IMPACT FRONTIERS

Impact Performance Reporting Norms

EXECUTIVE SUMMARY

APRIL 2024 - VERSION 1

impactfrontiers.org

Overview

The Impact Performance Reporting Norms (hereafter "Reporting Norms") establish shared expectations for the reporting of impact results by asset managers in private markets. They are the result of an 18-month public consultation among more than 350 asset managers, asset owners and allocators, consultants, and assurance and verification providers.

The goals of the Reporting Norms are:

- To facilitate the flow of information about impacts experienced by stakeholders and the natural environment to inform investor decision-making;
- To make reporting less onerous for asset managers preparing reports, and more useful for asset owners and allocators receiving reports;
- To provide a set of non-proprietary criteria against which independent reviewers may assure or verify reports; and
- To offer a market-tested prototype for future disclosure standards by regulators.

The Reporting Norms address a gap in the set of impact standards, frameworks, and guidance that investors already use. They are designed to guide the creation of impact performance reports shared privately by fund managers with their capital providers under non-disclosure agreements. This facilitates reporting of positive and negative information, including information not publicly sharable. They may also guide the creation of public reports, recognizing that confidential information may need to be excluded.

The Reporting Norms balance standardization with flexibility. "Part 1: Content" synthesizes the information that participants in the public consultation agreed is relevant for an impact performance report. "Part 2: Guiding Principles" provides guidance to follow in producing and using impact performance reports. These guiding principles are based on the Conceptual Framework for Financial Reporting of the International Financial Reporting Standards (IFRS) Foundation and on European Sustainability Reporting Standards 1: General Requirements, adapted to the context of impact performance reporting. The Reporting Norms can be used for standalone impact reports or integrated impact and financial reports. Public consultation indicates a growing preference for integrated reporting.

The public consultation also revealed a strong preference for reporting on each investment or asset individually. Optional portfolio-level synthesis can complement investment-by-investment reporting. The exceptions are development finance institutions and multilateral development banks that have hundreds of investments. For these and other very large portfolios, reporting by themes or other sub-segments of the portfolio, complemented by case studies, may be an attractive option.

The Reporting Norms are an open-access public good. Impact Frontiers will facilitate a pilot phase, and in 2025 invite proposed revisions via public consultation. Impact Frontiers anticipates revising the Reporting Norms based on the results of the pilot and public consultation and publishing Version 2 in 2026.

PART 1:

Content

Part 1 lists the relevant information to include in impact performance reports. Report preparers should refer to the more detailed guidance in Version 1. A summary is provided here:[1]

1. Entity Overview and Impact Thesis

1.1. Entity Description

Describe the reporting entity and the time period covered. If the reporting entity is part of a larger organization, also provide a brief overview of the organizaton.

1.2. Impact Thesis

This may take any form of Impact Pathway, including but not limited to a theory of change, logic model, outcomes chain, or system map. Include the social and/or environmental needs or challenges addressed, the affected stakeholders and intended outcomes, and the role of investor contribution in the thesis.

2. Impact Management Approach[2]

2.1. Process, Standards, and Frameworks

Describe how impact influences decision-making throughout each stage of the investment process (pre-screen through exit), referencing third-party or in-house frameworks, standards, or tools used (e.g., screens, analytical techniques, ratings, scorecards). This should include both impacts of investees/assets and the investor's contribution to those impacts, and may include how ESG and/or financial considerations are integrated.

2.2. Identification of Stakeholders, Outcomes, and Impacts

Describe how stakeholders, and the outcomes and impacts significant to stakeholders, are identified by the entity and/or by individual investees or assets. Describe the process of stakeholder engagement and assessment of the significance of impacts to stakeholders, including how stakeholder views inform decision-making, and any methodologies used. Describe the process by which negative impacts, both expected and unexpected, are identified and managed, including environmental, social, and human rights.

1 Sections 1, 2, and 4 may be "evergreen." That is, they may not need to be updated unless material changes have occurred since the previous report. If no material changes have occurred, the new report may simply link to or reference this section of a previous report.

2 Signatories to the Impact Principles may simply provide a link to their most recent Signatory Disclosure Statement for section 2.1, and for section 2.2 if the Disclosure Statement covers identification of stakeholders and outcomes.

2.3. Usage of Data

Describe how the entity collects, manages, and uses impact data, including how data ownership, privacy issues, and ethical and commercial issues are managed.

3. Impact Performance

3.1. Management Commentary

Present an overall assessment of impact performance. This may include reflections on drivers of past performance and outlook for future performance; assessment of the relationships between different types or dimensions of impact, or between aspects of impact and aspects of financial performance; what decisions have been made to manage any tradeoffs; and learnings that emerged during the period.

3.2. Impact Performance

Relevant content for this section includes:

- Outcomes and impacts of investees/assets on stakeholders and the natural environment;
- Both positive and negative, intended and unintended results;
- Measurement as far down the impact pathway as possible (i.e., outcomes or impacts as opposed to proxy metrics of activities or outputs);
- Investor contribution, including financial and non-financial;
- Results relative to entities' own targets and relative to sustainability thresholds;
- Evidence that the content presented is a faithful representation of the experiences and views of the stakeholders experiencing the impact;
- Indication of connections and relationships between impact and financial performance;
- Results across the five dimensions of impact and the associated data categories;
- If appropriate, disaggregation of results by stakeholder characteristics (e.g., gender, race/ethnicity, and other social identifiers);
- If appropriate, presentation of performance information using standardized thematic taxonomies, ESG and responsible investment frameworks, and/or metric sets; and
- Definitions of terms and metrics; explanations of data sources, assumptions, calculations, and other methodological notes; explanations of areas of the report where data and evidence are relatively stronger or weaker; and detail about the time period(s) to which the reported information corresponds.

Asset managers preparing impact performance reports should conduct their own analysis to determine what and how much of the above information to include. Asset managers will make context-specific judgments based on the specific impacts experienced by stakeholders and the natural environment, the needs of report users, and the impact objective(s) committed to, with the Guiding Principles in Part 2 summarized below providing consistency and structure to those judgments. The Reporting Norms operate on a "comply-or-explain" basis. Preparers should strive to include the information suggested or if not, provide rationale.

The public consultation revealed a strong preference for reporting on each investment or asset individually. Optional portfolio-level synthesis can complement investment-by-investment reporting.

Entities with hundreds of investments, such as development finance institutions, may need to report by themes or other sub-segments of the portfolio.

3.3. Unintended and/or Negative Outcomes and Impacts

If not addressed in Section 3.2., describe here. Include those of investee companies and/or the reporting entity itself, along with actions taken to remedy the impact and/or avoid similar impacts in the future.

4. Governance

4.1. Entity Governance

This section is based on the governance portion of the S1 standard of the International Sustainability Standards Board, adapted to the context of impact reporting.

4.2. Diversity, Equity, and Inclusion

Preparers are encouraged to include or reference in their disclosures one or more of the following frameworks, all of which were designed by specialists to assess policies, processes, and performance related to DEI for investors:

- GIIN's IRIS+ Racial Equity Lens
- ILPA Due Diligence Questionnaire (section 20) and Diversity Metrics Template
- PRI Diversity, Equity, and Inclusion Due Diligence Questionnaire

4.3. Parent and Holding Company Governance

If relevant, describe the governance related to impact and sustainability of the entity's parent company that apply to the entity.

5. Case Studies

Each case study is suggested to include the case study type (e.g., illustrative, exploratory, critical instance, cumulative); selection process and purpose; investee overview and impact thesis as per Section 1; and impact performance as per Section 3.

6. Independent Review (Optional)

Conclusion of independent reviewers.

PART 2:

Guiding Principles

Part 2 provides Guiding Principles based on the six qualitative characteristics of useful information from the Conceptual Framework for Financial Reporting of the International Financial Reporting Standards (IFRS) Foundation, adapted to the context of impact performance reports. A summary is provided here:

1. Users and Objectives

The Reporting Norms assume that the primary users of an entity's impact performance report are its providers of capital, though there may be other users as well. The Reporting Norms focus on the needs of capital providers making decisions about investment and/or engagement in the entity, in expectation of financial returns and social and/or environmental impact. These primary users seek to understand changes in the well-being of stakeholders and the natural environment caused by the entity and investee enterprises, so that they can make investment and engagement decisions that are informed by the experiences and interests of stakeholders and the natural environment.

Asset owners and allocators may seek to understand a reporting entity's impact for reasons including:

- They believe that the entity's impact influences its financial risks and opportunities;
- They believe that the entity's impact influences the financial risk and opportunity of other entities in which they have invested (including systematic/undiversifiable risk); and/or
- They are intrinsically motivated by impact and are permitted by relevant regulations and by their own capital providers to take impact into account when making decisions.

2. Characteristics of Useful Information

The Reporting Norms follow the Conceptual Framework in distinguishing between fundamental and enhancing characteristics of useful information (emphasis added):

> "The fundamental qualitative characteristics are **relevance** and **faithful representation**.
>
> 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.
>
> **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."[3]

3 IASB. "Conceptual Framework for Financial Reporting." Ifrs.org, 2018. https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/.

Relevant information is capable of affecting users' decisions. "Part 1: Content" synthesizes the information that participants in the public consultation agreed is relevant for an impact performance report. In general, report preparers are encouraged to include as much of this information as possible. In practice, report preparers will need to make numerous judgment calls.

These judgment calls will be context-specific and will vary depending on the report users, the entity, the impact objective(s) committed to, and the nature and magnitude of impacts on stakeholders and the natural environment. For this reason, the Reporting Norms cannot specify exactly what information will be relevant for any individual report preparer to include. In private markets, report preparers and users are often able to engage one another directly to determine what information would be relevant to users' decision-making, given the impacts experienced by stakeholders and the natural environment. This discussion may identify opportunities to shorten reports, reducing time and expense.

Faithful Representation means that information is complete, neutral, and accurate. A complete depiction of impact performance would include all 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. Concepts such as bias and neutrality merit handling with care when preparing reports about social and/or environmental impact. A representation that appears neutral and unbiased to a report preparer or to some users may not appear so to others. Report preparers, users, and independent reviewers alike are encouraged to check for bias and neutrality from multiple perspectives.

Accurate information need not be perfectly precise, but it does need to be free of material misstatement.

Comparability enables users to find similarities or differences between two items with regard to one or more attributes. Linking performance to widely used taxonomies of goals or themes, disaggregating and analyzing data based on stakeholder characteristics, including information across the five dimensions of impact, and using and referencing standardized metrics can enhance comparability and forestall false equivalence for report users.

The Reporting Norms follow the Conceptual Framework: "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."

Verifiability means information, or the inputs used to derive it, can be checked and confirmed.

Timeliness means information is available at a frequency that meets users' needs.

Understandability means information is presented clearly and concisely in a way that users with reasonable knowledge can understand. 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.

APRIL 2024

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