itf impact taskforce

Financing a better world requires impact transparency, integrity and harmonisation

WORKSTREAM A

UK Government | G7 | GSG Driving real impact | impact investing institute

WE ARE GRATEFUL TO OUR FUNDERS FOR THEIR FINANCIAL SUPPORT FOR THE IMPACT TASKFORCE.

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BACKGROUND

In 2021, the UK government, during its presidency of the G7, established the Impact Taskforce (ITF). The ITF is a private-sector-led independent body partly funded by the UK's Foreign, Commonwealth & Development Office (FCDO). It was created to develop solutions for a sustainable and inclusive recovery from the Covid-19 pandemic crisis and to "ensure just transitions that promote sustainable development and eradication of poverty, and the creation of decent work".[1] In short, we cannot disconnect the social from the environmental if we are to take people with us and sustain the political will that long-term investment requires.

The G7 is an informal political forum consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, alongside the European Union. G7 members represent an important volume of foreign direct investment worldwide and their capital markets have a crucial impact on the rest of the world. The G7 is uniquely positioned to host discussions and foster action in both developed and developing economies as countries struggle with high levels of indebtedness, mounting social inequality and the urgent need for recovery efforts to shape a sustainable and inclusive future.

The ITF gathered leading global practitioners to discuss and propose how impact harmonisation, transparency and integrity can be advanced, as well as to explore specific financial vehicles that harness private capital for public good, at scale. The ITF's dynamic governance and operational structure has coordinated, and will continue to coordinate, efforts with other relevant working groups in the G7, G20 and COP26, through current and future presidencies, to advance the ITF agenda.

To accomplish its goals, the ITF formed two workstreams. S&P Global President and CEO Douglas L. Peterson led "Workstream A", and UK Impact Investing Institute (III) Chair Dame Elizabeth Corley led "Workstream B." The Global Steering Group for Impact Investing (GSG) provided Secretariat support to the ITF. This report is the product of Workstream A, whose mandate was to enhance impact transparency, harmonisation and integrity. Workstream B was responsible for creating a blueprint to help financial market participants design impact investing vehicles. These two workstreams are interdependent and mutually supportive. Without greater transparency, harmonisation and integrity, impact financing cannot reach its full potential to create a better planet, nor can it be held properly accountable.

Workstream A focuses on accelerating impact transparency, harmonisation and integrity of all capital flows in order to achieve the Sustainable Development Goals (SDGs) and a just transition.

Workstream A met frequently in 2021 to develop recommendations for governments, capital market regulators, investors, enterprises, standard-setters and non-governmental organisations – crafting recommendations that will last beyond the UK's G7 presidency and reach markets beyond the G7. These recommendations, conveyed throughout this report, were formed by an open exchange of ideas, expert opinions, real-world evidence and the strong consensus of Workstream A members.

This paper benefited from the wide range of perspectives, backgrounds and sectors represented by Workstream A's 51 members. Workstream A members include asset owners and asset managers, leading accounting / auditing firms, corporates, non-governmental organisations, former regulators, and members of academia. Workstream A members hail from more than a dozen countries, and all of them, in one way or another, are working with dedication and enthusiasm on initiatives with similar goals.

The ITF's recommendations do not duplicate or override any other existing activities. Rather, the ITF wants to emphasise the critical importance of harmonisation, transparency and integrity, and provide actionable recommendations on how to build upon and accelerate existing, unified efforts.

[1] United Nations (13 November 2021): "Glasgow Climate Pact"; https://unfccc.int/sites/default/files/resource/cma2021_L16_adv.pdf

The ITF thanks the exceptional contributions of its WSA members:

Name	Company	Title
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Amit Bouri	The Global Impact Investing Network (GIIN)	CEO & Co-founder
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INTRODUCTION

There is an urgent need to increase the volume and effectiveness of capital directed to making positive social and environmental impact. The challenges the world faces – from climate change to inequality – are the greatest of our lifetime. There are now less than eight years left in which to achieve the United Nations' 17 Sustainable Development Goals (SDGs), and, especially in the aftermath of the Covid-19 pandemic, we are off-track. Poverty will increase in places where income is more dependent on commodity exports, tourism and remittance flows. While CO2 emissions fell sharply in some countries, the virus had a negative impact on the enforcement of environmental laws, including on deforestation.[2]

To secure urgent private and public investment, we need greater transparency, harmonised disclosure standards and better data. Ninety percent of major US companies published a "sustainability report" in 2019, up from 86% in 2018 and 20% in 2011.[3] Yet, António Guterres, Secretary-General of the UN, notes that people perceive the economy is not working for them – and that the narrow focus on growth is leading to climate catastrophe, a loss of trust in institutions and a lack of faith in the future.[4] This huge inconsistency means that more reporting (as it is currently done) does not necessarily lead to insight, comparability and action. Capital market participants are simply not equipped with the information necessary to get us back on track.

SPOTLIGHT **Impact**[5]

The ITF uses the Impact Management Project (2021) definition of impact: a change in an aspect of people's well-being or the condition of the natural environment caused by an organisation.

The ITF urgently calls for mandatory accounting for impact as a destination. Accounting is how entities make sense of and act upon financial and non-financial disclosures, in a way that can be audited and assured.*

The journey to this goal will require:

- greater transparency
- building on harmonised standards
- strong mechanisms to ensure integrity of data, analysis and governance

Emerging Markets	Transparency	Small and Medium Enterprises (SMEs)
	Harmonisation	
	Integrity	

* Accounting for impact, as referenced in this paper, covers a range of valuation techniques to estimate the relative value that an organisation creates, preserves or erodes for its stakeholders, expressed as a common unit. This can happen through a combination of (i) qualitative valuation (e.g. low/medium/high); (ii) quantitative non-monetary valuation (e.g. ratings on a scale of 1 – 10); and/or (iii) monetary valuation (e.g. the estimated monetary value to a stakeholder of a benefit they experience, or a harm or loss that they avoid or experience).

[2] Cambridge University Press (June 2020): "Sustainable Development Goals"; https://s3.amazonaws.com/sustainabledevelopment.report/2020/2020_sustainable_development_report.pdf

[3] Makower, J. (2021): "The state of Green Business 2021." GreenBiz & S&P Global; https://www.greenbiz.com/article/state-green-business-2021

[4] UN News (6 November 6 2019): "Progress toward sustainable development is seriously off-track"; https://news.un.org/en/story/2019/11/1050831

[5]
- Impact Management Platform: "Terms and concepts"; https://impactmanagementplatform.org/terms-and-concepts
- Healy, T. and S. Côté (2001): "The Well-Being of Nations: The Role of Human and Social Capital. Education and Skills". Organisation for Economic Cooperation and Development (OECD); https://www.oecd.org/site/worldforum/33703702.pdf
- Capital Coalition (2016): "The Natural Capital Protocol"; www.naturalcapitalcoalition.org/protocol

Disclosure, valuation, accounting and reporting[6]

Better impact disclosure is one aspect of broader impact management. **Disclosure** refers to the timely release of all information about a company that may influence an investor's decision. Disclosure standards tell companies how to disclose but they don't tell them how to improve.

Disclosures usually undergo **valuation**, or the process of estimating the relative value that an organisation creates, preserves or erodes for its stakeholders, expressed as a common unit.

There are three ways of estimating the relative value of an impact to stakeholders:

1. Monetary valuation (e.g., the estimated monetary value to a stakeholder of a benefit they experience, or a harm or loss that they avoid or experience)
2. Quantitative non-monetary valuation (e.g., ratings on a scale of 1–10)
3. Qualitative valuation (e.g., low/medium/high)

Accounting refers to how entities record, organise and understand information, including disclosures. Accounting for impact, therefore, refers to this process when applied to information on the effects of products, services and practices on people and the planet.

Reporting frameworks create guiding principles and content elements for a report, and the fundamental concepts that underpin them, including valuation techniques.

This document is organised around these themes, including implications for Small and Medium Enterprises (SMEs) and Emerging Markets. Each section outlines headline recommendations that, together, make up the key messages from this document. For each headline, there are "calls to action" directed at an audience that has a potential role in fulfilling the recommendations. While language has been streamlined for ease of reading, these recommendations are relevant for public and private companies, public and private sectors, large corporations and SMEs, and advanced and emerging economies.

Theme	Recommendations
TRANSPARENCY	**RECOMMENDATION #1** Mandate impact disclosure to achieve the Sustainable Development Goals (SDGs) and accelerate behavioural change in capital markets. **RECOMMENDATION #2** Foster voluntary disclosure practices while mandatory reporting rules are being rolled out. **RECOMMENDATION #3** Disclosure should cover how investors themselves – separately from the enterprises they finance – may engage in practices that amplify social and/or environmental impacts.
HARMONISATION	**RECOMMENDATION #4** Support a global reporting "baseline" that covers, at a minimum, social and environmental issues that affect enterprise value. **RECOMMENDATION #5** Urgently "build" to include any impacts on stakeholders that are not addressed by the global baseline.
INTEGRITY	**RECOMMENDATION #6** Ensure secure, interoperable data infrastructure. **RECOMMENDATION #7** Include the most affected in decision-making processes.
SMALL AND MEDIUM ENTERPRISES	**RECOMMENDATION #8** Successful impact transparency, harmonisation and integrity will rely on inclusion and engagement of Small and Medium Enterprises (SMEs).
EMERGING MARKETS	**RECOMMENDATION #9** Capital markets want better information on impact for all stakeholders – and in an increasingly interconnected world, that must include truly global voices.

[6]
- Impact Management Platform: "Terms and concepts"; https://impactmanagementplatform.org/terms-and-concepts
- Integrated Reporting. (January 2021): "International Framework"; https://www.integratedreporting.org/wp-content/uploads/2021/01/InternationalIntegratedReporting-Framework.pdf

Why Transparency?

Transparency on the impact of practices and performance for businesses and investors will provide the data necessary to understand impact risks and opportunities and to know if we are getting closer to achieving the Sustainable Development Goals (SDGs) and a just transition. Disclosure must catch up with the scale of the challenges we face, if there is any chance for owners of private and public capital to make decisions based on impact for people and the planet.

The scope of investor requests from companies and wider capital market participants is widening and changing more quickly than rules and regulations are. Investors are demanding more information related to economic, environmental, racial and climate justice, and using this information to make investment decisions – including whether the impacts fall unevenly on low-income or emerging market communities. In its 2021 investor survey of some 200 investors owning approximately $18 trillion of assets, MSCI observed a clear trend towards an increased integration of social and environmental factors into investors' decision-making processes, accelerated by the Covid-19 pandemic and climate-related events, including wildfires in Australia and California and warming of the Arctic.[7]

Recommendations on transparency explore the role of both mandatory and voluntary disclosure, covering impacts throughout the value chain, including at the enterprise-level and the investor-level.

Why Harmonisation?

Harmonisation of accounting methods and reporting standards is one of the most effective mechanisms to achieve comparable, consistent and reliable information on impact. Globally, the number of Environmental, Social, and Governance (ESG) and impact standards has nearly doubled in the last five years.[8] Publicly listed companies must abide by mandatory financial and non-financial disclosure requirements issued by regulators and stock exchanges. Companies must also respond to varying requests for voluntary disclosure and assessment from ratings providers, shareholders and the broader investment community, which can be difficult and expensive for all. As a result of the range of requests from different audiences, there are significant variations in the information disclosed about the impact of practices and performance.

Recommendations on harmonisation endorse a "baseline-and-build" approach to harmonisation, where – at a minimum – the "baseline" is that accounting reflects key social and environmental risks to companies now and in the future, focused on enterprise value. The "build", in the face of urgent challenges, is accountability to all stakeholders – including customers, suppliers, employees, local communities and the environment. Even if they do not visibly affect enterprise value, impacts on people and the planet should be considered, reported and managed in legal frameworks and decision making. The ITF recommends that public incentives and regulations endorse the "baseline" and move quickly on the "build", as is already the case in the European Union.

Why Integrity?

Integrity ensures that the impact data produced through increased transparency and better harmonisation maintains quality, consistency, privacy and interoperability. More data does not necessarily mean better data, nor that the governance bodies and managements of organisations are incentivised to use it. Standards and regulation can play a positive role in ensuring that information used in the financial system meets the high standards that investors need to make decisions. This requires robust governance arrangements, methodological transparency, data quality controls and the management and disclosure of potential conflicts of interest.[9]

PwC reported in 2021 that only about one-third of investors, on average, think that the quality of the reporting they are seeing is good enough.[10] The philosopher Onora O'Neill helps explain why: "increasing transparency can produce a flood of unsorted information and misinformation that provides little but confusion unless it can be sorted and assessed. It may add to uncertainty rather than to trust."[11, 12] This highlights the related need to build the capacity and capability of analysts to interpret data into meaningful insights.

Recommendations on integrity focus on secure, interoperable data infrastructure and

[7] CMSCI (2021): "Investment Insight 2021"; https://www.msci.com/our-clients/asset-owners/investment-insights-report

[8] EY (June 2021): "The future of sustainability reporting standards"; https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf

[9] S&P (2021): "S&P Global Response to IOSCO Consultation Report on Environmental, Social and Governance (ESG) Ratings and Data Products Providers"; https://www.spglobal.com/en/research-insights/featured/sp-global-response-to-ifrs-foundation-consultation-paper-on-sustainability-reporting

[10] Chalmers. J., N. Picard and E. Cox (21 October 2021): "The economic realities of ESG." PWC; https://www.pwc.com/economic-realities-of-ESG

[11] Pucker, K. (2021): "Overselling Sustainability Reporting." Harvard Business Review; https://hbr.org/2021/05/overselling-sustainability-reporting

[12] Christensen, D. M., G. Serafeim and S. Sikochi (2021): "Why is corporate virtue in the eye of the beholder? The case of ESG ratings." The Accounting Review; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3793804

inclusion of stakeholder voices. Integrity rests on how environmental and social impact measures are accounted for, audited and valued to be aggregated, disaggregated and integrated within existing approaches to reporting. This includes data on practices and performance, and how the data is used, including its role in decision making and accountability to stakeholders.

Why SMEs?

Small and Medium Enterprises (SMEs) play a major role in most economies and contribute up to 40% of national income in emerging markets. According to the World Bank, they represent about 90% of businesses and over 50% of employment worldwide.[13] Enterprises have varying access to resources and knowledge that may lead to a different level of adoption of global standards. This often makes enterprise-level impact reporting incomparable, resulting in uncertainty and ambiguity. Such imperfect information can lead to market failures, even while impact capital is actively seeking to turn them into market opportunities.

SMEs can be defined by the number of employees, assets and/or annual revenue. The local definition of SMEs may vary from country to country, but according to the World Bank, SMEs are defined as those with less than 250 employees.[14] Given the general importance of SMEs in job creation, inclusion and innovation for sustainable development, as well as the different nature of challenges they face compared to bigger corporations, there is a need to provide more tailored support.

Recommendations on SMEs note that support can come from many directions, including corporations themselves, through how they engage with their supply chains; governments making training and resources available directly to SMEs so they can show leadership; and tech-enabled solutions to promote flows of capital based on publicly available SME data. The goal is better informed decision making for SMEs.

Why Emerging Markets?

Emerging markets encompass large, rapidly developing economies along with smaller, riskier or more illiquid capital markets. In a study released in 2019, the International Monetary Fund (IMF) estimated that an additional $2.1 trillion annually is needed for emerging markets to meet the Sustainable Development Goals (SDG) agenda by 2030.[15] To meet these targets, an unprecedented amount of capital must be mobilised, locally and internationally. The SDGs will be met or lost depending on how swiftly global impact standards change capital flows in emerging markets.

To deploy this capital where it is needed most, impact data should be generally reliable and comparable. Until disclosures are globally harmonised and mandatory, this will remain a challenge – but governments and multinational enterprises can act now to improve data collection and analysis by advancing data capabilities, digitalisation, and accounting proficiency.

Recommendations on emerging markets focus on incentives for increased transparency, active investment in “just transition” vehicles, and incorporation of harmonised standards by leveraging on multilateral platforms. More research will be needed on the implications of harmonisation, transparency, and integrity efforts between developing and emerging economies, especially those with nascent financial sectors and less resilience to climate change.[16]

[13] Tewari, P. S., D. Skilling, P. Kumar and Z. Wu (2013): “Competitive small and medium enterprises: A diagnostic to help design smart SME policy”; https://documents1.worldbank.org/curated/en/534521468331785470/pdf/825160WP0P148100Box379861B00PUBLIC0.pdf

[14] Tewari, P. S., D. Skilling, P. Kumar and Z. Wu (2013): “Competitive small and medium enterprises: A diagnostic to help design smart SME policy”; https://documents1.worldbank.org/curated/en/534521468331785470/pdf/825160WP0P148100Box379861B00PUBLIC0.pdf

[15] Vitor Gaspar et al. (2019): “Fiscal Policy and Development: Human, Social, and Physical Investment for the SDGs.” IMF Staff Discussion Note; https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-PhysicalInvestments-for-the-SDGs-46444

[16] Duttagupta, R. and C. Pazarbasioglu (2021): “MILES to go: Finance & Development.” IMF; https://www.elibrary.imf.org/view/journals/022/0058/002/article-A002-en.xml

AUDIENCE

The key audience for this report is political decision makers and regulators who are best positioned to take action, namely G7 members' and 2021 G7 guest countries' Heads of State and Government, Foreign and Development Ministers, Finance Ministers, Development Finance Institutions (DFIs), as well as all capital market regulators, including the International Organization of Securities Commissions (IOSCO).

Since the fulfilment of the Sustainable Development Goals[17] (SDGs) can only be realised with strong global partnerships and cooperation, it is critical to also engage the financial sector. Therefore, our audience also includes financial market participants and product providers who move capital and can adopt regulation, as well as standard-setters with the power to harmonise standards. These stakeholders include, but are not limited to, multilateral development banks, standard-setting bodies, stock exchanges, enterprise networks and international organisations.

This paper covers the impact of all capital flows, including corporate actions generally. For private capital, the table below articulates current differences between sustainable and impact investments, adapted from Busch et al.[18] Sustainable (or responsible) investments generally incorporate Environmental, Social, and Governance (ESG) data to mitigate risks and avoid harm, while impact investments focus on significant contributions to solving social challenges and/or mitigating ecological degradation.

For readers looking to make sense of the current landscape of public good standards, frameworks, tools and guidance, which can feel unwieldy at first glance, visit the newly launched **Impact Management Platform (IMP)**.[19] The IMP fosters convergence among initiatives with the broader and complementary task of guiding the market on how to manage and improve impacts.

The IMP is a collaboration between leading providers of public good standards, frameworks, tools and guidance, who are coordinating efforts to provide clarity for practitioners. Its founding partners include B Lab, Capitals Coalition, CDP, Climate Disclosure Standards Board (CDSB), Global Impact Investing Network (GIIN), Global Reporting Initiative (GRI), Global Steering Group for Impact Investment (GSG), International Finance Corporation (IFC), Impact-Weighted Accounts Initiative at Harvard Business School (IWAI), Organisation for Economic Co-operation and Development (OECD), Principles for Responsible Investment (PRI), Value Reporting Foundation (VRF), Social Value International (SVI), United Nations Department of Economic and Social Affairs (UN DESA), UN Development Programme (UNDP), UN Environment Programme - Finance Initiative (UNEP FI), UN Global Compact (UNGC) and World Benchmarking Alliance (WBA).

All have committed to using the IMP for coordination regarding policy and regulatory processes to support the mainstreaming of impact management.

	Sustainable Investments		Impact Investments	
	ESG-screened Investments	**ESG-managed Investments**	**Impact-aligned Investments**	**Impact-generating Investments**
Objective	Mitigation of ESG-related risks and/or ethical considerations	Systematic consideration of ESG-related risks & opportunities	Address social and environmental challenges and goals	Actively contributing to social and environmental solutions
General approach *(Benefitting from harmonization)*	Any consideration of E, S, or G factors in investment appraisals; typically focusing on exclusion criteria	Comprehensive set of exclusion criteria; at least one further pre-investment decision approach is applied	Building on exclusion criteria, sophisticated combination of pre- and post-investment decision approaches	Focus on impact generation by providing additional capital, incorporating forward-looking targets and/or post-investment decision approaches
Documentation *(Efforts to increase transparency)*	No detailed documentation	Basic description & ideally external verification	Detailed description & external verification of impact goals	Detailed description & external measurement of impact goals & targets

Source: Adapted for the ITF from Busch et al.

[17] The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality and spur economic growth – all while tackling climate change and working to preserve our oceans and forest; https://sdgs.un.org/goals

[18] Busch, T., P. Bruce-Clark, J. Derwall, R. Eccles, T. Hebb, A. Hoepner, et al. (2021): "Impact investments: a call for (re) orientation." SN Business & Economics 1(2), 1-13; https://link.springer.com/article/10.1007/s43546-020-00033-6

[19] IMP: "About the Impact Management Platform"; https://impactmanagement-platform.org/about/

SUMMARY CALLS TO ACTION

For governments

SHORT-TERM

- **Mandate that statements on impact disclose the limitations, thresholds and assumptions underpinning them**, and any basis for deciding what is material. [1A]
- **Governments (including Economy and Finance Ministers) can swiftly endorse the development and eventual mandatory reporting on social issues,** following environmental leadership on the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD). [1B]
- **Governments should support and participate in upcoming consultations on the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB)** as it develops and maintains a global baseline on impact related to enterprise value. Governments can ensure that it has an inclusive governance model, actively engages SMEs along the value chain and balances social and environmental issues. [4A]
- **Governments can promote the convergence of data standards for digitisation and interoperability of impact disclosures** in a globally consistent, machine-readable format, while allowing enterprises to maintain control of their data privacy and quality. [6A]
- **Governments should enhance, through public-private partnerships, the quality, usability and accessibility of global economic, environmental and social data sets**. [6C]
- **Provide technical assistance, training capacity and subsidies to empower SMEs** to report on their impact performance. [8B]

MEDIUM-TERM

- **Mandate harmonised reporting on social and environmental impacts through revision of national company laws or acts.** This will spur enhanced reporting and accounting practices for private companies to respond and evolve. [1C]
- **Adopt the necessary public sector accounting practices** so that government expenditure meets demands for transparency, harmonisation and integrity of impact, and governments gain a better understanding of impacts and dependencies related to the national economy. [2C]
- **National and international legal frameworks should ensure that directors can pursue impact alongside financial performance,** and, in time, evolve to encourage decisions based on impact. [5A]
- **Public investment should go towards open data infrastructure,** where it does not compromise data privacy, to inform decisions on social and environmental issues across borders. [6B]
- **Leverage multilateral platforms to harmonise and embed impact standards to facilitate investment flows.** [9A]

For capital market regulators

SHORT-TERM

- **Create an assurance regime for all data relevant to enterprise value for public companies,** building swiftly on the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) (IFRS-ISSB) 2021 launch. [4B]
- **Partner with central banks to identify data gaps on environmental and, in particular, social risks,** building on models like the central banks' and financial supervisors' Network for Greening the Financial System (NGFS), and calling on external stakeholders to bridge the gaps. [6D]

MEDIUM-TERM

- **Agree on a regime to account for and assure all impact data, including data not captured by the baseline related to enterprise value,** to meet the demands for mandatory accounting for impact. [5B]
- **Develop an SME-friendly version of the IFRS-ISSB prototype**, specifically by omitting topics that are not relevant for SMEs and simplifying the language, building on the existing IFRS-for-SME framework. [8E]

For investors

SHORT-TERM

- **In advance of regulatory action by governments, commit to external assurance on impact** for assets under management to reduce greenwashing claims, build trust with stakeholders, embed practices within the company so directors are accountable, and track real progress on social and environmental issues. [3A]
- **Include meaningful engagement with local stakeholders in investment decisions** to ensure community voices are captured. [7A]
- **Investors, stock exchanges, venture capital firms and development finance institutions signal that impact transparency is critical** to due diligence and investment decisions. [8D]

MEDIUM-TERM

- **Investors commit to co-creating investor-level disclosures and reporting on the positive and negative impacts of their own practices.** [3B]

For enterprises

SHORT-TERM

- **Adopt leading voluntary, issue-specific disclosure frameworks,** in advance or in support of regulatory action. [2D]
- **Enterprises should continue to advance methodologies around monetary valuation,** informed by the work of the Impact-Weighted Accounts Initiative (IWAI), the EU-sponsored Transparent project, the Value Balancing Alliance and the Value Accounting Network. [2E]
- **Large enterprises, banks and funds leverage their relationship with SMEs** to encourage better impact disclosures. [8C]

MEDIUM-TERM

- **Large multinationals should seek transparency across full value chains**, including emerging markets – empowering local teams to understand whether local communities and employees are treated well, good governance practices are in place and climate resilience is ensured. [9B]

For standard-setters and non-governmental organisations

SHORT-TERM

- **In advance of mandatory action by governments, lead the way on co-creating voluntary, issue-specific accounting for impact** to: 1. show that harmonised accounting and disclosure is possible and insightful, and 2. expose gaps in information within existing (or future) mandatory or voluntary accounting and disclosure frameworks. [2A]
- **Network organisations and industry associations provide training and resources that support SMEs** to overcome costly barriers to becoming more transparent. [8A]
- **New and existing voluntary disclosure frameworks should integrate science-based thresholds and issues relating to green-social interdependence.** [2B]

1 TRANSPARENCY

Transparency

Transparency refers to the principle of creating an environment where information on existing conditions, decisions and actions is made accessible and understandable.

Disclosure refers to the process and methodology of providing comprehensive, verified, comparable information through timely dissemination. This is essential for maintaining an orderly and efficient market.

A just transition depends on transparency of clear and relevant impact information.

RECOMMENDATION #1

Mandate impact disclosure to achieve the Sustainable Development Goals (SDGs) and accelerate behavioural change in capital markets.

A push by G7 and partner countries towards mandatory reporting on environmental and social performance by enterprises is critical to improving the lives of people and the planet. Disclosures matter because they can expose risks for companies, industries and markets. By identifying and measuring these impacts, financial markets and companies start a race to the top in addressing them. Market participants can match their preferences with organisations that supply certain characteristics. In the absence of disclosure, consumers, employees, investors and other stakeholders may end up making choices that do not reflect their true preferences.

Increasingly, capital market regulators are taking a lead in mandating necessary disclosure, and governments are taking action, recognising that strong regulatory incentives can drive action and change decision making. Academic literature is already tracking clear outcomes of mandatory sustainability disclosure,[20, 21] and the link between mandatory disclosures and firm outcomes, more generally.[22]

[20] Jackson, G., J. Bartosch, E. Avetisyan, D. Kinderman, and J.S. Knudsen (2020): “Mandatory non-financial disclosure and its influence on CSR: An international comparison.” Journal of Business Ethics; https://link.springer.com/article/10.1007/s10551-019-04200-0

[21] Jouvenot, V. and P. Krueger (2019): “Mandatory corporate carbon disclosure: Evidence from a natural experiment”; https://ideas.repec.org/a/kap/jbuset/v162y2020i2d10.1007_s10551-019-04200-0.html

[22] Jayaraman, S. and J.S. Wu (2019): “Is silence golden? Real effects of mandatory disclosure.” The Review of Financial Studies 32(6), 2225-2259; https://academic.oup.com/rfs/article-abstract/32/6/2225/5069021

SPOTLIGHT Increased transparency is a global trend[23]

- The **EU's Non-Financial Reporting Directive (NFRD)** promotes measuring social and environmental performance alongside financial performance. The European Commission (EC) has published its proposed **Corporate Sustainability Reporting Directive (CSRD)** that amends the NFRD in response to demand for stronger, wider and more comparable sustainability reporting standards above and beyond the NFRD. The goal is that sustainability reporting be "on par" with financial reporting. The mandatory CSRD reporting requirements will apply to all large EU companies and all listed companies, including listed small and medium enterprises (SMEs). This is estimated to cover around 49,000 companies. By integrating the Transparent project, CSRD is pushing to further to extend and enhance current financial accounting systems with standardised environmental impact information, whilst the EU's taxonomy will provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. The **2021 update of the EU's sustainable finance strategy** reiterates the call for action to promote the development and use of **standardised natural capital accounting methods** developed through the Transparent project.
- The **US Congress** is considering measures that would require increased Environmental, Social, and Governance (ESG) disclosures, including the **Improving Corporate Governance Through Diversity Act**, the **Diversity and Inclusion Data Accountability and Transparency Act** and the **Climate Risk Disclosure Act**. The federal focus on ESG issues can be an important bolster for the US Securities and Exchange Commission (SEC)'s effort to create disclosure practices for public companies and mutual funds. The Securities and Exchange Commission has stated that a number of its disclosure rules may require disclosure related to climate change, namely the impact of pending or existing climate-change related legislation, regulations and international accords; the indirect consequences of regulation or business trends; and the physical impacts of climate change. However, many of these efforts will require bipartisan support.
- The **UK Financial Conduct Authority (FCA)** introduced a new **Listing Rule** requiring firms with a premium UK listing to disclose, in their annual financial report, the climate-related risks and opportunities that the relevant organisation has identified over the short, medium and long term in line with recommendations by the Task Force on Climate-Related Financial Disclosures (TCFD).
- In June 2021, the Tokyo Stock Exchange revised the **Corporate Governance Code of Japan**, requiring Prime Market listed companies to disclose information based on TCFD recommendations or an equivalent framework. In its annual strategy published in August 2021, the Financial Services Agency (FSA) reaffirms that it will enhance the quality and quantity of climate-related financial disclosures of listed companies based on the revised Corporate Governance Code and will consider approaches to encourage listed companies to disclose their sustainability-related initiatives. To this end, the FSA established a working group under the Financial System Council to further discuss, with broad stakeholders, disclosure (including sustainability) that contributes to constructive dialogue between listed companies and investors.
- In September 2020, **New Zealand** announced that it will implement mandatory climate risk reporting in line with the **TCFD's** recommendations, becoming the first country to do so. This was quickly followed in November 2020 with the **UK** announcing that TCFD-compliant climate risk reporting will become mandatory for large companies and financial institutions. In addition, in May 2020, **Canada** announced that businesses would be required to disclose their climate impacts and commit to making environmentally sustainable decisions in order to receive economic aid for the COVID-19 pandemic through the **Large Employer Emergency Financing Facility**.
- In June 2021, the **China Securities Regulatory Commission** published its revised Regulation on Content and Format of Annual Report of Companies Publicly Issuing Securities, adding one separate chapter on environmental and social responsibilities. China's central bank, the People's Bank of China, promulgated Guidelines for Financial Institutions Environmental Information Disclosure in July 2021, encouraging financial institutions to disclose environmental information in their annual reports, separate environmental reports or social responsibility reports.
- The **Korea Financial Services Commission** enforced a regulation that requires Korea Composite Stock Price Index (KOSPI)-listed companies with asset values of 2 trillion won or more to submit an ESG report to the Korea Exchange from 2025.

[23] European Commission (April 2021): "Sustainability Finance Package"; https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd

- Robinson, C., P Reynolds, C. Mondelli, C. Robinson and P. Reynolds (7 September 2021): "UK financial regulator business plan: key takeaways and potential enforcement focus." Reuters; https://www.reuters.com/legal/legalindustry/uk-financial-regulator-business-plan-key-takeaways-potential-enforcement-focus-2021-08-24/
- Climate Disclosure Standards Board (15 September 2020): "New Zealand becomes first to implement mandatory TCFD reporting"; https://www.cdsb.net/mandatory-reporting/1094/new-zealand-becomes-first-implement-mandatory-tcfd-reporting
- Yale Environment 360 (14 May 2020): "To Get Covid-19 Relief, Companies in Canada Will Have to Disclose Climate Impacts." Yale School of the Environment; https://e360.yale.edu/digest/to-get-covid-19-relief-companies-in-canada-will-have-to-disclose-climate-impacts
- White House (May 2021): "Executive Order on Climate-Related Financial Risk"; https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk/
- SEC (September 2021): "Sample Letter to Companies Regarding Climate Change Disclosures"; https://www.sec.gov/corpfin/sample-letter-climate-change-disclosures?utm_medium=email&utm_source=govdelivery&source=email
- Board, F. S. (2017): "Final Report: Recommendations of the Task Force on Climate-Related Financial Disclosures." Task Force on Climate-related Financial Disclosures; https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf
- Regulation Asia (22 March 2021): "Korea to require ESG disclosures from listed companies"; https://www.regulationasia.com/korea-to-require-esg-disclosures-from-listed-companies/
- Oxford Law Faculty (26 July 2021): "The 2021 Japanese corporate governance code"; https://www.law.ox.ac.uk/business-law-blog/blog/2021/07/2021-japanese-corporate-governance-code

Actions for government

1A **MANDATE THAT STATEMENTS ON IMPACT DISCLOSE THE LIMITATIONS, THRESHOLDS AND ASSUMPTIONS UNDERPINNING THEM, AND ANY BASIS FOR DECIDING WHAT IS MATERIAL.**

As a result of a lack of harmonisation in the impact space, many actors see complexity – and the market has responded with a wide range of reporting and data analysis approaches. It can be difficult to see the assumptions and limitations of reported conclusions on impact, which limits informed decision making. At worst, low transparency on assumptions might mean that impact-led capital allocation is diverted to exactly what it is trying to avoid.

Governments can increase the comparability and reliability of social and environmental metrics by mandating disclosure of the limitations and assumptions underneath them, including the basis for deciding what is material and what is not. Any underlying frameworks, standards, requirements, practical guidance and other bases for assumptions should be easily accessible. This can be done while respecting commercially sensitive and proprietary information through a combination of voluntary codes as well as targeted regulation.

Better practice data – as recently driven by the IFC's Operating Principles for Impact Management, and the UNDP's SDG Impact Standards and the OECD UNDP Impact Standards for Financing Sustainable Development (IS-FSD)[24] – will help spotlight assumptions and support better decision-making for development finance providers, private equity, enterprises and bond issuers, including improved governance, management, strategy and transparency.

As suggested by International Organization of Securities Commissions (IOSCO), and in parallel to business-led initiatives, regulators may wish to consider focusing attention on the use of Environmental, Social, and Governance (ESG) ratings and data products in their jurisdictions, including setting high levels of public disclosure and transparency on their methodologies and processes – ensuring decisions are, to the best of their knowledge, independent and free from political or economic pressures and from conflicts of interest arising due to the ratings and data products providers' organisational structures, business or financial activities; and responding to and addressing issues flagged by entities covered by ratings and data products, while maintaining objectivity.

Policymakers have a key role in ensuring the integrity of impact statements, understanding that organisations may struggle to foresee or forecast impacts (especially negative and indirect), may not control external impacts (or impact risks) that may cause harm later, and may have perverse incentives to be inaccurate or incomplete in reporting.

SPOTLIGHT

EFRAG[25]

A live example of Action 1A is within the current European Financial Reporting Advisory Group's (EFRAG)'s "Climate standard prototype" working paper. This document clearly outlines principles around the transparency of the assumptions and criteria that should be disclosed. For example, as part of the draft "Policy commitment to climate change mitigation" section, it describes the need for disclosures from companies **"detailing their content, perimeter with regards to the value chain and how they are communicated to stakeholders, including business partners."** According to the working paper, policies relating to a climate-related sustainability matter should meet the following criteria: 1. cover a defined perimeter, 2. be disseminated, 3. have defined ownership, and 4. be underpinned by targets, action plans, appropriate resources and due diligence/risk management processes.

1B **GOVERNMENTS (INCLUDING ECONOMY AND FINANCE MINISTERS) CAN SWIFTLY ENDORSE THE DEVELOPMENT AND EVENTUAL MANDATORY REPORTING ON SOCIAL ISSUES, FOLLOWING ENVIRONMENTAL LEADERSHIP ON THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) AND THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD).**

The Financial Stability Board created the TCFD in 2015 to improve and increase reporting of climate-related financial information.[26] The TCFD has been endorsed by the International Organization of Securities Commissions (IOSCO), the Network for

[24] The OECD-UNDP Impact Standards for Financing Sustainable Development (IS-FSD) are a best-practice guide and self-assessment tool for public and private investors seeking to optimise their positive contribution to the sustainable development goals (SDGs). The Standards facilitate transparency in investment reporting and will contribute to the reduction of "impact washing" - a process in which investors claim to align with and contribute to development objectives without providing meaningful supporting evidence.

[25] European Financial Reporting Advisory Group (EFRAG) (2021): "Proposal for a Relevant and Dynamic EU Sustainability Reporting Standard-Setting"; https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS_MAIN_REPORT.pdf

[26] Board, F. S. (2017): "Final Report: Recommendations of the Task Force on Climate-Related Financial Disclosures." Task Force on Climate-related Financial Disclosures; https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

Greening the Financial System (NGFS), and more than 2,500 organisations with a market cap of $25 trillion and assets of more than $150 trillion.[27] Four years since the TCFD published its disclosure recommendations, the G7 only just announced its support to move towards mandatory climate-related financial disclosures that provide consistent and decision-useful information, in line with domestic regulatory frameworks.

More swiftly, the G7 Finance Ministers have also backed a Taskforce on Nature-related Financial Disclosures (TNFD) after one year, and should soon consider backing disclosure based on the newly launched Taskforce for Inequality-Related Financial Disclosures (TIFD), with leadership from emerging markets.[28] If similar disclosures were adopted more widely, or required via regulation, and adhered to by a wide range of companies, this would improve upon the current status quo of inconsistent and incomparable disclosures – or indeed non-existent disclosures, especially on related social issues.

1C **MANDATE HARMONISED REPORTING ON SOCIAL AND ENVIRONMENTAL IMPACTS THROUGH REVISION OF NATIONAL COMPANY LAWS OR ACTS. THIS WILL SPUR ENHANCED ACCOUNTING AND REPORTING PRACTICES FOR PRIVATE COMPANIES TO RESPOND AND EVOLVE.**

A growing number of business leaders are suggesting that all businesses should be mandated to account for and report on social and environmental impact, in order to align shareholder and wider stakeholder needs. This is a core change in corporate purpose, according to recent research by the UK's ReGenerate initiative.[29]

This may involve amending the process for certifying a company, like the Better Business Act is promoting in the UK. The Better Business Act aims to amend Section 172 of the UK's Companies Act in line with the principles that whether big or small, companies should align the interests of their shareholders with those of wider society and the environment.[30]

RECOMMENDATION #2

Foster voluntary disclosure practices while mandatory reporting rules are being rolled out.

In 2006, when the Principles for Responsible Investment (PRI) was launched, 63 investment companies (asset owners, asset managers and service providers) signed a commitment to incorporate Environmental, Social, and Governance (ESG) issues into their investment decisions. By March 2021, the number of signatories had grown to 3,826 and represented $121.3 trillion in assets under management (AUM).[31] The growth of the PRI, which focuses on "driving meaningful data throughout the markets", reflects how differently investors are thinking about the data needed, in what form and for what purposes – and its implications for company disclosure. Accounting for impact will evolve if there are strong incentives for reporting and vibrant civil society efforts to spotlight areas of low transparency. Voluntary efforts are an opportunity to make progress on key issues, get ahead of regulation and to spur regulators to take action. All of this will set the stage and inform mandatory reporting requirements in the future.

SPOTLIGHT

Transparent project[32]

Transparent is an EU LIFE funded project that will develop standardised natural capital accounting and valuation principles for business in line with the ambition of the European Green Deal.

Through the Transparent project, the Value Balancing Alliance and the Capitals Coalition have joined forces with the World Business Council for Sustainable Development (WBCSD) to develop a set of natural capital accounting principles to enable business to empower the private sector and to enable a shift towards a more sustainable financial and economic system. In line with the European Green Deal, the Transparent project will develop a standardised natural capital accounting and valuation methodology that provides decision makers with the information necessary to generate long-term value and to improve business resilience, while providing a clear picture of the overall impacts and dependencies of businesses on the environment, communities and broader society.

The Transparent methodology aims to integrate financial and environmental information and accounts. It will encourage companies to better manage environmental risks and opportunities and apply best practices in order to establish a prescriptive industry standard that generates widely comparable results.

[27] The Network for Greening the Financial System is a network of 83 central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change.

[28] TIFD: "Task Force on Inequality-related Financial Disclosures"; https://thetifd.org/why-tifd

[29] Re-Generate (July 2021): "Helping purpose-driven business thrive"; https://www.re-generate.org/helping-purpose-driven-business-thrive
- Hart, O. and L. Zingales (2017): "Companies should maximize shareholder welfare not market value." ECGI-Finance Working Paper 521; https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3004794
- Grewal, J., C. Hauptmann, and G. Serafeim (2020): "Material sustainability information and stock price informativeness." Journal of Business Ethics 1-32; https://link.springer.com/article/10.1007%2Fs10551-020-04451-2

[30] Better Business Act: https://betterbusinessact.org

[31] PRI (2021): "About PRI"; https://www.unpri.org/pri/about-the-pri

[32] Capitals Coalition: "Transparent"; https://capitalscoalition.org/project/transparent/

Actions for standard-setters and non-governmental organisations

2A IN ADVANCE OF MANDATORY ACTION BY GOVERNMENTS, LEAD THE WAY ON CO-CREATING VOLUNTARY, ISSUE-SPECIFIC ACCOUNTING FOR IMPACT TO:

1. **show that harmonised accounting and disclosure is possible and insightful**
2. **expose gaps in information within existing (or future) mandatory or voluntary accounting and disclosure frameworks**

The Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) are playing a critical role in pushing disclosure forward, along with the Global Investors for Sustainable Development (GISD)[33] and the Partnership for Carbon Accounting Financials (PCAF).[34] A Taskforce on Inequality-related Disclosures (TIFD) is under development, synthesising work from civil society and academia with corporate and investor disclosure frameworks to set thresholds, targets and metrics on inequality.

Voluntary efforts can serve as a catalyst to create global standards. For example, in 2020, the World Economic Forum's International Business Council recommended the adoption of a set of 'expanded metrics' (34 metrics and disclosures) that have a wider value chain scope or convey impact in a more sophisticated or tangible way. These metrics, among other efforts, informed the launch of the IFRS-ISSB.[35] The Impact Management Platform and OECD can help build consensus and spotlight gaps moving forward.

Voluntary efforts, and endorsement of them, is necessary to overcome critical private sector barriers to disclosure, noted by PWC, including:

- potential practical application difficulties that might arise with increased reporting requirements as it relates to defining parameters and metrics on which to report in a consistent manner
- a time lag where companies are unable to easily collect much of this information as they evolve their systems and processes
- concerns from business around the legal ramifications of more robust and transparent disclosures in relation to litigation risk

2B NEW AND EXISTING VOLUNTARY DISCLOSURE FRAMEWORKS SHOULD INTEGRATE SCIENCE-BASED THRESHOLDS AND ISSUES RELATING TO GREEN-SOCIAL INTERDEPENDENCE.

The interdependence between green and social issues requires us to deal with both at the same time. Disclosure must provide visibility on these interdependencies, enabling investors and companies to engage with all stakeholders in decision making and track progress over time.

The 2021 Science-Based Targets (SBT) Campaign was the world's largest investor engagement campaign specifically requesting companies to set science-based targets through the SBT initiative (SBTi). Two hundred and twenty global financial institutions holding $29.3 trillion in assets called on 1,600 of the world's highest impact companies to urgently set science-based emissions reduction targets in line with 1.5°C warming scenarios. Companies with science-based targets in place have typically cut emissions by 6.4% per year, well above the average rate needed for 1.5°C alignment.[36] Cross-sector collaboration can help ensure that separate disclosure frameworks are not being developed without considering their interdependence.

Actions for government

2C ADOPT THE NECESSARY PUBLIC SECTOR ACCOUNTING PRACTICES SO THAT GOVERNMENT EXPENDITURE MEETS DEMANDS FOR TRANSPARENCY, HARMONISATION AND INTEGRITY OF IMPACT, AND GOVERNMENTS GAIN A BETTER UNDERSTANDING OF IMPACTS AND DEPENDENCIES RELATED TO THE NATIONAL ECONOMY.

Among G7 members, government expenditure represents 46% of Gross Domestic Product (GDP).[37] Government accounts reflect the interests of the general public, taxpayers, eligible residents and service recipients. As such, public bodies should account for how they use resources as well as how effective the use of those resources is in enhancing and maintaining wellbeing. By adopting the necessary public sector accounting and auditing practices needed to meet demands for transparency and harmonisation, and reporting on their own social and environmental impacts, governments have the opportunity to make an impact on a large volume of public capital flows.

Public sector accounting is often defined as a system which collects, records, classifies and summarises transactions occurring in public sector entities. Even though the focus of this report is private capital flows, the Impact Taskforce (ITF) acknowledges the need to improve public sector practices and encourages further work in this area.

[33] The Global Investors for Sustainable Development (GISD) Alliance seeks to deliver concrete solutions to scale up long-term finance and investment in sustainable development. The Alliance consists of 30 leaders of major financial institutions and corporations spanning all the regions of the world; https://www.gisdalliance.org/about

[34] PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the greenhouse gas (GHG) emissions associated with their loans and investments. The harmonised accounting approach provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement; https://carbonaccountingfinancials.com/about

[35] World Economic Forum (2020): "Measuring stakeholder capitalism: Towards common metrics and consistent reporting of sustainable value creation"; https://www.weforum.org/reports/measuring-stakeholder-capitalism-towards-common-metrics-and-consistent-reporting-of-sustainable-value-creation

[36] CDP (29 September 2021): "Financiers with $29 trillion ask 1600 companies for science-based targets ahead of COP26"; https://www.cdp.net/en/articles/investor/financiers-with-29-trillion-ask-1600-companies-for-science-based-targets-ahead-of-cop26

[37] Calculated based on the government expenditure as percentage of GDP from the IMF Data Mapper (2011) for G7 members; https://www.imf.org/external/datamapper/exp@FPP/USA/JPN/GBR/SWE/ITA/ZAF/IND/CHL/FRA/GRC/NLD/ESP/RUS

Actions for enterprises

2D **ENTERPRISES CAN ADOPT LEADING VOLUNTARY, ISSUE-SPECIFIC DISCLOSURE FRAMEWORKS, IN ADVANCE OR IN SUPPORT OF REGULATORY ACTION.**

Voluntary impact disclosures can be certified through organisations like B Lab[38] and BlueMark, and be accompanied by a clear approach to addressing interdependencies in decision making, building on work by the Capitals Coalition[39]. The Capitals Coalition is also a core framework in the UNDP's SDG Impact Standards[40]. All provide resources and guidance for enterprises to improve voluntary disclosure before regulation requires it.

2E **ENTERPRISES SHOULD CONTINUE TO ADVANCE METHODOLOGIES AROUND MONETARY VALUATION, INFORMED BY THE WORK OF THE IMPACT-WEIGHTED ACCOUNTS INITIATIVE (IWAI), THE EU-SPONSORED TRANSPARENT PROJECT, THE VALUE BALANCING ALLIANCE, AND THE VALUE ACCOUNTING NETWORK.**

To improve transparency and integrity, enterprises should voluntarily commit to sharing their performance annually. The urgent action is to ensure that raw data and taxonomy are available based on evolved accounting and auditing processes.

There is innovation underway to monetise impact and integrate it into financial statements. Academia and private investors are road-testing monetary valuation to demonstrate what is possible with full or partial data sets. The Global Steering Group (GSG) for Impact Investing, Impact Management Project and Harvard Business School-led IWAI are generating monetised impact data and designing the creation of financial statements that fully reflect a company's positive and negative impacts on employees, customers, the environment and broader society.[41] In partnership, the Value Balancing Alliance is developing valuation methods for calculating reliable sustainability metrics, supported by major accounting firms, researchers and academia, and in close cooperation with standard-setters.[42] Their goal is to enable corporate decision makers to arrive at more conscious decisions.[43]

Bringing all these efforts together and many others, the Value Accounting Network, curated by the Capitals Coalition, exists to advance the role of value accounting in decision making, governance and disclosure. To achieve this, the partners of the Value Accounting Network will collaborate to:[44]

- develop a programme of work that will clearly display how the various initiatives relate to and complement each other
- progressively build consistency in how value is reflected and support the role of audit and assurance in holding decision makers to account
- support and communicate individual advances made by parts of this community towards greater application and continue to explore developments in value-based initiatives
- build on each other's work and harmonise terminology, measurements and boundaries, classifications, parameters, techniques and value coefficients.

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[38] B-Lab is a nonprofit organisation that serves a global movement of people using business as a force for good. B Lab pursues this goal by verifying credible leaders in the business community, creating supportive infrastructure and incentives for others to follow their lead, and engaging the major institutions with the power to transform our economy; https://bcorporation.net/about-b-lab

[39] The Capitals Coalition is a unique global multi-stakeholder collaboration that brings together leading global initiatives and organisations to harmonise approaches to managing natural, social and human capital. The Coalition is made up of over 380 organisations and engages many thousands more, who together represent all parts of society. These organisations fall into seven broad stakeholder groups or "worlds": Business, Finance, Government, Science, Accounting and Standards, Civil Society and Multi-stakeholder Groups; https://capitalscoalition.org/the-coalition/organisation-directory/

[40] The SDG Impact Standards (the Standards) have been developed by SDG Impact – a flagship initiative of the United Nations Development Programme (UNDP) – to help investors and enterprises operate more sustainably and contribute positively to sustainable development and the United Nations Sustainable Development Goals (SDGs). The Standards are decision-making standards, not performance or reporting standards. They are designed to help organisations integrate operating responsibly and sustainably and contributing positively to sustainable development and the SDGs into organisational systems, investment frameworks and decision-making practices, using a common language and shared approach to do so; https://sdg-impact.undp.org/assets/About-the-SDG-Impact-Standards.pdf

[41] Cohen, R. and G. Serafeim (3 September 2020): "How to measure a company's real impact." Harvard Business Review; https://hbr.org/2020/09/how-to-measure-a-companys-real-impact

[42] VBA: "Who we are and what we fight for"; https://www.value-balancing.com/en/about-us.html

[43] WBCSD (27 April 2021): "Corporate natural capital accounting – understanding challenges and pursuing standardization opportunities"; https://www.wbcsd.org/Archive/Assess-and-Manage-Performance/News/Corporate-natural-[...]standing-challenges-and-pursuing-standardization-opportunities

[44] Capitals Coalition: "Value Accounting Network"; https://capitalscoalition.org/project/value-accounting-network/

SPOTLIGHT

Monetary valuation[45]

One of the first Impact-Weighted Accounts Initiative (IWAI) case studies built on the Employment Impact Statement from Eisai's non-consolidated figures in the fiscal year 2019.The wage indicator is not the total salary but rather an adjustment for the marginal utility based on the annual income and wage differences between men and women. Employee opportunity is also adjusted for the gender gap in promotions and salary increases. Diversity is adjusted simply for the gender ratio in Japan compared to Eisai's workforce. These calculations led to the conclusion that Eisai created value worth 26.9 billion JPY and the results suggested that Eisai's ESG earnings before interest, taxes, depreciation, and amortization (EBITDA) increased up to 144%.

The company publicly disclosed their results in order to advocate with their labour unions and CFOs from overseas subsidiaries, to argue that, even with competitive salaries, they need to continue to promote further representation of women during hiring, promotions and advancements.

Danone's earnings per share is also weighted for its environmental impact. The carbon-adjusted earnings per share metric is calculated on the theoretical cost per share of Danone's greenhouse gas emissions, which is then subtracted from its regular earnings per share. Even though the company's carbon emissions increased in past years, greenhouse gas emissions in absolute levels are set to decrease in the coming years. As a result, Danone expects its carbon-adjusted earnings per share to increase at a faster rate than its recurring earnings per share.

The aim of the IWAI is that investors use companies' impact-weighted accounting numbers as part of their due diligence, underwriting, engagement and reporting efforts. Asset owners can also use impact-weighted accounts as a monitoring and manager selection tool to ensure that their allocations are aligned with their desired impact.

RECOMMENDATION #3

Investors should be transparent, too. Disclosure should cover how investors themselves – separately from the enterprises they finance – may engage in practices that amplify social and/or environmental impacts.

An investment's impact is a function of both the impact of the enterprises or assets that the investment supports, and the contribution that the investor makes to enable the enterprise (or asset manager) to achieve that impact.[46]

However, investors themselves are often subject to less impact reporting than their underlying investments. While they report as "enterprises" themselves, unintended consequences relating to their investment structures, capital structures, leverage ratios, earnings calculations, valuation methodologies, benchmarking approaches, and resulting asset allocation and portfolio construction are not typically within the realm of impact disclosure frameworks.

Actions for investors

3A IN ADVANCE OF REGULATORY ACTION BY GOVERNMENTS, COMMIT TO EXTERNAL ASSURANCE ON IMPACT FOR ASSETS UNDER MANAGEMENT TO REDUCE GREENWASHING CLAIMS, BUILD TRUST WITH STAKEHOLDERS, EMBED PRACTICES WITHIN THE COMPANY SO DIRECTORS ARE ACCOUNTABLE, AND TRACK REAL PROGRESS ON SOCIAL AND ENVIRONMENTAL ISSUES.

There is growing recognition among policymakers of the risk of 'greenwashing', or "bad behaviors that break the trust relationship between an enterprise and its investors, customers, employees and society".[47] Emerging external assurance practices can provide the response to greenwashing claims, building on harmonised standards. For investors, the Operating Principles for Impact Management aim to provide a voluntary framework to manage the above challenges. They provide a reference point against which the impact management systems of funds and institutions may be assessed, drawing on emerging best practices from a range of asset managers, asset owners, asset allocators and

[45] • Eisai (2021): "Value Creation Report. CFO Dialogue: ESG Management AND Creation of Social Value"; https://eisai-tsunagu.ent.box.com/s/m93efjfly4lpayvcvfg5fzs6i2nt8mir
• Cohen, R. and G. Serafeim (3 September 2020): "How to measure a company's real impact." Harvard Business Review; https://hbr.org/2020/09/how-to-measure-a-companys-real-impact

[46] Impact Management Project (2020): "Statement of Intent to Work Together towards Comprehensive Corporate Reporting"; https://integratedreporting.org/resource/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/

[47] Zambon, S. (1 October 2021): "From Green-washing to Green-behaving: The Decisive Role of Corporate Information & Reporting." International Symposium on Sustainability https://www.alcantara.com/greenwashing-and-sustainability-6th-international-symposium/

development finance institutions. Signatories to the Principles publicly discloses, on an annual basis, the alignment of their impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment.[48]

3B **INVESTORS COMMIT TO CO-CREATING INVESTOR-LEVEL DISCLOSURES AND REPORTING ON THE POSITIVE AND NEGATIVE IMPACTS OF THEIR OWN PRACTICES.**

The Impact Taskforce (ITF) advocates investor-level disclosure on structures and practices that could advance, or hold back, the "just transition" – especially investment governance, valuation methodologies, tax and policy issues and financial engineering. Disclosure standards should include reporting on how investors interact with their portfolios, creating an opportunity to develop different operating and ownership models, aligned to long-term impact.

The Global Sustainable Investment Alliance recently stated that the European market for sustainable investment contracted by $2 trillion between 2018 and 2020, following anti-greenwashing rules introduced by the European Union.[49] The Sustainable Finance Disclosure Regulation (SFDR) demanded that fund managers evaluate and disclose the Environmental, Social, and Governance (ESG) features of their financial products. For ESG, there are now "light green" Article 8 funds, which are defined as those that actively promote environmental or social characteristics, and "dark green" Article 9 funds, which have sustainable investment as their main objective. Both groupings are subject to higher standards of disclosure under the SFDR.[50]

Impact Frontiers and The Predistribution Initiative have released a voluntary prototype, including a collection of example metrics, for measuring, assessing and disclosing investor contribution. Ongoing consultation is underway to shape and establish metrics to ensure that a diversity of stakeholders globally– with a wide range of specialties and lived experiences – contribute to such efforts, to overcome historic power imbalances.[51] This complements existing efforts by Principles for Responsible Investment (PRI), the Sustainability Accounting Standards Board (SASB) and the Institutional Limited Partner Association (ILPA) frameworks to drive more transparency at the investor level.

The Global Impact Investing Network (GIIN) has also developed the COMPASS methodology to standardise the components and processes of impact performance analysis for investors across investment-, fund- and portfolio-level analyses.[52]

Asset owners can encourage and support practices and disclosures related to negative investor contribution among the asset managers in whom they invest, and turn the lens on themselves. Chief investment officers, portfolio managers and analysts who are making buy/sell decisions should feel empowered to make decisions based on these disclosures to inform asset allocation.

[48] IFC (2021): "Operating Principles for Impact Management"; https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles/opim

[49] Global Sustainable Investment Alliance (2021): "Global Sustainable Investment Review 2020"; http://www.gsi-alliance.org/wp-content/uploads/2021/08/GSIR-20201.pdf

[50] Marsh, A. (19 July 2021): "European ESG Assets Shrank by $2 Trillion After Greenwash Rules." Bloomberg; https://www.bloomberg.com/news/articles/2021-07-18/european-esg-assets-shrank-by-2-trillion-after-greenwash-rules

[51] Impact Management Project (2021): "Negative investor contribution"; https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/210922_IMP_Negative-Investor-Contribution_Discussion-doc.pdf

[52] Bass, R., D. Hand, K. McCarthy, and N. Nova (2021): "Compass: The methodology for comparing and assessing impact. Investor Guide." GIIN; https://thegiin.org/research/publication/compass-the-methodology-for-comparing-and-assessing-impact

2 HARMONISATION

Harmonisation[53]

There has been remarkable momentum around sustainable and impact investing – and understanding the impact of investments – over the past few decades.

Harmonisation is a signal of the market's growth: the process of minimising redundant or conflicting standards which may have evolved independently is, according to EY, one of the most effective mechanisms to achieve comparable, consistent and reliable information.

Harmonisation is a necessary step to build trust and help attract increased flows of private capital towards a just transition.

RECOMMENDATION #4

Support a global reporting "baseline" that covers, at a minimum, social and environmental issues that affect enterprise value.

There is increasing overlap between impact disclosures (voluntary and mandatory) – for example, around issues of inequality and climate – and financial disclosures that traditional investors care about, because companies' impacts on people and the planet can materially affect their cash flow over the short-, medium- and long-term, including the value that investors attribute to those cash flows.[54]

Since materiality is a dynamic concept, the scope of information required by investors will evolve over time. For example, climate-related matters that a company assesses to be material to investors will have changed in response to drivers such as stakeholder pressure, regulation, evolution of science and technology, changes to the physical environment such as those caused by climate change, and changing investor preferences.[55] Yet, in the USA, for example, securities laws and policies have not kept pace.

A recent example has been the Covid-19 pandemic, which BlackRock admitted "*…poses an existential threat for many companies and is also straining the social contract between companies and their employees and other stakeholders. (…) As long-term investors, we believe that companies forced into difficult choices affecting employees, suppliers and local communities (…) need to make prudent, balanced decisions about executive and board compensation and allocation of capital*".[56]

Corporate value chains and investment portfolios are global. Therefore, harmonisation on standards must be global. The Impact Taskforce (ITF) therefore supports the "baseline-and-build" approach that:

- raises the international threshold on reporting standards for disclosure of impacts that relate to enterprise value and investment decisions (taking into account the short-, medium- and long-term) as a "baseline" and
- encourages countries to urgently "build" upon the baseline to cover any impacts on stakeholders not addressed by the baseline, in parallel

The baseline-and-build approach is already embedded in the EU Non-Financial Reporting Directives and its proposed successor, the Corporate Sustainability Reporting Directive (CSRD). With that in mind, investors and businesses are starting to incorporate impact into investment analysis and decision-making processes, and therefore updating and evolving reporting norms.[57] But voluntary, 'bottom-up' cooperation among regional initiatives or existing standard-setters alone will not be sufficient to realise a just transition in the necessary timeframe.[58]

[53] EY (June 2021): "The future of sustainability reporting standards"; https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/sustainability/ey-the-future-of-sustainability-reporting-standards-june-2021.pdf

[54] IFRS Foundation (3 November 2021): "General Requirements for Disclosure of Sustainability-related Financial Information Prototype"; https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-general-requirements-prototype.pdf

[55] IFRS Foundation: "Why global accounting standards?"; https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/

[56] Boss, Sandra (July 2020): "Our Approach to Sustainability." BlackRock Inc; https://corpgov.law.harvard.edu/2020/07/20/our-approach-to-sustainability/

[57] Boffo, R. and R. Patalano (2020): " ESG investing: Practices, progress and challenges." OECD; https://www.oecd.org/finance/ESG-Investing-Practices-Progress-Challenges.pdf

[58] IFRS Foundation (April 2021): "IFRS Foundation Trustees' Feedback Statement on the Consultation Paper on Sustainability Reporting"; https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/sustainability-consultation-paper-feedback-statement.pdf

Actions for government

4A GOVERNMENTS SHOULD SUPPORT AND PARTICIPATE IN UPCOMING CONSULTATIONS ON THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION'S INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) AS IT DEVELOPS AND MAINTAINS A GLOBAL BASELINE ON IMPACT RELATED TO ENTERPRISE VALUE. GOVERNMENTS CAN ENSURE THAT IT HAS AN INCLUSIVE GOVERNANCE MODEL, ACTIVELY ENGAGES SMES ALONG THE VALUE CHAIN AND BALANCES SOCIAL AND ENVIRONMENTAL ISSUES.

Leading standard-setters collaborated to establish a single international body to develop, in the public interest, a set of high quality, understandable, enforceable and globally accepted sustainability disclosure standards ("global baseline").[59] Following the COP26 announcement in November 2021, the IFRS Foundation, with support from the International Organization for Standardization (IOSCO), has established an International Sustainability Standards Board (ISSB), building on the Task Force on Climate-related Financial Disclosures (TCFD). This is an important step towards providing the information needed by today's investors as it relates to enterprise value. The IFRS Foundation's international model combines independent standard-setting with public-interest oversight of securities regulators globally. It also enables connectivity to standard-setting for financial accounting and has existing relationships with regions and 144 individual jurisdictions on annual reporting standards.[60]

The adoption of a global baseline will allow for greater transparency, efficiency and accountability, as it will reduce international reporting costs and properly inform decisions regarding investments. Governments now need to make sure that this baseline covers social and environmental issues equally, actively engages Small and Medium Enterprises (SMEs) and is backed by an inclusive governance model. The ITF encourages:

- Strong advisory bodies that reflect the interests of emerging markets, SMEs and civil society
- Countries to adopt the IFRS-ISSB standards by integrating them in their national legal frameworks
- Countries to support the concept of the global baseline and collaborate with the IFRS Foundation to ensure interoperability between the latter and enhanced standards for jurisdiction-specific public policy objectives
- The ISSB to enlarge its scope beyond climate and embrace a broader concept of sustainability
- The IFRS Foundation to engage on collaborative monetary valuation efforts

Actions for capital market regulators

4B CREATE AN ASSURANCE REGIME FOR ALL DATA RELEVANT TO ENTERPRISE VALUE FOR PUBLIC COMPANIES, BUILDING SWIFTLY ON THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION'S INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) (IFRS-ISSB) 2021 LAUNCH.

The launch and consultation of the IFRS-ISSB should be applauded and swiftly followed by an assurance regime. The market for assurance providers is currently fragmented and ripe for harmonisation. As a step in this direction, the EU's CSRD specifies the necessary attributes of assurance providers, including competence, independence, and a system of quality management subject to oversight and professional liability mechanisms.[61]

For process assurance, the International Organization for Standardization (ISO) is developing a range of impact-related guidance. ISO 37000 gives guidance on the governance of organisations, including principles and key aspects of practices to guide governing bodies on how to meet their responsibilities so that the organisations they govern can fulfil their purpose. It is also intended for stakeholders involved in, or impacted by, the organisation and its governance.

For data assurance outside the United States, many use the AA 1000 assurance standard. In the US, the American Institute of Certified Public Accountants (AICPA) has published guidance on assuring sustainability data, but only a relatively small minority of US companies have their information independently assured thus far. Reporting entities should be required to implement proper internal controls over the preparation and reporting of impact data in much the same way that they are required to have controls over the financial information they report.

The International Auditing and Assurance Standards Board (IAASB)'s ISAE 3000 is the main assurance standard that is applied in engagements on environmental, social and governance reporting. New guidance, entitled Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements, marks a significant step forward in supporting assurance for non-financial reporting and responds to ten key stakeholder-identified challenges commonly encountered in applying ISAE 3000 (revised) in assurance engagements.

[59] Impact Management Project (2020): "Statement of Intent to Work Together towards Comprehensive Corporate Reporting"; https://integratedreporting.org/resource/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/

[60] IFRS Foundation: "Why global accounting standards?"; https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/

[61] European Commission (21 April 2021): "Questions and Answers: Corporate Sustainability Reporting Directive proposal"; https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806

RECOMMENDATION 5

Endorsing a baseline is not enough. Urgently "build" to include any impacts on stakeholders that are not addressed by the global baseline.

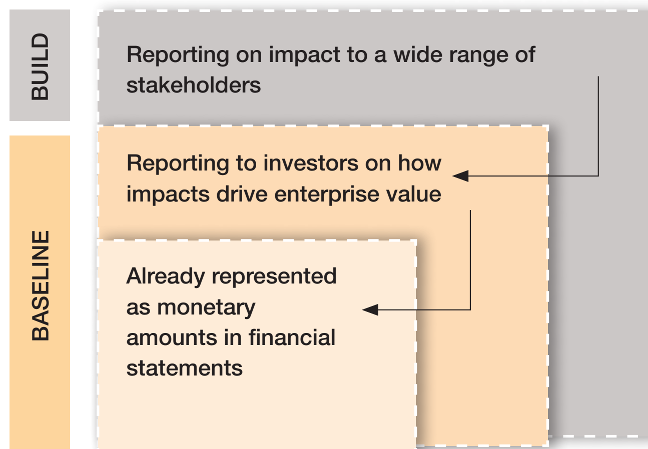
A "global baseline", as proposed in Recommendation #4, will encourage enterprises and investors to make decisions based on what is material to enterprise value. However, if stakeholder impacts do not affect companies' value creation in the short-, medium- or long-term, this does not mean such impacts should not be managed. Enabling and encouraging such behaviour is an important step towards achieving more equitable and sustainable economic systems.

The "build" requires an urgent expansion from requiring disclosure of impacts (and dependencies) on people and the planet that affect the short-, medium- and long-term value of an enterprise to requiring disclosure of all impacts in order to address the information needs of a broad range of stakeholders.

As Freshfields Bruckhaus Deringer notes, "human wellbeing relies on the sustainability of key environmental and social systems. In some cases, that sustainability is under threat. This is partly the result of economic activity and, if not addressed, will create risks to economic systems and all who rely on them."[62]

There are inherent overlaps between the two perspectives, as reflected in the diagram above. For example, impacts on stakeholders can affect the behaviour of consumers, talent and investors, which affects enterprise value. There is increasing demand for multi-stakeholder impact reporting. This "wider" set of information, reflected in the Global Reporting Initiative (GRI) and other standards, is important to governments, consumers, civil society organisations, employees, and investors making decisions driven by impacts on people and the planet.

Governments should push towards disclosures that capture social and environmental matters that may not (yet or ever) affect enterprise value creation or erosion, but increase climate, biodiversity and inequality crises.



Materiality is dynamic
increasing stakeholder pressure, regulation, international norms, investor preferences and industry disruption are generally pushing boundaries out.

Source: Adapted for the ITF from "Progress towards a comprehensive corporate reporting system" a webinar with leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB

Actions for government

5A NATIONAL AND INTERNATIONAL LEGAL FRAMEWORKS SHOULD ENSURE THAT DIRECTORS CAN PURSUE IMPACT ALONGSIDE FINANCIAL PERFORMANCE, AND, IN TIME, EVOLVE TO ENCOURAGE DECISIONS BASED ON IMPACT.

According to the Organisation for Economic Co-operation and Development (OECD), regulators and lawmakers have a critical role in clarifying legal frameworks that allow investors and entrepreneurs to pursue impact.[63] They can also incentivise the creation of structures that operate considering both enterprise value (the "baseline") and the perspectives of all stakeholders (the "build").

Government policy is important in shaping systemic change, in setting longer term targets and in driving solutions.

Legal frameworks should evolve to allow for discretion in pursuing impact goals. UNEPFI's Fiduciary Duty in the 21st Century Final Report clarified that fiduciary duties of "loyalty" and "prudence" would include environmental, social and governance issues, since:

- Environmental, social and governance incorporation is an investment norm
- Environmental, social and governance issues are financially material

[62] Freshfields Bruckhaus Deringer (2021): "A Legal Framework for Impact"; https://www.unepfi.org/wordpress/wp-content/uploads/2021/07/A-Legal-Framework-for-Impact_Report.pdf

[63] OECD (2010): "Regulatory policy and the road to sustainable growth"; https://www.oecd.org/regreform/policyconference/46270065.pdf

- Policy and regulatory frameworks are changing to require disclosures on environmental, social and governance issues[64]

As noted by Youngdahl,[65] "*The way trust investments are managed is important for the long-term health of the beneficiaries and the long-term health of society. Legal definitions of the prudent fiduciary duty in investment should not constrain the ability of trustees to adequately provide for the well-being of the beneficiaries of their trust*". Updated legal frameworks would enable directors and investors to take a holistic approach to their responsibilities, especially given the nature of dynamic materiality.

Actions for capital market regulators

5B **AGREE ON A REGIME TO ACCOUNT FOR AND ASSURE ALL IMPACT DATA, INCLUDING DATA NOT CAPTURED BY THE BASELINE RELATED TO ENTERPRISE VALUE, TO MEET THE DEMANDS FOR MANDATORY ACCOUNTING FOR IMPACT.**

Capital market regulators should focus on developing leadership and actionable next steps on accounting and assuring the "build". Standard-setters should continue to cooperate, collaborate and harmonise their unique approaches, including the views of the GRI Global Sustainability Standards Board. Immediate next steps could include:

- Support the creation of a multi-stakeholder consultative committee to enhance interoperability between reporting on impacts related to enterprise value ("baseline") and reporting on impact on all stakeholders ("build")
- Call for multilaterals (for example, the OECD, the World Bank) to convene all standard-setters to evaluate gaps in impact data where they do not affect enterprise value. The system is currently too fragmented, and strong support for collaboration and coalescence would be a helpful accelerator

In the meantime, the UNDP's Sustainable Development Goals (SDG) Impact team is developing voluntary assurance for the "build", with guidance from the Assurance Framework Design and Implementation Group. They are currently developing process assurance protocols for bonds, private equity and enterprises that focus on assuring data beyond enterprise value, as they relate to the SDGs.

The GIIN's IRIS+ system takes relevant metrics from organisations like the GRI and the SASB and frames them for investors focused on the "build". IRIS+ has over 20,000 users worldwide and significant application among Small and Medium Enterprises (SMEs) in emerging markets. There has been a lot of work done to harmonise these metrics with those used in development finance, led by the International Finance Corporation (IFC) and the European Development Finance Institutions (EDFI), and through specific initiatives like the 2X Challenge focused on gender equity in emerging markets.

[64] Sullivan, R., W. Martindale, E. Feller, M. Pirovska and R. Elliott (2019): "Fiduciary duty in the 21st century: Final Report." UNEPFI; https://www.unepfi.org/wordpress/wp-content/uploads/2019/10/Fiduciary-duty-21st-century-final-report.pdf

[65] Youngdahl, J. (2011). "The Time has come for a sustainable theory of fiduciary duty in investment." Hofstra Labor & Employment Law Journal 29, 115; https://scholarlycommons.law.hofstra.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1526&context=hlelj

3 INTEGRITY

Integrity[66]

Integrity refers to the overall accuracy, completeness and consistency of data and decision making.

Impact integrity is the development of systems, principles and norms that build trust in underlying data, responsibly steward data about people and the planet and create constructive feedback loops with affected stakeholders. This requires robust governance arrangements, methodological transparency, data quality controls, and management and disclosure of any potential conflicts of interest.

While celebrating the volume of capital flowing towards impact, ensuring data integrity is critical to developing and maintaining public trust, especially around issues that require some level of judgment and subjectivity.

RECOMMENDATION #6

Ensure secure, interoperable data infrastructure.

Impact data, disclosed in accordance with harmonised standards, should be available and easily accessible for all kinds of users. Structured information enables greater connectivity and allows for searching, filtering, aggregation and integration. Unless we leverage technology, the preparation of quantitative and qualitative impact disclosure and reporting will be difficult, unverifiable and the utility of such disclosure will be limited.

The most common formats for preparing sustainability information are PDF and Excel. These formats are not designed to help companies follow a rigorous and consistent collection process, nor do they allow for extracting or copying of data for software processing or analysis. The lack of interoperability between digital taxonomies drives up preparer and regulatory costs, both in terms of time and resources. It also weakens the auditability of information, which increases risk from interpretation differences, misinformation and inadvertent partial compliance or non-compliance. Additionally, the assembling, dismantling and repackaging of data in the required format may cause compliance issues through unintentional information errors.

According to the Network for Greening the Financial System, the largest data gaps exist for forward-looking data such as emissions pathways and companies' transition targets (including interim targets). Given the importance of forward-looking assessments of both physical and transition risks, the current reliance on mostly backward-looking data is unsatisfactory.[67] Unless we leverage technology to track event-based, multidimensional, just-in-time data, the preparation of impact disclosures and reports will be difficult and unverifiable, and the utility of such disclosures will be limited.

Robust information underpins trust and confidence. In some jurisdictions, it is mandatory for certain financial information to be filed through specific platforms (for example, EDGAR Online in the US) or using specific taxonomies (for example, XBRL). Currently, non-financial information is less mature than financial information, so, at this stage of market development, assurance standards and services should be the priority, along with standardised taxonomies as a mechanism for making digital information machine-readable. Without data infrastructure, the critical context behind social and environmental issues will be difficult to assess.

[66] Impact Management Project (2021): "Negative investor contribution"; https://29kjwb3armds2g-3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/210922_IMP_Negative-Investor-Contribution_Discussion-doc.pdf

[67] Networking for Greening the Financial System (May 2021): "Progress report on bridging data gaps"; https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-progress-report-preliminary-findings-climate-related-data-gaps

Actions for government

6A GOVERNMENTS CAN PROMOTE THE CONVERGENCE OF DATA STANDARDS FOR DIGITISATION AND INTEROPERABILITY OF IMPACT DISCLOSURES IN A GLOBALLY CONSISTENT, MACHINE-READABLE FORMAT, WHILE ALLOWING ENTERPRISES TO MAINTAIN CONTROL OF THEIR DATA PRIVACY AND QUALITY.

Even before taxonomies are mandated in regulation, improved visibility regarding taxonomy management processes would help to resolve incompatibility, leading to more consistently structured, comparable information for preparers and users. There is a case for introducing "product labelling" when words like 'sustainable', 'responsible', 'SDG compliant' or 'impact' are used to market products. Beyond this, there could be rating arrangements, where policymakers ask rating agencies to provide effective rankings of products by reference to the rigour of the approach to achieving impact goals; and investor redress, where policymakers might consider simplified investor redress and compensation regimes when sustainability-related products are not operated in a manner consistent with the way they have been marketed.

Users, aggregators and providers of impact-related information have highlighted that more standardised reporting formats, coupled with harmonised approaches to reporting, will play a significant role in driving better data integrity. For example, S&P Global Sustainable1 has noted how critical it is for disclosure to be comparable, reliable, regular, relevant and accessible. In order to overcome these challenges, in 2015, S&P Global's Corporate Sustainability Assessment created an XBRL taxonomy in order to align with other taxonomies and company-produced reports; and, in 2021, S&P Global Sustainable 1 will be collecting Environmental, Social, and Governance (ESG) disclosures from 10,000 companies globally.[68] Nonetheless, the creation and adoption of XBRL taxonomies has been slow. More standardised reporting formats coupled with harmonised approaches to reporting will play a significant role in driving better data integrity.

Blockchain technology can also be leveraged to produce a structure of data with inherent security qualities. The technology is based on principles of cryptography, decentralisation and consensus, which ensure trust in transactions. Blockchain technology enables decentralisation through the participation of members across a distributed network, so that there is no single point of failure and no single user can change the record of transactions.[69]

6B PUBLIC INVESTMENT SHOULD GO TOWARDS OPEN DATA INFRASTRUCTURE, WHERE IT DOES NOT COMPROMISE DATA PRIVACY, TO INFORM DECISIONS ON SOCIAL AND ENVIRONMENTAL ISSUES ACROSS BORDERS.

Governments and development banks have an important role to play in strengthening data systems and encouraging open data. Open data is data that is freely available online for anyone to use and republish for any purpose and it is recognised by the World Bank as being a key disclosure by companies and adoption by investors and a key engine for achieving the 2030 UN Sustainable Development Goals (SDGs).[70]

The amount of reusable or open data is perhaps the key barrier: there is relatively little "high-value" open data in the public domain and there is no clear value-proposition for governments to open data, beyond transparency. Given how expensive it can be to open data (both upfront and through maintenance), it is important to develop clear legal and economic guidelines that maximise the potential use of open data.

The World Bank has identified four broad types of benefits of open data infrastructure:

1. fostering economic growth and job creation
2. improving efficiency and effectiveness of public services
3. increasing government transparency and accountability, and citizen participation
4. facilitating better information sharing within a government.[71]

Investors in emerging markets are exploring alternative data sources to complement financial information with non-financial metrics. Research shows that there is more scope to use unstructured data such as news articles, Multilateral Development Banks (MDB) project investment information and ESG disclosures, annual, integrated sustainability reports, and bonds prospectuses.

The International Finance Corporation (IFC) recommendations on using AI solutions include open access data, extending analytics to allow for the harmonisation of impact data required for benchmarking so as to allow for meaningful comparisons, and cross-industry collaborations between big finance and big tech to address impact issues.[72]

[68] Mattison, R. (September 2021): "Tackling the Data Challenges Behind the EU Sustainable Finance Agenda." S&P Global Trucost; https://www.eurofi.net/wp-content/uploads/2021/09/views-the-eurofi-magazine_ljubljana_september-2021.pdf

[69] IBM: "Blockchain security"; https://www.ibm.com/topics/blockchain-security

[70] Petrov, O. et al. (August 2015): "New discussion paper: How Open Data can drive sustainable development." World Bank; https://blogs.worldbank.org/digital-development/new-discussion-paper-how-open-data-can-drive-sustainable-development

[71] Arris, A. et al. (25 September 2015): "Sustainable Development Goals and Open Data." World Bank; https://blogs.worldbank.org/digital-development/sustainable-development-goals-and-open-data

[72] IFC (May 2021): "Artificial Intelligence Solutions to Support Environmental, Social, and Governance Integration in Emerging Markets"; https://www.ifc.org/wps/wcm/connect/d1d93264-54b7-4d23-a1d7-6a385aa3d868/IFC+Amundi_AI+ESG+Research+Paper.pdf?MOD=AJPERES&CVID=nCzWYlt

SPOTLIGHT

Open data[73]

The Open Data for Business (OD4B) assessment tool helps governments decide how to release open data for private sector use to drive economic growth, create jobs and improve the investment climate. It was the first effort to assess the private sector's use of government data from the demand side.

The initiative has had positive results such as:

- In Sierra Leone, the OD4B engagement focused on private sector use of data to support Small and Medium Enterprises (SMEs) and agri-businesses and build a stronger entrepreneurial and tech community. A follow up DataFest and business competition were planned in collaboration with key private sector stakeholders.
- In Serbia, key medical datasets were identified and subsequently opened following an OD4B engagement. This allowed pharmaceutical companies and wholesalers to help track the ingredients of various drugs and fight counterfeit products in real time.
- In Kazakhstan, an OD4B engagement brought over 40 private sector representatives from a dozen sectors together to discuss the value of government data for their businesses. This solidified the importance of private sector participation in data policy and facilitated the establishment of an ongoing private sector advisory council.

6C GOVERNMENTS SHOULD ENHANCE, THROUGH PUBLIC-PRIVATE PARTNERSHIPS, THE QUALITY, USABILITY AND ACCESSIBILITY OF GLOBAL ECONOMIC, ENVIRONMENTAL AND SOCIAL DATA SETS.

There is an opportunity for development organisations that have strong partnerships with governments and the private sector, and see the transformative potential of open data, to expand this conversation beyond transparency and accountability and into development impact, data usage/utilisation and economic outcomes.[74]

Actions for capital market regulators

6D PARTNER WITH CENTRAL BANKS TO IDENTIFY DATA GAPS ON ENVIRONMENTAL AND, IN PARTICULAR, SOCIAL RISKS, BUILDING ON MODELS LIKE THE CENTRAL BANKS' AND FINANCIAL SUPERVISORS' NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS), AND CALLING ON EXTERNAL STAKEHOLDERS TO BRIDGE THE GAPS.

Central banks are gradually more focused on climate and environmental risks. The European Central Bank, for example, has issued its "Recommendation regarding the integration of climate and environmental risks". Central banks are seeking to apply sustainability indicators in financial stability monitoring, and frequently use climate- and environment-related data for macroeconomic modelling, namely, by equating the effects of climate change on households and/or specific sectors of the economy. While climate risk is increasingly perceived as a material risk for enterprises and countries in the short- or medium-term, impacts related to social issues are still not perceived in the same manner. Impact disclosure data on social issues can help in making more informed decisions and should be included, alongside climate-related data, in macroeconomic modelling.[75]

RECOMMENDATION #7

Include the most affected in decision-making processes.

A just transition will involve governance, management and operations that hold decision makers to account for actions on behalf of all stakeholders. The Sustainable Development Goals (SDGs) include targets that highlight the importance of stakeholder involvement, including Target 16.7: Ensure responsive, inclusive, participatory and representative decision-making at all levels.

Stakeholder involvement in the decision making of organisations is essential to guarantee impact integrity. The World Economic Forum[76] highlights that it can:

[72] World Bank (December 2015): "Open Data For Business (OD4B) Tool"; http://opendatatoolkit.worldbank.org/docs/odra/od4b_v2.8-en.pdf

[73] World Bank: http://opendatatoolkit.worldbank.org/en/starting.html

[74] Networking for Greening the Financial System (May 2021): "Progress report on bridging data gaps"; https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-progress-report-preliminary-findings-climate-related-data-gaps

[75] Networking for Greening the Financial System (May 2021): "Progress report on bridging data gaps"; https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-progress-report-preliminary-findings-climate-related-data-gaps

[76] World Economic Forum (November 2017): "Engaging All Affected Stakeholders Guidance for investors, funders, and organizations"; https://sptf.info/images/SIWG-WEF-AG3-Engaging-all-affected-stakeholders-December-2017.pdf

- be used to mobilise local knowledge
- help identify opportunities for innovation or improvement of products/services and operations
- help measure and understand the impact of the investment/organisation
- be used to build social capital – such as networks and relationships – around an investment
- ensure a business model is inclusive

JUST Capital notes the importance of capturing the voice of the public to understand what issues matter most regarding business behaviour. For example, a majority of Americans surveyed by JUST Capital in 2020 (63%) say that corporate leaders have a responsibility to take a stand on important societal issues. JUST Capital's survey makes it clear that it has never been more urgent or more important for business and finance leaders to listen and respond to the priorities of the public to achieve a just transition.[77]

The Impact Taskforce (ITF) underlines the importance of inclusive governance models that break down traditional silos among stakeholder groups. This would build on harmonisation that mandates transparency on who are deemed material and relevant stakeholders, the tools used for engagement and the information collected. Ultimately, decisions are the responsibility of those charged with making them and those who are accountable for their wider impact, which includes, but is not limited to, those immediately "most affected".

Initiatives and organisations such as Boardroom 2030, B Lab, the Shared Value Initiative and Social Value International have a critical role in providing guidance on the most appropriate way to engage stakeholders. Industry bodies can contribute actively to identify relevant stakeholder groups and create industry-level protocols and standards for stakeholder engagement.

[77] Keating, A. and J. Mizell (December 2020) "Nearly 80% of Americans Expect Corporate Leaders to Continue to Speak Out on Social Issues Over the Next Four Years." Just Capital; https://justcapital.com/news/nearly-80-of-americans-expect-corporate-leaders-to-continue-to-speak-out-on-social-issues-over-the-next-four-years

[78] World Economic Forum (September 2021): "Lighthouse Action on Social Justice Through Stakeholder Inclusion"; https://www3.weforum.org/docs/WEF_Lighthouse_Action_Social_Justice_Stakeholder_Inclusion_2021.pdf

[79] World Benchmarking Alliance (2021): "Just Transition Assessment 2021"; https://assets.worldbenchmarkingalliance.org/app/uploads/2021/10/2021_Just_Transition_Assessment_FINAL.pdf

Actions for investors

7A **INCLUDE MEANINGFUL ENGAGEMENT WITH LOCAL STAKEHOLDERS IN INVESTMENT DECISIONS TO ENSURE COMMUNITY VOICES ARE CAPTURED.**

As further outlined in the report of the ITF's Workstream B, communities' needs must have a central place in the just transition. In order to achieve this, investors and enterprises should increase stakeholders' voices at the table to ensure that decision-making processes include those most affected. Local stakeholders, which include NGOs and civil society, can play a key role by ensuring that relevant questions are asked along the way.

A 2021 insight report from the World Economic Forum, Business for Social Responsibility and the Laudes Foundation notes four critical tenets for stakeholder inclusion:[78]

1. *Stakeholder inclusion through recognising, co-designing, partnering and learning* with impacted stakeholders must be at the centre of any corporate action
2. *Stakeholder inclusion is only the beginning* and should move towards positioning business on the path towards redesigning business models that shift power and value away from shareholder primacy
3. *Businesses should take a holistic view on equity and social justice*, in both promoting positive outcomes and addressing their specific negative effects related to inequities in their value chains
4. *Critical dialogue and knowledge-sharing are needed* to accelerate action beyond this moment

SPOTLIGHT

Social dialogue[79]

In 2021, the World Benchmarking Alliance (WBA) conducted an assessment focused on understanding the contributions of 180 oil and gas, electric utilities and automotive manufacturing sectors companies from high-emitting sectors to a just transition.

Of these 180 companies, only 8% showed plans that included social dialogue and stakeholder engagement, which mirrors how less than 7% of these companies set time-bound targets to mitigate the social impacts of the just transition on workers and their communities.

The assessment concludes that enterprises should develop meaningful engagement with the community, namely through civic organisations, residents and employees. This will serve as a basis for a strong governance model and will allow for a just transition process that "leaves no one behind".

4 SMALL AND MEDIUM ENTERPRISES

RECOMMENDATION #8

Successful impact transparency, harmonisation and integrity will rely on inclusion and engagement of Small and Medium Enterprises (SMEs).

The Sustainable Development Goals (SDGs) present an opportunity for G7 members and guest countries to integrate SMEs in national social and environmental plans. While they may be small individually, new International Labour Organization (ILO) data show that micro and small enterprises, together with own-account workers, account for a staggering 70% of employment worldwide.[80] In the aftermath of the Covid-19 pandemic, one of the most adopted economic strategies by governments was providing support to struggling SMEs by deferring payments, facilitating access to credit and offering grants or subsidies. These enterprises are a critical source of employment and a lifeline for economic prosperity, making them essential to the path to recovery, requiring investments in both resilience and productivity.[81]

According to the International Chamber of Commerce (ICC), there are a set of challenges that currently prevent widespread adoption of impact reporting by SMEs. This paper has touched recommendations that seek to alleviate challenges around the proliferation of standards, frameworks and tools. However, other challenges remain, including:

- the complexity of the resulting reporting frameworks relative to in-house SME resources
- a perceived competitive disadvantage in reporting compared to larger reporters
- no widely accepted training for SMEs on measuring and reporting on impact progress
- language and education barriers
- a lack of alignment between how impact reporting is communicated and SME interests, especially access to finance

A just transition will require the involvement of SMEs, not only to ensure that climate and biodiversity goals are reached, but to contribute to the goals of decent work for all, social inclusion and the eradication of poverty.

Actions for standard-setters and non-governmental organisations

8A NETWORK ORGANISATIONS AND INDUSTRY ASSOCIATIONS PROVIDE TRAINING AND RESOURCES THAT SUPPORT SMES TO OVERCOME COSTLY BARRIERS TO BECOMING MORE TRANSPARENT.

SMEs should be empowered directly with appropriate tools and training on impact transparency, which will, in turn, lead to better business decisions. This empowerment can be achieved with the help of several players.

Meso-level structures such as industry associations are very influential and able to disseminate training and capacity building to their members, given their interest to comply, compete, and anticipate regulatory changes. Incentives for SMEs to increase their transparency may also lie with changing consumer preferences. As consumers become increasingly aware and careful with their habits, they choose brands that prioritise social or environmental issues. This means that transparency is not only good for society but for SMEs themselves, as a competitive factor.

The UNDP's Business Call to Action was designed to enable companies to better understand, measure and manage their impact and drive inclusive business growth. One of these tools is the SME Action Platform that aims to provide small growing businesses and the informal sector access to strategic resources that enable them to perform as key drivers for inclusive and sustainable growth, namely by increasing business resilience and increasing business competitiveness.[82]

[80] International Labour Organization (October 2019): "The power of small: unlocking the potential of SMEs"; https://www.ilo.org/infostories/en-GB/Stories/Employment/SMEs#intro

[81] López-Calva, L.F. (April 2021): "Small businesses, big impacts: Supporting productive SMEs as an engine of recovery in LAC." UNDP; https://www.latinamerica.undp.org/content/rblac/en/home/presscenter/director-s-graph-for-thought/small-businesses--big-impacts--supporting-productive-smes-as-an-.html

[82] Business Call to Action: "SME Action Platform"; https://www.businesscalltoaction.org/sme-action-platform

Actions for governments

8B PROVIDE TECHNICAL ASSISTANCE, TRAINING CAPACITY AND SUBSIDIES TO EMPOWER SMES TO REPORT ON THEIR IMPACT PERFORMANCE.

Several national governments have adopted training programmes and tools to build capacity and empower SMEs reporting on their impact performance. The reporting process can be challenging, and specific support for small businesses should be provided. A relevant role can be played by technology, to make sure that governments can better reach entrepreneurs and make it easier for SMEs to make their disclosures in an inclusive manner. The technical assistance provided by governments should balance the specific governance, organisation and resources of SMEs with the need for sustainability information produced by SMEs to be relevant to financial institutions and their value chain.

Some national governments have launched certification to highlight the importance of sustainability for SMEs and promote good practices. Examples include the Corporate Social Responsibility (CSR) Platform launched in France that aims to test sector-specific CSR labels adapted to Micro, Small and Medium Enterprises (MSMEs), as well as the Chile's tourist sustainability stamp, the S stamp, that applies to tourism service providers, or the Netherlands' Green Key label, requiring businesses to report on 43 mandatory and 39 optional standards related to sustainability.[83]

Actions for enterprises

8C LARGE ENTERPRISES, BANKS AND FUNDS LEVERAGE THEIR RELATIONSHIP WITH SMES TO ENCOURAGE BETTER IMPACT DISCLOSURES.

Large and multinational enterprises can encourage SMEs to engage in impact reporting. The SDG's target 12.6 opens the door to push multinationals to provide sustainability reports and collect information about their supply chains. In the specific case of the European Union, multinationals must comply with the EU Directive of Non-Financial Information, which requires sustainability reports from suppliers, in some cases SMEs.[84]

Banks and other financial institutions also play an important role in fostering SMEs to report on their impact by modifying reporting requirements for financing. This can be done in multiple ways, including by attaching sustainability requirements to credits and loans.[85]

Actions for investors

8D INVESTORS, STOCK EXCHANGES, VENTURE CAPITAL FIRMS AND DEVELOPMENT FINANCE INSTITUTIONS SIGNAL THAT IMPACT TRANSPARENCY IS CRITICAL TO DUE DILIGENCE AND INVESTMENT DECISIONS.

Direct investors can signal that impact matters by requesting higher standards of impact transparency, building on harmonised standards. Stock markets can also have an indirect role on unlisted SMEs through the supply chain of larger listed companies that are required to produce a report covering impact and financial disclosures from their supply chain, or directly by requiring reporting from listed SMEs in SME stock exchanges.

[83] GRI (2018): "Empowering Small Business Recommendations for policy makers to enable sustainability corporate reporting for SMEs"; https://www.globalreporting.org/search/?query=Empowering+Small+Business

[84] European Commission (April 2021): "Sustainability Finance Package"; https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd

[85] GRI (2018): "Empowering Small Business Recommendations for policy makers to enable sustainability corporate reporting for SMEs"; https://www.globalreporting.org/search/?query=Empowering+Small+Business

Actions for capital market regulators

8E DEVELOP AN SME-FRIENDLY VERSION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION'S INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB) PROTOTYPE, SPECIFICALLY BY OMITTING TOPICS THAT ARE NOT RELEVANT FOR SMES AND SIMPLIFYING THE LANGUAGE, BUILDING ON THE EXISTING IFRS-FOR-SME FRAMEWORK.

The Impact Taskforce (ITF) strongly supports the International Chamber of Commerce (ICC) in encouraging regulators, standard-setters and certifying bodies to consider SME-specific needs in harmonisation efforts, to:

- filter indicators that are not relevant to typical SMEs
- streamline and consolidate disclosures wherever possible
- focus on disclosures that can be made using readily available data sources
- enable more simplified data collection and reporting methods
- embed simplified measurement principles whereby they do not reduce quality or visibility of the outcome
- clarify materiality expectations and "sphere of influence" assessments
- be written in simple, clear language for easier understandability and translation

An SME-friendly version of the IFRS-ISSB standards, omitting topics that are not relevant for SMEs, simplifying the language and requiring fewer disclosures is a crucial step towards ensuring wider adoption of sustainability standards by SMEs. This should be done in partnership with existing voluntary disclosure and certification initiatives like B Lab and UNDP's Business Call to Action. This will help make the costs of reporting and accounting for impact proportionate to the size and scale of SMEs.

[86] European Commission (April 2021): "Sustainability Finance Package"; https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#csrd

Standards for SMEs[86]

The EU's Corporate Sustainability Reporting Directive (CSRD) aims to limit the burden on listed SMEs by allowing them to report according to standards that are simpler than the standards that will apply to large companies. These standards will make it easier for SMEs to report information to banks, large-company clients and other stakeholders. The requirements for listed SMEs would apply three years after they apply to other companies, given the economic difficulties faced by smaller companies as a result of the COVID-19 pandemic, and will be voluntary for non-listed SMEs.

Source: European Commission (2021)

5 EMERGING MARKETS

RECOMMENDATION #9

Capital markets want better information on impact for all stakeholders – and in an increasingly interconnected world, that must include truly global voices.

Emerging markets are often first-movers when it comes to early adoption of high standards as a differentiating factor. They see this as an advantage – to anticipate regulation and make investors feel safer in entering some of these markets. This means that emerging markets should not be seen as "not ready yet" but rather as potential instigators of change when it comes to better accounting for impact for all stakeholders.

Actions for government

9A LEVERAGE MULTILATERAL PLATFORMS TO HARMONISE AND EMBED IMPACT STANDARDS TO FACILITATE INVESTMENT FLOWS.

There is a risk that transparency will increase in more developed markets, due to formalised markets and stronger regulation, without fully reflecting the positive and negative impacts in emerging economies. As of 2018, 76% of climate finance was invested nationally[87], indicating that investors have a higher tendency to invest in places where they are familiar with the risks, national laws and necessary frameworks.

One of the key barriers to attracting foreign capital to emerging markets, especially for impact, is the absence of robust and updated metrics and data to determine the effectiveness and attractiveness of those investments.[88] The lack of quality data makes it challenging for national governments and foreign investors to know where to prioritise their activities and reinforces their perception of risk.

Regulatory frameworks around transparency are emerging in different jurisdictions. The International Finance Corporation (IFC) has helped develop or update environmental and social guidelines in Georgia, Kazakhstan, Kenya, Nigeria, Peru, Iraq, Ukraine and the Philippines. The IFC Disclosure and Transparency Program provides practical tools and advisory services for companies, stock exchanges and regulators in emerging markets.[89]

Governments can support by helping stock exchanges and regulators raise disclosure and transparency standards in their markets through model guidance, frameworks, codes, listing requirements and other mechanisms; offering training for companies as they strengthen their practices and prepare integrated and best-in-class annual reports; and through online platforms, by curating flexible learning opportunities, gap analysis and information for emerging market companies, stock exchanges, regulators and investors to integrate social and environmental issues into corporate reporting and disclosure practices.

[87] Sustainable Markets Initiative (June 2021): "Scaling Private Sector Investment in Sustainable Projects"; https://a.storyblok.com/f/109506/x/d7915ee908/smi_scaling-priv-invest_interim-report_20210609.pdf

[88] Sustainable Markets Initiative (June 2021): "Scaling Private Sector Investment in Sustainable Projects"; https://a.storyblok.com/f/109506/x/d7915ee908/smi_scaling-priv-invest_interim-report_20210609.pdf

[89] IFC (2021): "Enhancing ESG Disclosure and Transparency Standards in Emerging Markets"; https://www.ifc.org/wps/wcm/connect/b4c4a14a-7686-4457-8eaf-ec652910eeb3/Disclosure_and_Transparency_Fact_Sheet.pdf?MOD=AJPERES

SPOTLIGHT

Stewardship and governance[90]

Stewardship codes are evolving globally to meet investor, multinational and government demands for more transparent governance.

- In 2011, South Africa's Committee on Responsible Investing by Institutional Investors (CRISA) issued the Code for Responsible Investing
- The Malaysian Code for Institutional Investors was issued by the Securities Commission's Minority Shareholders Watch Group in 2014
- In 2015, Kenya launched the Stewardship Code for Institutional Investors by the Capital Markets Authority
- In 2016, Brazil launched the Amec Stewardship Code issued by Associação de Investidores no Mercado de Capitais, Korea launched the Principles on the Stewardship Responsibilities of Institutional Investors issued by the Korean Stewardship Code Council, and Taiwan launched the Stewardship Principles for Institutional Investors issued by the Taiwan Stock Exchange
- In 2017, Thailand's Securities and Exchange Commission issued the Investment Governance Code

Actions for enterprises

9B LARGE MULTINATIONALS SHOULD SEEK TRANSPARENCY ACROSS FULL VALUE CHAINS, INCLUDING EMERGING MARKETS – EMPOWERING LOCAL TEAMS TO UNDERSTAND WHETHER LOCAL COMMUNITIES AND EMPLOYEES ARE TREATED WELL, GOOD GOVERNANCE PRACTICES ARE IN PLACE AND CLIMATE RESILIENCE IS ENSURED.

Large multinationals, who should report according to the best global standards, can take a first step in ensuring that impacts in developed markets are not prioritised over impacts in emerging markets. The Sustainable Development Goals (SDG)'s target 17.10 recommends enhancing international support for implementing effective and targeted capacity building in developing countries, in order to support national plans to implement all the SDGs.

Emerging markets are determined to improve ESG reporting standards for several reasons. They are the main manufacturing locations for the top 500 global companies, which makes understanding local impact critical. In order to maintain and attract foreign investment, companies will have to comply with further efforts related to disclosure, transparency and risk management, with an emphasis on Environmental, Social, and Governance (ESG).

[90] International Corporate Governance Network and FT research (2020): "Stewardship's global spread"; http://prod-upp-image-read.ft.com/f2013b14-1f26-11e9-b126-46fc3ad87c65

CONCLUSION

Members of Workstream A acknowledge the complexity of these themes and the difficulty in overcoming the challenges that underline them, including uneven regulatory environments around the globe, litigation risks and immature data sets in some cases. Yet, there is optimism that the norms of accounting, auditing and assurance practices can and will change, driving integrated thinking and decision making that considers the creation, preservation or erosion of value to society over the short-, medium- and long-term.

This paper describes the journey to achieve the Impact Taskforce's urgent call for mandatory accounting for impact, including greater transparency, harmonised standards, and strong mechanisms to ensure integrity of data, analysis, and governance.

There is strong support for the International Financial Reporting Standards Foundation's International Sustainability Standards Board (IFRS-ISSB) efforts to create a global reporting "baseline" on impact related to enterprise value. The Impact Taskforce (ITF) calls on governments to support and participate in upcoming consultations, ensuring that the ISSB: has an inclusive governance model; balances social and environmental issues; acknowledges and reflects realities of both emerging and developed economies; actively engages small and medium enterprises (SMEs) along the value chain; and is swiftly followed by an assurance regime for all data relevant to enterprise value for public companies.

The ITF also calls for an urgent build on this reporting baseline to include any impacts on stakeholders that the baseline does not address. This can happen through changes to company law and the scope of directors' duties, voluntary and mandatory disclosure, and further evolution of accounting and assurance standards to cover all impact data, not just data related to enterprise value. Critically, governments can mandate that statements on impact disclose the limitations, thresholds and assumptions underpinning them, and any basis for deciding what is material.

The ITF recommends that the G7 countries and partners collaborate with the private sector, standard-setters and academia on approaches to impact valuation. This work is needed to deepen our understanding of how to value impact in a way that allows a meaningful comparison of the impacts and profits of companies, while also revealing the relationship between the two.

Specific recommendations for governments, capital market regulators, investors, enterprises, standard-setters and non-governmental organisations are summarized on page 6.

Given the importance of continuity regarding the work carried out under consecutive G7 presidencies, the ITF advocates for further research to guide the implementation of these recommendations:

- Better understand the role of government in advancing accounting for impact for public expenditure, which in G7 nations accounts for almost half the Gross Domestic Product (GDP)
- Develop a roadmap focused on promoting the adoption of simplified and harmonised standards for SMEs, namely through training, capacity building, access to data and assurance
- Guarantee that emerging markets are involved and empowered in just transition efforts by playing an active role in harmonisation and transparency efforts, designing approaches that do not systematically reinforce existing barriers and inequities between developed and emerging markets

APPENDIX

Acknowledgement

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Abbreviations and acronyms

AICPA	American Institute of Certified Public Accountants
CDSB	Climate Disclosure Standards Board
COP26	26th session of the Conference of the Parties
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
DFIs	Development Finance Institutions
EBITDA	Earnings Before Interests, Taxes, Depreciation and Amortisation
EDFI	European Development Finance Institutions
ESG	Environmental, Social, and Governance
FCA	Financial Conduct Authority
FCDO	Foreign, Commonwealth & Development Office
G7	Group of Seven
G20	Group of Twenty
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GISD	Global Investors for Sustainable Development
GRI	Global Reporting Initiative
GSG	Global Steering Group for Impact Investing
IAASB	International Auditing and Assurance Standards Board
ICC	International Chamber of Commerce
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards Foundation
III	Impact Investing Institute
IMP	Impact Management Project
ILPA	Institutional Limited Partner Association
ILO	International Labour Organization
ITF	Impact Taskforce
IOSCO	International Organization for Standardization
ISSB	International Sustainability Standards Board
ISO	International Organization for Standardization
IWAI	Impact-Weighted Accounts Initiative
MDBs	Multilateral Development Banks
MSMEs	Micro Small and Medium Enterprises
NGSF	Network for Greening the Financial System
NFRD	EU's Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
OD4B	Open Data for Business

PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SBT	Science-Based Targets
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium Enterprises
SVI	Social Value International
TCFD	Task Force on Climate-related Financial Disclosures
TIFD	Taskforce for Inequality-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNGC	United Nations Global Compact
VRF	Value Reporting Foundation
WBA	World Benchmarking Alliance
WBCSD	World Business Council for Sustainable Development

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