation: Conclusion provides an opinion about the level or quality of impacts or outcomes achieved.
- Verification: Conclusion provides an opinion about the degree of alignment with the impact performance reporting Norms.

These are not mutually exclusive, and these services may be combined. For instance, if the results of an impact / outcome evaluation were included in an impact performance report, an assurance provider would assess whether the statements in the report are supported by the evidence provided in the evaluation. Additional services – such as certification, rating, and scoring, among others – may be layered on top of these.

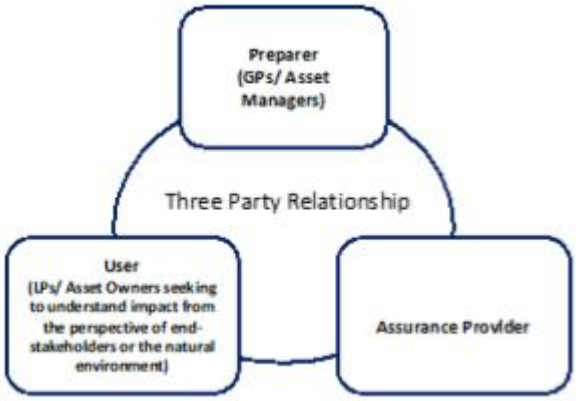
A companion document provides a set of suggested questions that independent reviewers can use to test asset managers' impact performance reports against the Norms. These suggested questions are not intended to be used on a standalone basis but rather in combination with existing assurance standards such as those of AccountAbility and the International Auditing and Assurance Standards

[95] Note that there is not widespread agreement about standardized terms and definitions to describe the various types of independent review. Both formal regulations and informal norms around assurance and other forms of independent review vary significantly by country.

96 To learn more about assurance in general, see "What is assurance?" and related resources from the Institute of Chartered Accountants of England and Wales (ICAEW), https://www.icaew.com/technical/audit-and-assurance/assurance/what-is-assurance. See also "A buyer's guide to assurance on non-financial information," co-authored by ICAEW and the World Business Council for Sustainable Development, https://www.wbcsd.org/Programs/Redefining-Value/Making-stakeholder-capitalism-actionable/Assurance-Internal-Controls/Resources/A-buyer-s-guide-to-assurance-on-non-financial-information.

Board.[97,98] The benefits to report preparers and report users of independent reviewers using those standards includes confidence that the reviewer is adhering to codes of ethics, quality control, and guidance on when conditions for independent review have been met, among others.

The Draft Reporting Norms assume a three-party relationship between the preparer of the report; the user of the report; and the independent reviewer.[99] The report preparer is responsible for providing information relevant to or for the benefit of report users. It is the preparer's role to provide accurate information to the best of their reasonable knowledge and ability. The independent reviewer assesses the information provided by the preparer in reference to specified criteria (in this case, the Draft Reporting Norms) in order to provide a conclusion about the report to the user.



The frequency of independent review can vary. For example, all sections of a report might be reviewed independently in one year, while the next year only selected sections might be assured. Alternatively, while impact performance reports are published once a year, independent review could be done less frequently (for instance every two or three years). Since independent review is intended to increase the reliability of the reported items for the user, preparers are encouraged to consult with the users of the impact performance report to understand their needs and expectations.

The Norms may also be used by external impact report preparation services. In this case, the entity commissioning the report retains ultimate responsibility for the report. In addition, the external provider would not be considered independent and thus unable to perform assurance, evaluation, or verification services for the entity.

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97 It is recommended that the assurance engagements follow the procedures outlined in Assurance and Engagements Other Than Audits or Reviews of Historical Information' (ISAE3000 (Revised) and Non-Authoritative Guidance on Applying ISAE3000 (Revised) to Sustainability and Other Extended Reporting Engagements by the IAASB, and/or AccountAbility's AA1000 standard. These are referenced as they are the ones most commonly used globally in assurance of sustainability and other non-financial information, according to Current State of Assurance on Sustainability Reports," Sunita Rao, The CPA Journal, 2017, https://www.cpajournal.com/2017/07/26/current-state-assurance-sustainability-reports/.

98 We are also exploring interoperability with ISO 17021 (Conformity assessment — Requirements for bodies providing audit and certification of management systems Part 1: Requirements, Part 3: Competence requirements for auditing and certification of quality management systems), ISO 17029 (Conformity assessment — General principles and requirements for validation and verification bodies), and the forthcoming ISO 14019-1 (Validation and verification of sustainability information — Part 1: General principles and requirements).

99 The Institute of Chartered Accountants in England and Wales. 2019. "Three-Party Relationship." https://www.icaew.com/technical/audit-and-assurance/assurance/process/scoping/what-is-feasible/three-party-relationship.