GROWING A CULTURE OF SOCIAL IMPACT INVESTING IN THE UK

BETTER REPORTING

Contents

Foreword

It is rare for working groups to move an agenda forward with speed and clarity, but I am genuinely delighted with both the ingenuity of thinking and the shift towards greater consensus that marks the publication of this Better Reporting Landscape Report.

The wholehearted commitment and thoughtfulness of the Deloitte team, led by Sam Baker, and the working group members has meant this project has been rewarding and stimulating. The biggest thank you must however go to my fellow Chair of the Better Reporting Working Group, Olivia Dickson, who is simply a phenomenon.

Ours was a genuine consultation and the findings have been heavily influenced by the responses to our call for evidence. We have taken a step back to ensure this interim report reflects the authentic views of those who have taken the time to respond.

A highlight of the recent work of the task force has been the spectrum of capital which is included in this report. It maps the broad range of risk/return strategies that exist in the capital markets system and how these relate to the sphere of social impact investing. Perceptions of the movement from left to right of the spectrum are obvious but nonetheless the graphic did open my eyes and allowed a focus.

The theory of change used in the paper again revealed something profound, yet simple. Through my experience in corporate reporting over many years – from financial to sustainability and integrated reporting - I was familiar with the vital move from a consideration about outputs to outcomes. This theory of change develops the thinking and challenges us to think about impacts separately, not just in the context of the organisation and the capital markets but those of society and the environment. I urge readers to look at this and think forward to a world where macro influences provide drivers for change – a culture of social impact investing rather than a movement.

On other aspects of the report, the role play narratives bring to life what is meant in certain circumstances and makes for light reading. For those immersed in the subject matter it may seem somewhat simplistic, for others I hope it will bring clarity. Finally, I draw to your attention the definitional classification system, designed for this process by the team and its results.

Our conclusions are not solutions. This work will be taken into a second phase where we will seek to develop concrete recommendations. There is much to be done but let us be clear that all the major actors are on the train, not waiting at a station. We are on our way. Now it is a matter of precious and extremely limited time before we reach our destination.

Paul Druckman

Executive summary

Background and Objectives

- This paper forms part of the Social Impact Investing Taskforce's response to the third key recommendation of the report of the Advisory Group on Social Impact Investing[1] to "develop **better reporting** of non-financial outcomes", which has been subsequently refined by the Taskforce as "better reporting of social and environmental impact".

- The insights are drawn from a call for evidence that received responses from 92 representatives and experts from across the investment and reporting domains, including thirteen expert interviews, detailed desk-research, and input from an expert working group.

- Using these insights this paper sets out:

    - an introduction to the **broader context** and a theory of change which illustrates the link between social and environmental impact reporting and investment decisions;

    - an **overview of the current landscape** of impact reporting approaches together with an assessment of where impact reporting is on the journey towards coalescence;

    - a discussion of **the current challenges** faced by investors and reporting practitioners, and evidence of **emerging coalescence** of social and environmental impact reporting; and

    - views on the key **opportunities and foundations for further coalescence**; possible ways forward to achieve harmonised social and environmental impact reporting.

- The insights in this paper will inform and provoke discussions in phase 2; when options for coalescence towards more harmonised social and environmental impact reporting will be formed. These options will be part of the Taskforce recommendations to Government and other Stakeholders in early 2019.

[1] Advisory Group to UK Government, *Growing a Culture of Social Impact Investing in the UK,* 2017

Key findings

The current landscape

- The current impact reporting landscape reflects the **rapid growth in society's expectations of business** and the associated **proliferation of reporting requirements** in the last decade.

- In the **absence of a common currency for impact** applicable across issues and sectors, reporting practitioners and investment chain stakeholders have developed a **wide range of different definitions and approaches** for capturing 'impact' in a way that makes sense to them**.**

- To help cut through the noise, a **definitional classification** (see Figure 1) has been introduced in this paper to bring some clarity to the umbrella term 'reporting approaches' and to **demonstrate the variance and similarities between the 16 most prevalent[2] reporting approaches**. The classification also aims to lay the ground work for clear discussions in phase 2.

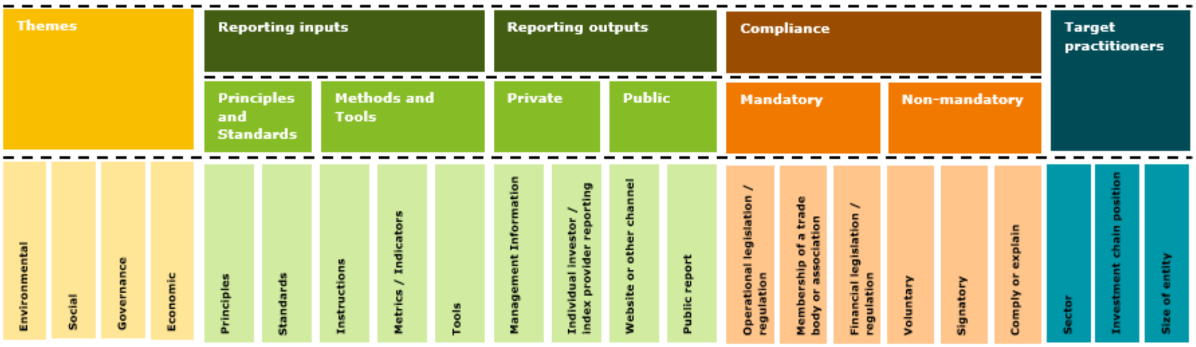


Figure 1: Classification of reporting approach components: *Definitions can be found in the appendix*

The challenges

- There are **a number of intertwined challenges** that can be more clearly understood from the different perspectives of an investor and a reporting practitioner.

- Investors struggle with the **multiple definitions** that exist, which confuse and compound **comparability** challenges**.** Alongside this, investors feel there is a lack of **appropriate**

[2] The 16 most prevalent approaches as they emerged from the call for evidence. See section 3 for fuller discussion

visibility, and they are concerned about **assurance** of social and environmental impact reports.

- Reporting practitioners agree the lack of a **common language** is a key challenge**.** The complexity and lack of standardisation around **assessing materiality** and **measurement** being substantive challenges to preparing, or using, social and environment impact reporting.

- **Time, capability** and **cost**, as well as the **existing regulatory context**, are additional practical barriers to impact reporting. The absence of a widely understood business case for impact reporting underpins these challenges.

Emerging coalescence

- In response to the fragmented state of the landscape and the associated challenges faced by both investors and reporting practitioners, a number of **coalescence efforts are already underway**, such as The Impact Management Project (IMP) and Corporate Reporting Dialogue (CRD)**.**

- These efforts confirm the growing appetite for coalescence, and are **early, useful steps on the journey**. Their work should be carefully considered and, where appropriate, integrated going forward.

Ways forward to drive further coalescence

- Responders believe the way forward is to take a **principles based approach**, rather than standards based, with transparency seen as key to success.

- Some key common foundations are suggested; a **common issue lens** based on the Sustainable Development Goals (SDGs), and a **common approach to defining impact** built from appropriate existing approaches. **Metrics and indicators**, **outputs** and **technology** are other components that are called out as areas that could serve as further foundations for coalescence, but for which more work is required to establish the right way forward.

- It is widely acknowledged that **Government** and **industry** both have their part to play in driving coalescence. Existing **approach-owners** will also take an important role to avoid ‘starting from scratch’.

- Some were strongly opposed to investors taking the lead, placing the authority in the hands of the **organisations,** who they felt were best placed to meaningfully engage with the question of their own impact.

- The majority of responders believed that coalescence could be achieved **within the next 5 years**, but that significant strides forward could be made in the next 6 to 12 months.

Next steps

- These findings will be considered in phase 2 by the working group, in consultation with many of those who have contributed so far. This next phase will use the foundation provided by this paper to form specific proposals to enhance the reporting of social and environmental impact. This will be considered alongside the outputs of all other Taskforce working groups in order to make recommendations to Government and other Stakeholders by early 2019.

Background

Introduction

In December 2016, the UK government set up an independent Advisory Group, chaired by Elizabeth Corley (Vice Chair of Allianz Global Investors), to answer an important question:

How can the providers of savings, pensions and investments engage with individuals to enable them to support more easily the things they care about through their savings and investment choices?

The Advisory Group published their report 'Growing a Culture of Social Impact Investing in the UK'[3] in November 2017 making recommendations in five key areas:

1. Improve deal flow and the ability to invest at scale.
2. Strengthen competence and confidence within the financial services industry.
3. Develop better reporting of non-financial outcomes.
4. Make it easier for people to invest.
5. Maintain momentum and build cohesion across initiatives.

In March 2018, the Prime Minister commissioned an Implementation Taskforce to carry forward the five action areas. The role of the Taskforce is to catalyse collaboration between industry experts against each of the key areas. The Government response[4] highlights their commitment to working with the financial services industry to support this work.

This paper forms part of the Taskforce's response to the third key recommendation to "develop **better reporting** of non-financial outcomes." The Taskforce refined the focus to be the "better reporting of social and environmental impact" (see "Factors to consider" section for more detail) with the goal of moving coalescence forwards, in order to achieve harmonised social and environmental impact reporting across the investment chain.

This paper sets out an **overview of the current landscape** of impact reporting approaches based on insights from a call for evidence, expert interviews, and desk-research. It also explores the challenges to, and opportunities for, coalescence of social and environmental impact reporting.

[3] https://www.gov.uk/government/publications/growing-a-culture-of-social-impact-investing-in-the-uk
[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717511/Government_Response_to_Advisory_Group.pdf

Research over decades[5] demonstrates that reporting influences actions. However, the lack of commonality in the way social and environmental impact is defined, measured and reported makes it difficult for the community of providers and stewards of investment and savings products, to develop products that consider social and environmental impact. This deficit extends to businesses, social enterprises and charities who lack the tools and language to report their social and environmental impact in a way that is actionable and comparable by members of the investment community and the wider general public. As a consequence, members of the public are unable to make informed investment and savings choices on the basis of social and environmental impact.

The aim of this paper is to inform and provoke deeper industry consideration of options for coalescence in order to create clear recommendations by the end of 2018 on how best to move towards better social and environmental impact reporting. These discussions need to be informed by the output of the other Taskforce working groups to ensure it meets the ultimate goal of stimulating retail investment.

[5] See Adams (2017) Conceptualising contemporary value creation, Accounting Auditing and Accountability Journal, Volume 30, issue 4

Key definitions

As expected, due to the evolving nature of this domain, there are many versions of definitions for key terms. This paper has therefore used explicit language wherever possible. A selection of terms repeated throughout this paper are defined below.

Reporting

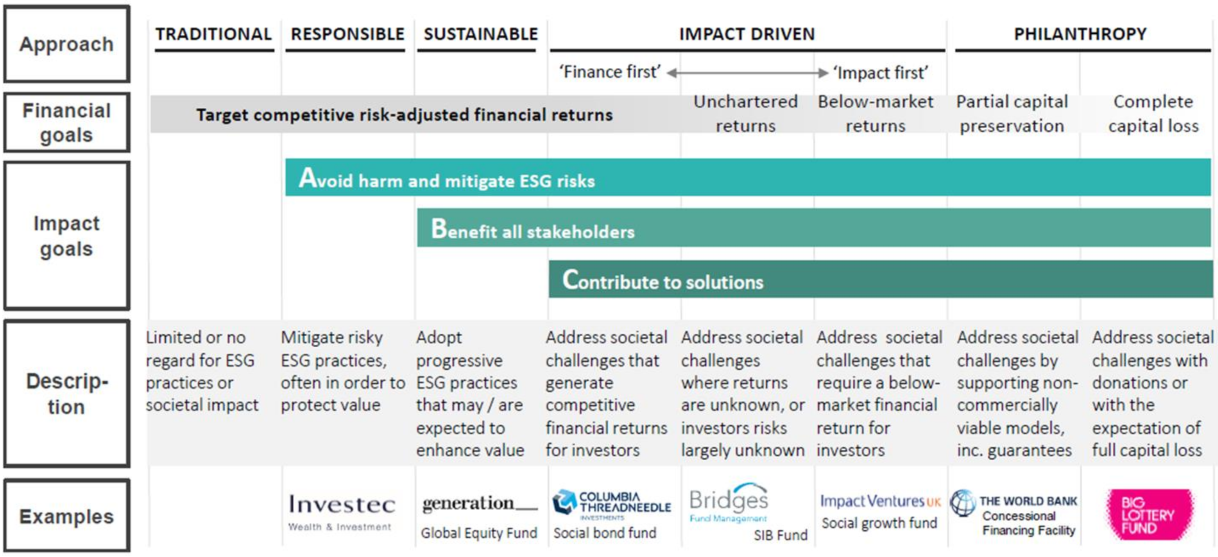
Reporting approaches	The set of reporting inputs (such as methods and tools) and reporting outputs (such as an Annual Report or website) used to report on the performance and impact of a company or set of companies (See further classification and definitions in section 3 of this paper).
ESG reporting	Reporting against ESG, where ESG stands for Environmental, Social and Governance. ESG factors relate to a company's, or companies', handling of sustainable, ethical and corporate governance issues. There is no single agreed list of factors. Often 'ESG Reporting' is used interchangeably with 'Sustainability Reporting'[6].
Sustainability reporting	Typically sustainability reporting covers environmental and social issues related to business activities, such as carbon emissions, water use, and gender equality. Often this reporting is focused on outputs or outcomes rather than impact (See section 3, Figure 2)[6].
Non-financial reporting	Reporting which does not directly report on the financial transactions of a company or set of companies; this could include brand reputation, staff retention, environmental impacts and contributions (whether positive or negative).
Impact reporting	Non-financial reporting specifically focused on social and environmental impact, as opposed to outcome (See section 3, Figure 2).
Metrics / indicators	A system or standard unit of measurement typically accompanied by associated collection methods.

[6] https://www.iasplus.com/en/resources/sustainability/sustainability

Investment approaches

The Spectrum of Capital framework adopted by the Taskforce[7] defines five types of investment approach: Traditional, Responsible, Sustainable, Impact-Driven and Philanthropy. These are defined in terms of their financial and impact goals and are shown below.

Choices and strategies for investors on the 'spectrum of capital'



Source: Bridges Impact+ and the Impact Management Project.

As defined by the original Advisory Group paper[5]; Social impact investment consists of 'investment in the share or loan capital of those companies and enterprises that not only measure and report their wider impact on society, but also hold themselves accountable for delivering and increasing positive impact'.

[7] https://www.grow-impact-investing.org

Actors in the investment reporting domain

Investors	An individual or organisation who contributes to the debt or equity funding of a company or set of companies, either directly or through an investment manager. An investor will often be the Asset Owner.
Retail investor	An individual investor who invests money in a personal capacity.
Institutional investor	An organisation who invests money in a corporate capacity.
Investment manager	The intermediary provider of investment products and services, which enables an individual or organisation to invest money into a company or set of companies. Asset Manager is a synonym for this term, although in some companies there may be distinct departments or role holders based on the category of assets ie financial securities vs property.
Investee	The end recipient of investment from investors. This is typically a company.
Reporting practitioner	An individual or organisation who advises on and / or produces reporting inputs and / or outputs.

Issue lenses

SDGs	The Sustainable Development Goals, otherwise known as the Global Goals, are a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The SDGs were ratified in 2015 by all member states of the UN. The 17 Goals and 169 Targets form a comprehensive reference of social and environmental issues[8].
ESG	ESG stands for Environmental, Social and Governance.ESG factors are a set of non-financial factors which relate to a company's, or companies', handling of sustainable, ethical and corporate governance issues. There is no single agreed list of factors.
Social and environmental impact	Positive or negative effects on society ie people (social) and planet (environment). Impact is highly contextual to issues and / or industries.

[8] http://www.undp.org/content/undp/en/home/sustainable-development-goals.html

Factors to consider

This paper provides insights on the reporting landscape that contribute to impact driven investment and savings choices in the UK. There are a number of factors that are useful to bear in mind when considering these insights, namely; the global value chain, the scope of impact, and the moving landscape.

The global value chain

While the Taskforce focuses on stimulating the UK retail investor, the value chain is global and therefore this exercise reflects that global context. Many of the call for evidence responses are from organisations with a global perspective, the social and environmental issues at one level are common across countries, and investment is a global industry.

The scope of impact

In conducting this exercise the scope of impact was debated, with the focus of this debate being on whether this exercise should be framed as reporting on the impact on society, or more specifically targeted on social and environmental impact. In addition the call for evidence elicited views on this; while responders recognised that there may be specific circumstances where it is useful to consider social and environmental separately, their close interdependence is often cited and has resulted in them being grouped for the purpose of this paper.

The moving landscape

The impact reporting landscape is dynamic. There are existing and upcoming initiatives, that directly or indirectly impact non-financial reporting and the reporting of impact, that need to be considered. The forthcoming Civil Society Strategy, for example, will explore the role business and investors can play alongside wider stakeholders to make a contribution in realising the ambitions of citizens. The Government's package of corporate governance reforms[9] includes mandatory company reporting in the Strategic Report on how directors' have discharged their duties under s172 of the Companies Act. The FRC has also published Guidance on the Strategic Report[10] and a revised version of the UK Corporate Governance Code[11].

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[9] https://www.iasplus.com/en-gb/news/2018/06/beis-corporate-governance-s172

[10] https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf

[11] https://www.frc.org.uk/news/july-2018/a-uk-corporate-governance-code-that-is-fit-for-the

The wider work of the Taskforce

Reporting, while critical to the future of impact driven investments, is only one aspect that will contribute to increased impact driven investments. This paper should be considered alongside outputs from the working groups addressing all other areas of recommendation in "Growing a Culture of Social Impact Investing in the UK"[12].

[12] https://www.gov.uk/government/publications/growing-a-culture-of-social-impact-investing-in-the-uk

The approach

The insights in this paper were formed through a widely publicised call for evidence, desk-research, interviews and working group discussions. The working group was made up of reporting, impact and investment experts (for membership see Appendix), established to steer and input to the approach and outputs.

The working group agreed on two key points of evolution from the original Advisory Group recommendations:

- Develop better **social and environmental impact reporting,** rather than the broader category of non-financial reporting; and
- Consider **the approach to reporting impact across the investment chain and key stakeholders related to it**, rather than solely focusing on reporting for one stakeholder or product.

This exercise, and specifically the call for evidence, was framed by a problem statement as follows. The full structure of the call for evidence can be seen in the Appendix.

The problem statement

There is no commonly used approach to enable UK businesses, social enterprises, charities and investors to define or report social and environmental impacts. This creates challenges for members of the public, civil society groups, public sector organisations, retail and institutional participants in the market for investment and savings products who wish to consider social and environmental impacts. In particular impact driven investors and investees face reporting challenges which inhibit the growth in the market for impact driven savings and investments.

The key challenges are as follows:

1. **Shared language for impact:** A common language for reporting impact is lacking, this results in inefficient and arbitrary selection of the 'best fit' impact reporting framework for the specific context (across sectors, geography, investment and impact types at entity and portfolio level).

2. **Visibility of impact**: Reporting of impact, alongside financial performance, is minimal. This inhibits the understanding of long-term business value that comes from the pursuit of impact alongside profit.

3. **Comparability of actual and forecast impact**: Comparability of impact across organisations is limited, due in part to the lack of standard methods and measures, and the number of competing approaches. None of which are comprehensive.

4. **Confidence in impact as a measure of performance:** Confidence in impact driven investing is limited as actual returns for society are hard to measure. One of the big challenges of impact measurement is that it requires data from outside the company's walls.

This exercise focused on gathering insights related to challenges 1 to 3. Challenge 4 was out of scope of this paper as it was deemed to be, in large part, dependent on resolving Challenges 1-3.

The call for evidence received 92 responses across a number of different stakeholder profiles. The work as a whole ran from 23 April through to 23 July 2018, with the call for evidence open for 30 May to 30 June 2018.

Profile category	Responders in this category included:	Number
Approach owner	• Leaders of organisations, bodies and taskforces who have developed reporting approaches and initiatives	15
Business	• Leaders of private UK companies • Industry representatives of Finance Directors of FTSE 100	4
Business (practitioner)	• Reporting experts selling reporting services as part of multinational professional services firms, boutique consultancies or as independent	13
Charity and / or social enterprise	• Executive and Director level representatives of not-for-profit organisations, a majority focusing on inclusive/responsible finance	9
Civil society	• Academics in the accounting, international development and sustainability fields • Leaders of associations and advocacy groups in the social impact or responsible finance space	13
Impact investor	• Leaders of philanthropic organisations with an inclusive / responsible finance focus • Social investment fund managers	13
Investor	• Directors and asset managers for sustainable / impact funds of large financial institutions • ESG researchers of large financial institutions • Heads of sustainability and corporate responsibility of large financial institutions • Retail investors with a social value / impact emphasis	23
Public sector	• Government departments or representatives	2
Total		**92**

The Broader Context

The specific challenges of impact reporting sit within a broader context of changing expectations of the role of business in society. This section reflects on those changes and on the implications for investors. It is organised in four parts:

1. **The changing expectations of the role business plays in society**
   How the expectations of each player in the stakeholder ecosystem are shaping businesses' roles and contribution to society
2. **How business is responding**
   The multiple barriers that many businesses face in trying to respond to the changing expectations
3. **The role effective reporting can play**
   How reporting influences social, environmental and economic impacts, as illustrated by a 'theory of change'
4. **What the end-state might be for the investor**
   A potential investor's experience in the future where impact investing is mainstreamed

1. The changing expectations of the role business plays in society

All businesses impact society in some way, both positively and negatively. The intention to have a positive impact is a long established part of doing business well and can most frequently be seen in the formation of Corporate Social Responsibility (CSR) or Responsible Business departments, corporate giving and the creation of foundations. This impact on society is now moving to a more central and strategic concern; driven by awareness of the magnitude of global challenges, by the specific expectations of the various stakeholders, and by regulation. While for some types of organisations, such as charities and social enterprises, this has always been a critical component of their business model, for many mainstream businesses this will require change.

The SDGs articulate the shared challenge to lay the foundation for a sustainable future. The implied change from the current trajectory is significant, illustrated by UNDP's estimate of US$5 to $7 trillion of required investment[13]. This is a challenge for all nations, not least the UK, where UKSSD recently reported that the UK has made inadequate progress against over 60% of relevant targets[14]. The magnitude of these challenges requires everyone to participate, and business as the primary employer, the primary user and generator of capital, and the primary investor in research and development, needs to step forward if the challenges are to be met.

Stimulated in part by the growing awareness of the challenges our society faces, and the implications of not addressing them, expectations of the role business plays in society are changing amongst stakeholders.

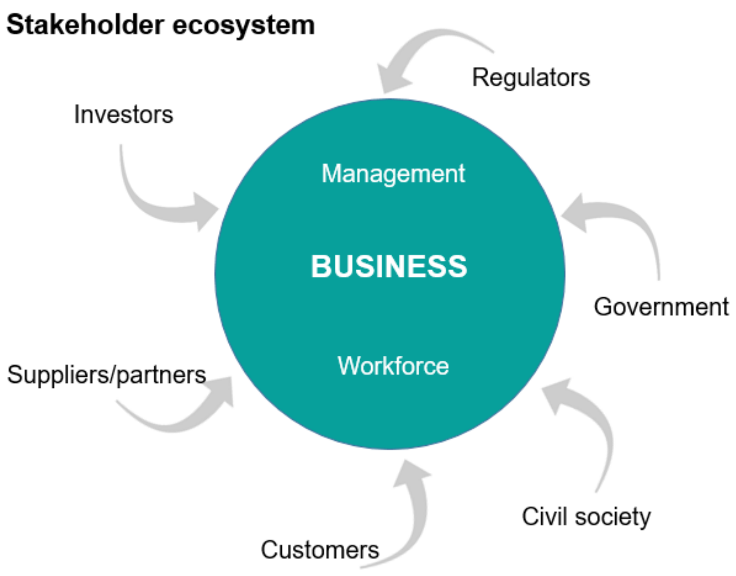

Figure 2: Business stakeholder ecosystem

Regulators, whether cross sector or sector specific, are pressing business on their broader contribution. Examples include:

- The Government's package of corporate governance reforms announced in August 2017[15] which includes the requirement for Directors to report on the impact of the company's operations on the community and the environment;
- The FRC's revised UK Corporate Governance Code[16] which includes the leadership principle; *"A successful company is led by an effective and entrepreneurial board, whose*

[13] http://www.undp.org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-.html
[14] https://www.ukssd.co.uk/news/sdgs-can-help-the-uk-become-a-country-for-everyone
[15] https://www.iasplus.com/en-gb/publications/uk/need-to-know/2018/ntk-s172-1
[16] https://www.frc.org.uk/getattachment/31897789-cef6-48bb-aea9-f46b8cf80d02/Proposed-Revisions-to-the-UK-Corporate-Governance-Code-Dec-2017-1.pdf

role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society", aims to stimulate greater engagement with stakeholders most notably the workforce, and drive broader thinking in relation to purpose, strategy and values [i];

- The FRC's Guidance on the Strategic Report[17] which includes questions for a Board to consider across Environmental matters, Social and community matters and Human rights matters[18];
- Regulations that highlight specific ESG issues e.g. gender pay gap reporting[19] and modern day slavery[20];
- Sector specific regulations, from Water[21] to Gambling[22], which demonstrate the increasing scrutiny of broader industry impacts on society; and
- European Commission (EC) proposals on sustainable finance[23] that set out a roadmap for further work and upcoming actions covering all relevant actors in the financial system. Additionally, the EC is currently carrying out a Fitness Check[24] of the NFRD, which will consider incorporating TCFD[25] recommendations.

Government is committed to social impact investment growth; *"We are ambitious that delivering social impact should be a widely held concern – that social impact investment should become 'business as usual' for individual and institutional investors"[26].* More broadly Government is committed to the delivery of the SDGs, and is seeking to embed them in the planned activity of each Government department. Engagement with business is a key component of this strategy; earlier this year the DCMS commissioned a study of business engagement with sustainable development and the SDGs to review the position. The UK Government's Industrial Strategy places emphasis on inclusive economic growth and looks to business to help deliver this[27]. The

[17] https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf
[18] See section 7A.42 on page 32, https://www.frc.org.uk/getattachment/fb05dd7b-c76c-424e-9daf-4293c9fa2d6a/Guidance-on-the-Strategic-Report-31-7-18.pdf
[19] https://www.iasplus.com/en-gb/news/2017/07/frc-factsheet-eu-nfr-directive
[20] https://www.gov.uk/government/collections/modern-slavery-bill
[21] https://www.ofwat.gov.uk/wp-content/uploads/2018/04/Putting-the-sector-back-in-balance-consultation-on-proposals-for-PR19-business-plans.pdf
[22] http://www.gamblingcommission.gov.uk/news-action-and-statistics/news/2018/Measuring-the-impact-of-gambling-related-harms.aspx
[23] https://www.iasplus.com/en/news/2018/03/action-plan-on-sustainable-finance
[24] http://ec.europa.eu/smart-regulation/evaluation/docs/fitness_checks_2012_en.pdf
[25] Task Force on Climate-Related Financial Disclosure
[26] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/717511/Government_Response_to_Advisory_Group.pdf
[27] https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

regulatory requirements of the Strategic Report, as noted in the previous section, is another indicator of changing expectations.

Customers are influencing business through their purchasing decisions, with the growth of the ethical products and services reportedly out-performing the broader market[28], and brand trust now being a critical purchase criterion[29].

The **workforce** and particularly younger employees, are seeking to work for organisations that contribute more broadly, enshrining their contribution in a corporate purpose, which is embedded in their business models and culture[30].

An increasing number of **business leaders** are identifying with the societal contribution of the organisations they lead, creating impact orientated purpose statements and seeking to embed them in their businesses[31].

Suppliers and business partners are also looking to secure relationships that demonstrate shared values, either through procurement rules or informally[32].

Civil society groups are finding the social and environmental issues they have been pursuing now have more resonance, with increased engagement from businesses and their workforce[33].

Our last stakeholder group, and of particular interest to this report, is **investors**. A growing interest in the societal contribution of the investments they make can be illustrated by:

- The 2018 letter of Larry Fink[34], CEO of Blackrock, to CEOs, which clearly lays out why long term commercial success and an organisation's impact on society go hand in hand;
- The statement by J P Morgan's CEO in their recent Annual Report, which highlights a *"steadfast … dedication to ... clients, communities and countries … while earning a fair return for shareholders"*[35]*;*
- The rise of various funds and investment vehicles that target ESG[36] and / or impact[37], also increasingly featuring the SDGs as a focus;

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[28] https://www.theguardian.com/lifeandstyle/2018/apr/01/vegans-are-coming-millennials-health-climate-change-animal-welfare
[29] https://gdpr.report/news/2017/08/30/three-quarters-uk-consumers-boycott-brand-dont-trust-new-ey-research-reveals/
[30] https://www2.deloitte.com/global/en/pages/about-deloitte/articles/millennialsurvey.html
[31] https://www2.deloitte.com/global/.../purpose-2030-good-business-better-future.html
[32] http://www3.weforum.org/docs/WEF_Sustainable_Procurement_Policy.pdf
[33] https://www.bitc.org.uk/campaigns-programmes/communities/community-engagement/business-connectors
[34] http://uk.businessinsider.com/blackrock-ceo-larry-fink-just-sent-a-warning-to-ceos-everywhere-2018-1
[35] https://www.jpmorganchase.com/corporate/investor-relations/document/ceo-letter-to-shareholders-2017.pdf

- The proliferation of investor support services for impact investment, explored in more detail later in this report.

These expectations are shaping business and, as they develop, are increasingly questioning businesses' ability to authentically define, articulate and report on their contribution, moving the question of impact on society from a marketing message or CSR issue to a question of core purpose, strategy and business model.

2. How business is responding

Each of these stakeholders constitutes an important part of the system. If one part of the system thinks impact on society is critical, either in itself or because of its relationship to commercial value, then other parts will. While the drivers above are very real, few businesses can demonstrate how they have placed social and environmental impact at the core of their purpose, strategy and business model to the benefit of all stakeholders including shareholders.

The expectations noted above still constitute a trend rather than a pervasive paradigm, with multiple barriers helping preserve the status quo:

- **Regulators / Government** face uncertainty as to trade-offs with commercial performance, consumer price and choice, and lack sufficient information on impact from business;
- **Customers** lack information on products and services, and corporate social and environmental footprints, creating an inability to make comparisons on impact alongside price;
- **The workforce** find it hard to authenticate claims; their employer's "purpose" or "brand message" being too often seen as little more than a slogan;
- **Managers** often fail to see beyond short term financial results, with social and environmental impact typically seen as lacking a business case; being a trade-off with financial results, and / or just a costly exercise of additional reporting;
- **Suppliers** see price, past a performance gate, as the most important factor; and
- **Investors** struggle to quantify the relationship between social and environmental impact and financial returns; companies don't provide the information, it's expensive to source directly, and in the absence of conclusive evidence that better impact goes hand in hand with better returns, it gets ignored or de-prioritised.

[36] https://www.forbes.com/consent/?toURL=https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/
[37] http://www.ecgi.org/codes/documents/hermes_principles.pdf

Each stakeholder group has reasons for not acting unilaterally, but part of the root cause is the absence of an agreement on common definitions, and metrics, and therefore ability to both communicate impact and link it to commercial value.

Those that authentically embed social and environmental impact into their business models claim benefits, particularly with employees but also in other relationships that may lead to outperformance for investors[38]. Conversely, those that ignore these growing expectations may find their commercial success stymied and their brand value eroded; there are daily examples of this across every sector e.g. automotives and emission concerns, technology companies and perceived responsibility for data usage, multi-nationals and local tax issues.

3. The role effective reporting can play

Use of the 'theory of change'[39], a well-established methodology, can illustrate how the changing expectations noted can flow through to the ultimate goal of better social, environmental and economic impacts on society. Effective impact reporting is a key facilitator; it enables the system to work and it ensures that leaders deliver enhanced, sustainable, long-term value, and a greater contribution to society.

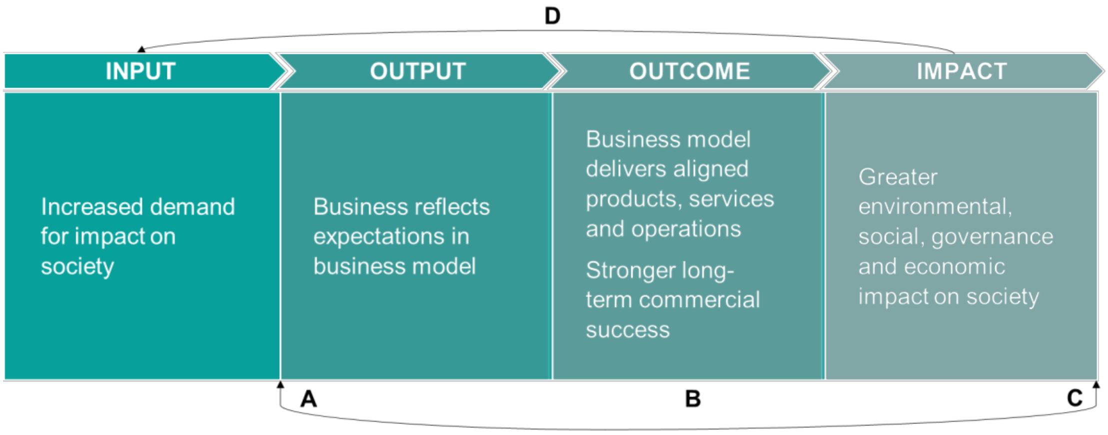


Figure 3: Theory of change for reporting – A-D showing where Reporting impacts

Broken down by phases noted within the diagram, effective reporting helps:

> **A**. Allow stakeholder expectations of social and environmental impact to be communicated and understood;
>
> **B**. Inform the design of the interventions in the business model across products, services and operations;

[38] See 'Corporate Purpose and Financial Performance', Gartenberg, Prat & Serafeim (2018)
[39] https://www.thinknpc.org/publications/theory-of-change/

C. Provide the basis of the measurement of impact against various expectations; and

D. Allow this impact to be communicated back to the stakeholders to demonstrate how expectations have been met.

Effective definition of an organisation's social and environmental impact and the measurement, management, and reporting of this is a key basis of interaction and exchange in the system, and a pre-condition for change.

Better reporting helps dismantle many of the barriers described above, providing the information and transparency to stakeholders to allow them to make decisions on the basis of impact on society, and creating further evidence that following this agenda can strengthen long-term commercial performance.

4. What the end-state might be for the investor

In a world where an organisation's impact on society is reported and communicated effectively, impact becomes a critical input to any investment decision, just as risk and return is now, both for itself and for its inter-dependency with financial return. Effective reporting can be seen as shining a light on previously unseen externalities.

"Impact investing" would not be thought of as a niche investment approach or a separate asset class, but an essential feature of any individual asset or portfolio. Assets could be combined for investors based on both their current impact and expected impact.

The ambition ….

Tom Baker (retired) is reviewing his investment portfolio. He scans the papers, noting oil prices are falling and considers the affect on some of his shares, and reads through a couple of articles related to two of his greatest concerns: education for his grandchildren and damage being caused to the environment by the use of plastics. He jots down a couple of his expected objectives from his portfolio in terms of both risk and return, and the areas in which he wants to make a difference through his investment. He rings up his Independent Financial Advisor (IFA) and discusses his revised objectives, and is pleasantly surprised at the breadth of the suggestions; from tailored funds to specific stocks. All of them broadly fit his financial and impact criteria. He remembers the days when these requests would be responded to with a small number of "impact investment" options as opposed to having access to the impact profile of all and any stocks.

He moves onto his investment platform to complete his research and transact. The platform allows a detailed drill down into the nature of the impact on the two areas of education and plastics; it also allows a view of the broader social and environmental impact of those companies that contribute to education and plastics control. Tom experiences some frustration that a compare and contrast of a "total impact score" cannot be made, but reflects that a 'like-for-like' in risk adjusted financial return terms isn't easy either. He makes his trades, sets financial and impact objectives against each, and ticks the box to receive weekly reports on both financial and impact performance. Satisfied that he's made some shrewd financial investments that link to a better future for his grandchildren, he sits back and pours himself a glass of wine.

Current Landscape

Introduction

This section outlines the current landscape of social and environmental impact reporting. It seeks to bring clarity through a structured high-level view driven by the call for evidence, and supported by references to existing literature. This section is organised under three headings:

1. **The growth and journey of impact reporting**
   The evolution and current state of the impact reporting landscape
2. **Cutting through the noise: classification of reporting approaches**
   The 16 reporting approaches most prevalent in the call for evidence, mapped against a proposed classification
3. **Reflections on the current landscape**
   A recap of the key observations on the current landscape

1. The growth and journey of impact reporting

The proliferation of reporting requirements

Society's changing expectations of the corporate sector has been matched by the emergence of a range of new reporting requirements for organisations to disclose information about their environmental, social, governance and sometimes broader economic performance, i.e. 'non-financial', or 'sustainability' information, alongside their financial performance.

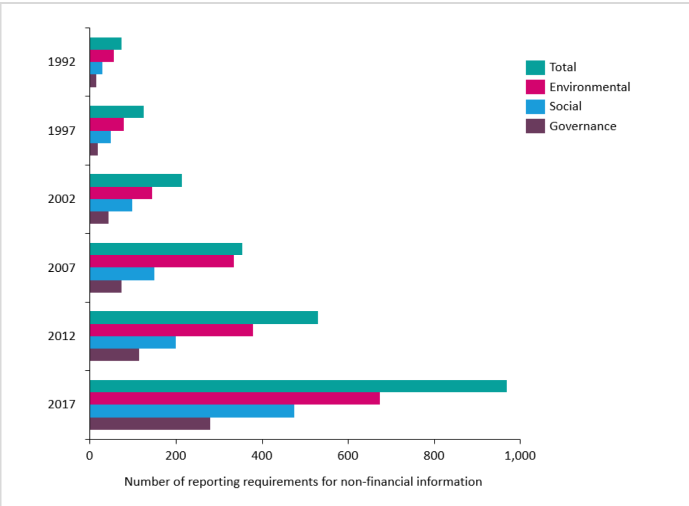


Figure 4: The growth of reporting requirements for non-financial information 1992 - 2017[40]

[40] Reporting Exchange, *Insights from the Reporting Exchange: ESG reporting tends*, 2018

The past 25 years have witnessed an exponential growth in non-financial reporting requirements, with just short of 1,000 reporting provisions recorded across the world in 2017. This is catalogued by the WBCSD Reporting Exchange[41], which specifies either mandatory or voluntary disclosure requirements of specific non-financial information.

The ever-expanding requirements, alongside growing expectations that business should positively impact society, have prompted a proliferation of related reporting approaches. Between 2013 and 2016 alone, the number of reporting approaches categorised as focused on sustainability[42] has doubled to just short of 400[43] . The mainstreaming of ESG (economic, social and governance) factors in the investment process is one of the most notable examples of the advancement of sustainability reporting. The regulatory landscape is also evolving to incorporate additional disclosure on wider external impact[44].

While impact reporting has become an aspirational pursuit shared by many, the sheer volume, diversity and, at times, confusion between sustainability and impact reporting approaches is a key challenge.

"The biggest challenge of the industry is fragmentation due to different networks … trying to figure it out in their own way" – Lissa Glasgo, Senior Associate, Global Impact Investing Network

Definitional challenges

'Impact reporting' is often used interchangeably with other reporting approaches associated with effects on society and the environment, such as sustainability, or ESG reporting.

Unlike money, or speed, impact lacks a common currency or metric system. The inherently contextual nature of impact makes it impossible to construct a holistic measure that is meaningful across contexts. For this reason, there is no universal definition of impact that can apply to all organisations and institutions, in all circumstances. As a result, stakeholders have developed a wide range of different definitions and approaches to measure and report on impact in a way that makes sense to them.

---

[41] As defined by the Reporting Exchange: 'Reporting requirements' are the reporting provisions which specify either mandatory and voluntary disclosure requirements of specific non-financial information
[42] Data on the growth of impact reporting could not be found as this is still a more emerging area and less reported
[43] KPMG, Carrot and Sticks: Global trends in sustainability reporting regulation and policy, 2016
[44] For example; EU NFR directive, recent amendments to the FRC's Guidance on the Strategic Report, and section 172 of the Companies Act

The notion of impact can perhaps be best crystalised through the ‘theory of change’ methodology, used in the previous section, which articulates a causal model of an organisation’s undertakings, and the links between its activities and the ultimate impact sought. Through this conceptual model, impact is understood as *broad effects* that have resulted from initial *outcomes*, where these outcomes have been driven by the *outputs* of discrete activities, themselves being the product of the deployment of resources, or *inputs*. The below diagram illustrates the theory of change through a specific example, in this case the example is a malaria prevention program that distributes bed nets.

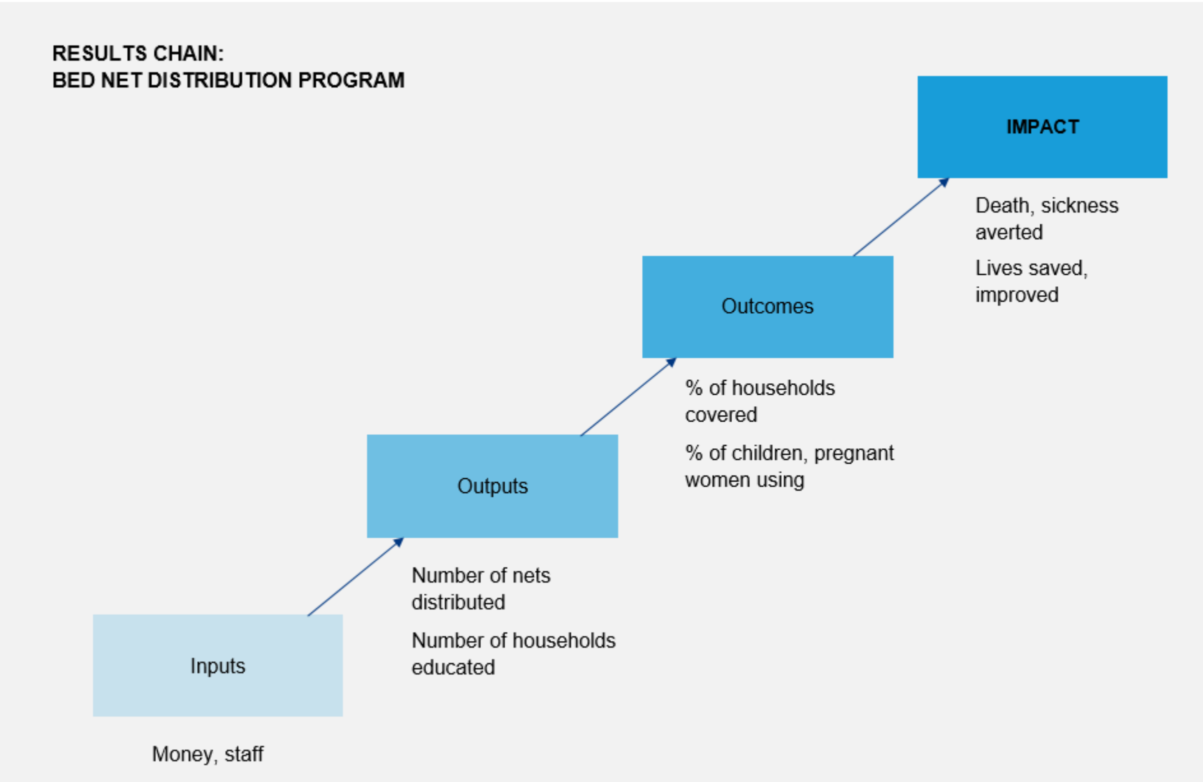


Figure 5: Theory of change causal model from input through to impact, applied to the effort of bed net distribution[45]

While sustainability reporting (also known as ESG reporting) has traditionally focused on the reporting of outcomes, impact reporting widens its scope to consider less measurable, consequential impacts. There are methodological challenges around impact definition and measurement (see section 4 for further discussion) but there is a shared aspiration to grow and develop impact reporting practices.

[45] Adapted from Wallman-Stokes et al., *What are we talking about when we talk about impact?* The Center for High Impact Philanthropy, Women Moving Millions, September 2013

The coalescence journey

"This area is new and evolving, so new initiatives must be inclusive of the variety of current processes already being undertaken" – Ben Caldecott, Founding Director, Oxford Sustainable Finance Programme

Commentators concur that impact reporting is at an earlier stage than other reporting areas; a number describe it as nascent, growing and endlessly evolving. It is helpful to frame this view through a simplified maturity journey which contrasts the stage of impact reporting to other types of reporting. This simplified overview suggests that a specific area of reporting begins its journey as fragmented, with many company specific approaches, while a mature area of reporting is more consolidated with adoption of one or more standards. Against this framing, impact reporting appears to be reaching the next stage of its journey, with some emerging coalescence evident (see section 5).

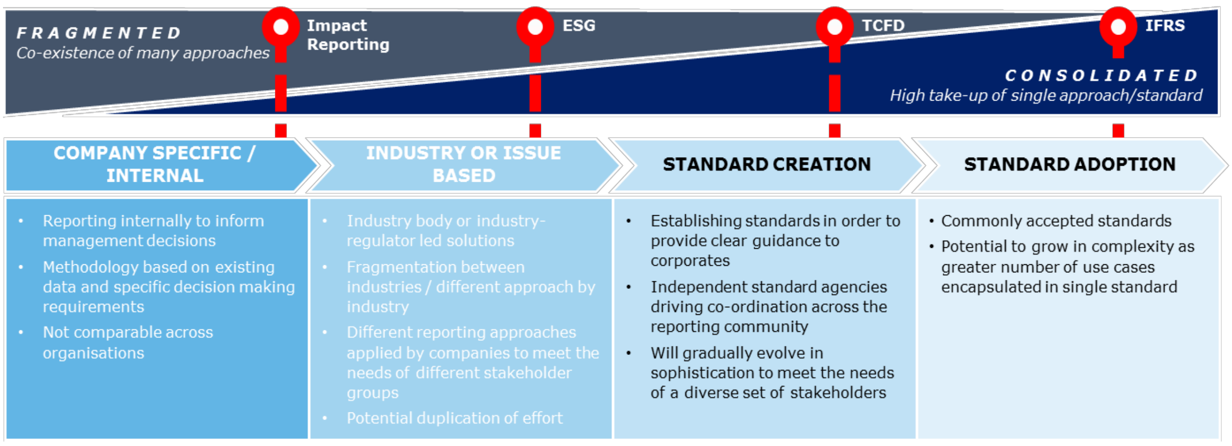


Figure 6: Illustrative maturity journey of a reporting area or approach

Note: IFRS = International Financial Reporting Standards, TCFD = Task Force on Climate-Related Financial Disclosure

The current confusion described by responders across the reporting and investing communities is symptomatic of the lesser degree of maturity of the field, where organisations are grappling with the same challenges, but are developing and experimenting with solutions in siloes.

"There are far too many frameworks, criteria, methods, ratings and rankings etc. out there already but no real agreement and alignment as to what is good practice. Companies have to make a judgement as to which are most relevant to their business" – Hilary Parsons, Head of Creating Shared Value Engagement, Nestle SA

There was a significant portion of organisations who stated in the call for evidence that they currently use their own proprietary approaches, sometimes building on elements of open source approaches to best suit their needs. Such tailored approaches were seen by some to be of a quality superseding any public approaches. This commitment to creating bespoke approaches is promising as it signals the appetite for impact reporting coalescence as explored in section 5.

"There are some excellent examples of good impact [reporting] … however this is bespoke to the company and therefore not replicable. Most leaders in the market seem to have invested a lot into developing their own language or reporting methodology" – Sophie Carruth, Head of Sustainability (Europe), LaSalle Investment Management

Amongst the noise created by the proliferation of reporting approaches, a number appear better established based on the call for evidence responses. However it should be noted that proponents of a particular approach within the call for evidence often include the approach owner themselves.

2. Cutting through the noise: classification of reporting approaches

In order to lay the ground work for effective discussions in phase 2, this exercise sought to catalogue and segment the key approaches that emerged from the call for evidence. This segmentation was challenged by the inconsistent language and definitions associated with the early stage of impact reporting. However it was possible to rationalise many of the different definitions into a single classification system.

Introducing a definitional classification

Building on existing bodies of work which have proposed segmentations of reporting approaches[46], this paper introduces a classification to aid exploration of the current landscape. This classification presents a structure and associated definitions to bring some clarity to the umbrella term 'reporting approaches[47]'. It is used to demonstrate the variance and similarities between approaches by breaking down a reporting approach into its component parts, namely:

- **Themes**, or issue lenses, which ground the reporting process in a number of thematic, or sector references;
- **Reporting inputs**, or the components that enable an organisation to define, measure and report their social and environmental impact; and

[46] Including ACCA, *Lost in the right direction*, 2016; Corporate Reporting Dialogue, "Landscape Map", retrieved online; Greenstone, "Choosing the right non-financial reporting frameworks", retrieved online
[47] Reporting "approach" is preferred to reporting "framework" for the purpose of this exercise, to avoid any confusion with the "methods and tools" categories of the classification

- **Reporting outputs**, which result from the implementation of the inputs and presentation of findings in various forms.

Additionally, a number of attributes can be considered to further classify reporting approaches, including:

- The level of **compliance** required by the approach; and
- The **target practitioner** to use the reporting approach.

Target audiences, or the intended recipients and users of reporting outputs, have not been included in the classification as the reviewed approaches did not sufficiently define intended target audiences. Moreover, they can be seen as inextricably linked to reporting output categories.

Additionally, the majority of reporting approaches include definitions and examples to further support the practitioner through the reporting exercise. As these can run through all categories of themes, reporting inputs and reporting outputs, they have not been represented in this classification.

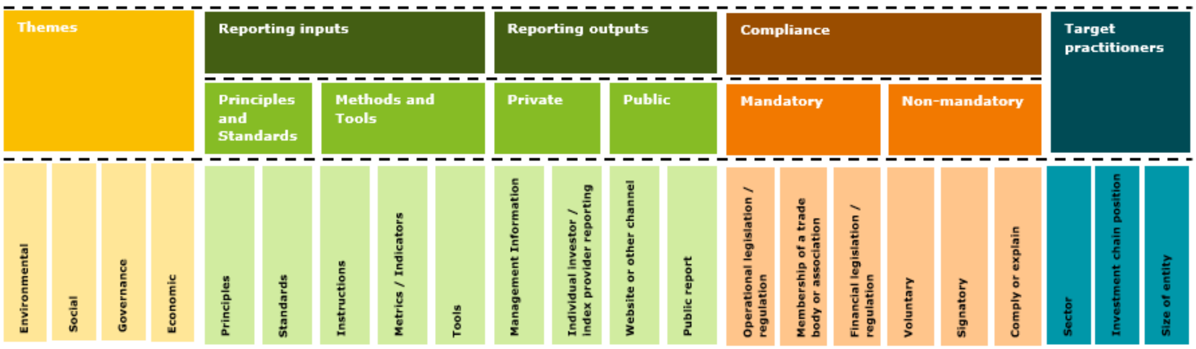


Figure 7: Classification of reporting approach components: *Definitions can be found in the appendix*

Mapping the prevalent reporting approaches

Responses to the call for evidence confirmed the fragmentation of the landscape, with a longlist of approaches being referenced and no single approach referenced more than seven times (c.10% of responses). It should be noted that while the SDGs featured prominently, and reporting approaches have been developed based on them, they in themselves were not developed to be a reporting approach and so have not been considered as such in this paper. The relationship of the SDGs to the reporting approach classification and the role that the SDGs might play in impact reporting is discussed in detail in section 5.

Nevertheless, amongst the crowded landscape, a number of reporting approaches emerged as being more widely adopted than others, or more recognised in the impact reporting world, based primarily on the call for evidence but supported by desk research.

The 16 reporting approaches most noted in the call for evidence (and how they will be referred to hereafter):

- Accounting for Sustainability (“A4S”)
- B Corp Impact Framework (“B Impact”)
- Big Society Capital Outcomes Matrix (“BSC Outcomes Matrix”)
- Carbon Disclosure Project (“CDP”)
- Climate Disclosure Standards Board Climate Change Reporting Framework (“CDSB”)
- Future Fit Business Benchmark (“Future Fit”)
- Global Impact Investing Network’s IRIS Metrics (“IRIS”)
- Global Reporting Initiative (Sustainability Reporting Standards) (“GRI”)
- Impact Management Project (“IMP”)
- Integrated Reporting (“<IR>”)
- Natural Capital Protocol (“NCP”)
- Recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”)
- Sustainability Accounting Standards Board Standards (“SASB”)
- Social Value UK Guide to Social Return on Investment (“SROI”)
- UN Global Compact Communication on Progress ("UNGC")
- UN Principles for Responsible Investment (“PRI”)

A further description of each is included in the appendix.

Given the selection of reporting approaches on the basis of prevalence, notable examples of industry-specific reporting and benchmarking approaches, such as the International Council on Mining and Metals (ICMM) or the Global ESG Benchmark (GRESB), do not feature in this sample.

To assess the diversity of the reporting landscape, and interrogate the relative spread of components and attributes, the 16 approaches were mapped against the classification schema. The resulting picture offers a view of the most common components and attributes of these reporting approaches. The categories within the classification have been shaded to different levels indicating prevalence.

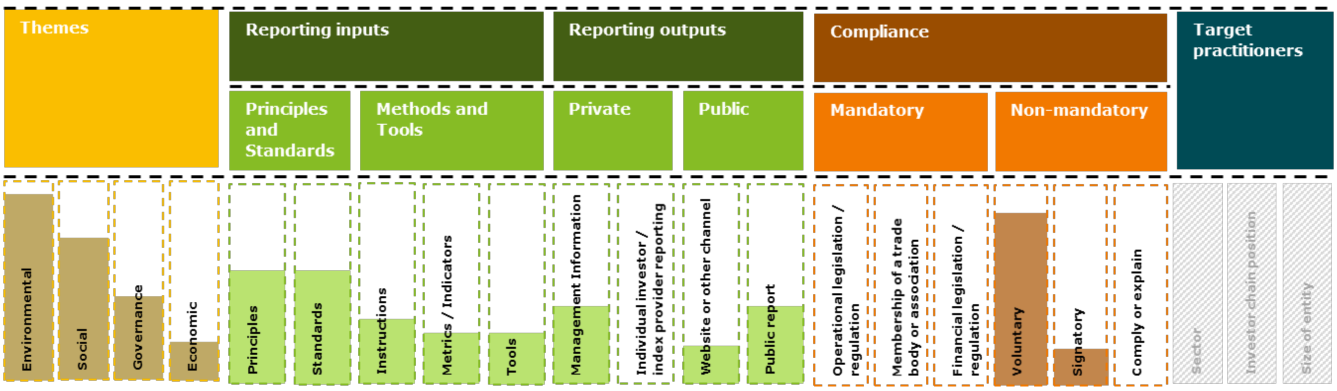
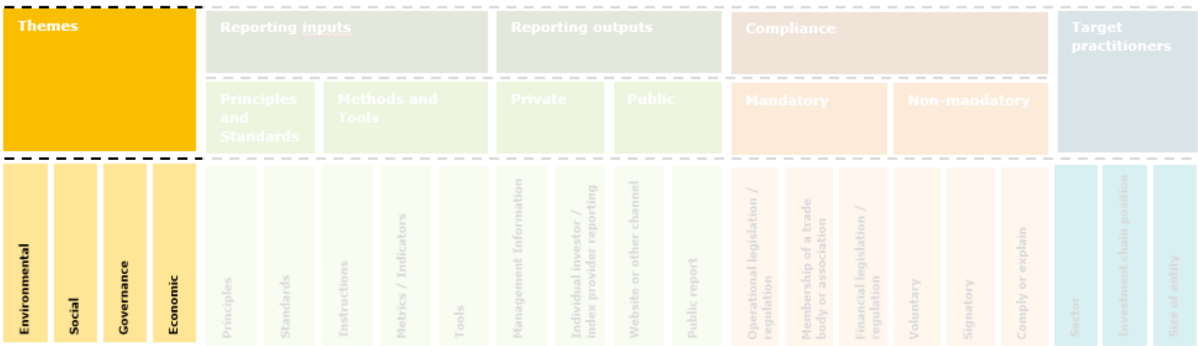


Figure 8: Mapping of the landscape against the noted 16 approaches

Insights into the different elements of reporting approaches

Themes



Impact reporting approaches typically major on a theme, or a combination of themes, within ‘environmental’, ‘social’, ‘governance’ and/or ‘economic’ issues. Reflective of the more advanced maturity of environmental reporting all approaches address environmental themes to a greater or lesser degree.

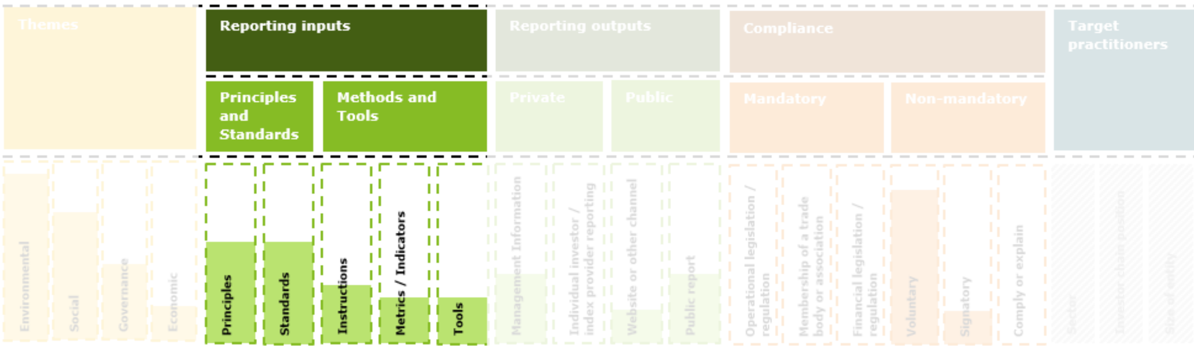
“Climate reporting is around 10 years' ahead of social reporting as they have had more time to experiment” – Susannah Haan, President, Professional Women International Business (PWI)

There are a significant number of approaches also looking at social impact themes. The recent introduction of the Social Capital Protocol[48], to supplement the Natural Capital Protocol, is helping this number to grow.

Some approaches distinguish economic from social impact, such as the GRI standards[49]. Many approaches also consider governance themes, an area particularly scrutinised by the investor community. The approaches focusing primarily on environmental themes were those developed by organisations who were originally set up with an environmental sustainability focus in response to climate change, for instance CDSB or CDP, and the Natural Capital Protocol.

[48] https://www.wbcsd.org/Clusters/Social-Impact/Social-and-Human-Capital-Protocol
[49] https://www.globalreporting.org/standards/

Reporting inputs



Reporting approaches include a number of components that enable an organisation to define, measure and report its social and environmental impact; these have been termed **inputs**. Inputs come in many different guises from high-level principles to actionable tools. To bring some contrast to the different types of inputs, this classification distinguishes ‘principles and standards’ on the one hand, and ‘methods and tools’ on the other.

Principles and standards provide a conceptual basis for impact reporting. Principles define best practice criteria as a foundation for reporting. Standards offer more specific, often minimum requirements. These components are generally noted for their clarity and breadth, but at times are criticised for insufficient detail or applicability. Overall, only three of the reviewed approaches provided both principles and standards (GRI, PRI, CDSB), with the majority being either principle-based (e.g. IIRC), or standard-based (e.g. SASB). This spread, while providing flexibility, creates language challenges; some actors in the investment chain do not understand the basis of the reports they receive and question levels of assurance because of this.

Methods and tools include any practical ‘instructions’, ‘metrics and indicators’ or ‘tools’ which guide and help organisations through the actual reporting exercise.

- **Instructions** provide a set of clear directions to successfully complete the reporting exercise as defined by the particular approach, such as <IR>’s ‘content elements’ that provide instruction on the preparation of an integrated report.
- **Metrics and/or indicators** are another type of method provided by certain approaches. They offer a system of units of measurement and associated collection methodologies to capture and measure impact. GIIN’s IRIS metrics are an example of this.
- **Tools** cover a variety of instruments developed for practitioners to help them assemble, categorise and process information on impact. This can include definitions, such as SASB’s definition of ‘materiality’ and ‘additionality’, or classifications, such as BSC Outcomes Matrix’s categorisation of intended impact. Other types of tools found in the

landscape include questionnaires (e.g. CDP, PRI) or SROI's value map. There are also a growing number of technology enabled tools.

The great variety of inputs, is a major source of confusion and uncertainty for reporting practitioners who struggle to clearly distinguish how each approach might offer them different or complementary inputs to frame and aid the reporting exercise.

The call for evidence provided some evidence of the complementary nature of some approaches, in particular along the divide of conceptual ('principles and standards') versus practical ('methods and tools') inputs. Some approaches position themselves by building on components of another existing approach, such as IMP which uses IRIS metrics, or SASB which highlights that their standards complement implementation of TCFD disclosure recommendations[50].

Some practitioners are starting to make sense of the differences and thus identify how components can be best combined to create an approach which fulfils their organisation's reporting needs.

"Many corporates use the GRI framework as a base, add UN SDG's and often a framework specific to their industry" – Daniel Mueller, CEO / Partner, Cogneum Ltd

While practitioners welcome the clarity and breadth of principles and standards, there is significant demand for more practical guidance, in the form of methods and tools, to guide the process of implementing high-level conceptual guidance.

"Some guidance and methodology would be useful. Also some tools and maybe suggested reporting format" – Susannah Haan, President, Professional Women International Brussels (PWI)

Some approach owners are currently addressing this, for example the IMP's second phase of work has a stated objective *"to make the practice of impact management as easy-to-understand and accessible as possible. It's time to move from conceptual agreement to practical application"*[51]. The role of technology in supporting reporting practices is also a growing area of interest, the call for evidence captured reports of recent experimentation with tech-enabled reporting tools (e.g. SoPact's Impact Cloud, the iPar Metrics Modal, NpM's Platform for Inclusive Finance). The ability to enable personalised data access is of particular interest to some, with a

[50] https://www.sasb.org/supporting-work-tcfd/
[51] Impact Management Project website: http://www.impactmanagementproject.com/latest/phase-2/

suggestion that this holds potential to move reporting from retrospective to almost real-time, with less human processing involved.

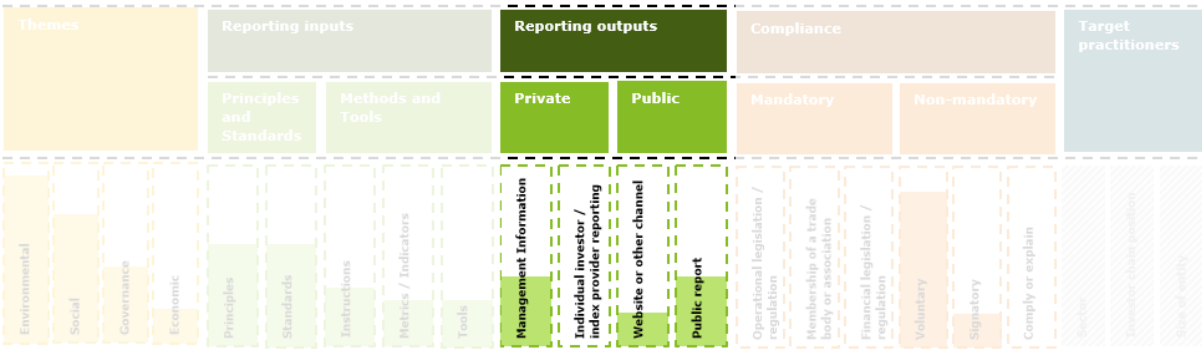
While there is significant room for developing more practical support, some responders note the potential counter-effect of overly prescriptive methods and tools, which could dilute meaningful and robust engagement, and compromise the end goal.

"Care must be taken for it not to descend to tick box rote compliance" – Sarah Wilson, CEO, Minerva Analytics

Some suggest that a solution to avoiding prescriptiveness, while also providing more detailed guidance, is to showcase examples of how to use the methods and tools. Several approaches already do this, and some actors add to this body of examples by transparently describing their approach. Use of examples helps make the application of a particular approach more consistent, while allowing flexibility to tailor to a particular organisation's needs.

"Our members are worried that approaches will become fossilised quickly unless flexibility is built in. I think highlighting example metrics but not insisting on them is sensible. Giving examples will be useful (and influential) but will allow alternative approaches" – Simon Howard, CEO, UK Sustainable Investment and Finance Association (UKSIF)

Reporting outputs



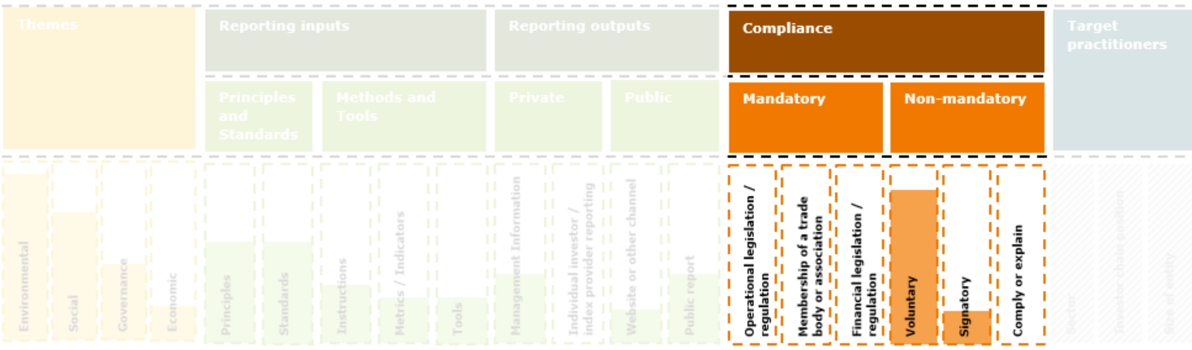
Drawing on the inputs provided by the reporting approach, practitioners complete their reporting process and present the resulting findings, or **outputs**. Outputs can be presented in a range of formats and contexts, with the most salient difference being either ‘public’ or ‘private’ publication. The majority of voluntary approaches (see discussion of compliance below) do not prescribe any particular format. This results in their outputs being incorporated into management information internally, and in some cases a public format, whether as part of an official report or an online channel rather than any sort of stand-alone report.

Signatory approaches tend to include more formal output requirements, such as the submission of a report to the membership body for public publication (e.g. UNGC publishes all members reports on its website), or private publication (e.g. The Sustainable Stock Exchange Initiative, as co-developed by the UNGC and PRI and other partners). Although rare, some approaches advocate a sequential combination of private and public submission; for example PRI signatories fill in a 500+ page disclosure questionnaire which collects both qualitative and quantitative information, which is then turned into a report for the organisation in the first year. However, in order to remain a signatory, after the second year organisations make the report publicly available.

Currently, organisations use a variety of reporting approaches, meaning that the ‘outputs’ produced vary greatly, hampering comparability, particularly between organisations from different sectors (see discussion of target practitioners below). In addition, where the same approaches are used, their current high level nature and the appetite for them to remain flexible, also creates difficulties for investors trying to compare different organisations’ impact using the reports produced. Some suggested that it is the investors who should be empowered with the tools to generate the reports they are specifically looking for.

"Investors can develop tools and formats themselves if there is common methodology. There may be varying appetite in the level of detail needed in this reporting so it should not be too prescriptive" – *Luba Nikulina, Global Head of Manager Research, Willis Towers Watson*

Compliance



The compliance element of reporting approaches consists of the degree to which an organisation is mandated to apply a reporting approach. There are a significant number of mandatory non-financial reporting requirements, however this exercise focused on approaches dedicated to impact reporting and these are currently predominantly voluntary, with a few approaches falling under the sub-category of signatory.

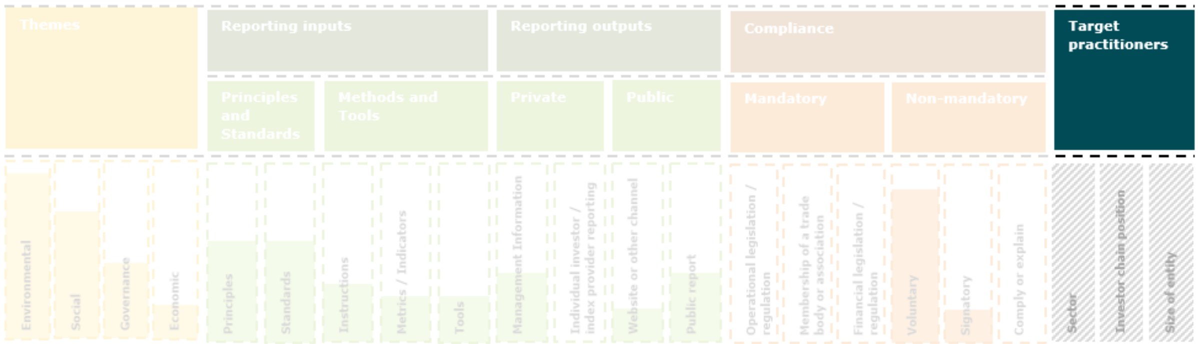
Signatory approaches require organisations to sign up voluntarily to a membership or accreditation and fulfil a set of minimum requirements in order to qualify for and / or retain their accreditation or membership. This is the case for PRI signatories who commit to reporting on their own activities through both qualitative and quantitative information.

There is a difference between where the impact reporting landscape currently is in terms of compliance, and where some call for evidence responders think it needs to be. A third of responses discussed the need for mandatory measures to be implemented in order to achieve coalescence.

"There is substantial academic research which makes it clear that if we want change it has to be mandatory and enforced" – *Carol Adams, Professor, Durham University Business School*

Responses from the call for evidence also suggested that some reporting approaches themselves aspire to enter the mandatory domain, for example SASB aims to become a mandatory component of US companies' annual SEC filing.

Target practitioners



The multiplicity of reporting approaches mirrors the diversity of stakeholder groups. Reporting approach owners have catered for diversity of reporting needs, driven by different objectives and agendas. Notable segments which have emerged include differences by '**sector**', '**position in the investment chain**', and '**size**' of the reporting practitioners' organisation.

Even with limited insights from the call for evidence there was some indication that some approaches tend to lend themselves to certain actors in the investment chain. For instance, IRIS and GRI approaches are prevalent amongst businesses, SROI is prevalent amongst charities, and investment managers tend to use PRI or SASB. The Big Society Capital Outcomes Matrix was a recurrent approach amongst impact investors, while small and medium enterprises find B Impact and Future Fit valuable.

Some responses appreciated the need for flexibility within approaches, especially due to the different impacts that different sectors might have or focus on. As impact is inherently contextual it is difficult for organisations operating across sectors, and for investors trying to compare across sectors or organisations.

"Related to the point of comparability is the issue that impact is different from sector to sector - meaning that scoping or framing is a challenge to cope with" – Wim Bartels, Program Lead, Corporate Reporting Dialogue

3. Reflections on the current landscape

To recap, the current impact reporting landscape reflects the rapid growth in society's expectations of business, and proliferation of reporting requirements in the last decade. As with many emerging fields, impact reporting is a highly fragmented and crowded space, fraught with the additional challenges such as the intrinsically contextual and fluid definition of impact, which in turn contributes to confusing language interchangeability and, at times, a dilution of impact reporting.

The call for evidence confirms the fragmentation of the landscape, with a great spread of approaches used and a significant number of bespoke proprietary approaches being developed. This exacerbates challenges for investors who want to compare the impact performance of investment opportunities, this in turn inhibits the growth in the market for impact driven savings and investments.

In the absence of a common currency for impact, system actors have, and continue to, develop a wide range of different definitions and approaches for capturing impact in a way that makes sense to them. Nevertheless, based on the call for evidence, greater coalescence is possible and a number of approaches have started building traction and will therefore have a key role to play on the journey towards better reporting of social and environmental impact.

The challenges

Introduction

This section explores the key reasons why social and environmental impact reporting is challenging and complex for both investors and reporting practitioners, as expressed through responses to the call for evidence. These challenges include the lack of common definitions, limits to measurement capability and complexities around materiality decisions. This section is organised under three headings:

1. **Challenges for investors**
   The intertwined obstacles for investors; a lack of shared language, visibility and comparability
2. **Challenges for reporting practitioners**
   The substantive and practical challenges faced by reporting practitioners
3. **Summary of the key challenges**
   The recognition that comparability can only be offered at a process or output, not impact level unless organisations are highly comparable in terms of context

1. Challenges for investors

To introduce this topic, this paper has sought to outline a typical 'day in the life' experience of an investor.

The challenges faced by an investment manager

Julia Fortune, an investment manager, is helping design NorImp Asset Management's new multi-billion pound fund. To respond to market demands, the investment strategy must not only have the usual framing of risk and return, but must also specifically target a strong, and measurable, impact on society. This is expected to resonate with the retail market, and differentiate the fund in a crowded marketplace.

While Julia has long been familiar with ESG reporting, and indeed NorImp have invested to ensure they can provide reports of the very best standard, the idea of basing the strategy on impact is new. Julia and team scan the market for the best analogous examples, and also build on their ESG expertise to compile a short list of options for approaches to defining, measuring and reporting impact.

Frustratingly, while there's an eclectic list of funds and investment products that talk about impact, there's a low level of transparency as to how that impact is measured, and how it relates to commercial *value. A pile of prospectuses, annual reports including corporate and social responsibility and third party guides to impact reporting sit on Julia's desk. This is useful but it's clear to her and her team that even basic definitions seem to differ; while intent seems broadly aligned, the approaches, the language all seem overlapping, and together present a confused and confusing landscape.*

On the one hand, Julia is concerned that they might be setting themselves up for failure; reaching for something that is just too difficult to consistently and effectively present as a key feature of the fund. Additionally, Julia fears that others, perhaps those with a less principled approach than NorImp, may make similar claims of impact without the rigour and integrity that would pervade any approach by NorImp. On the other hand, the increasing interest that the market has in impact together with the lack of sophistication of the supply side in delivering this quickens her pulse. The team feel that there's a real opportunity to get ahead of the competition in a way that's aligned with NorImps core values and enhancing of brand.

Julia calls her team together, re-confirms the opportunity and notes her hopes that the regulator and advisers, who will distribute the product, will be engaged. She is pleased to see there's some real excitement. She divides the pile of papers equally into things that will help and things that will not, stands in front of the white board and says "let's start at the beginning: what impact do we think we should be seeking to have and on whom?"

Language

"The lack of a shared language severely inhibits stakeholders' capacity to enable, inform or make better decisions i.e. to consider impact in their investment choices. This seems to be the cornerstone issue" – *Rosie Dunscombe. Technical Director, Natural Capital Coalition*

The lack of a common language for reporting impact was acknowledged by the majority of responders. The use of inconsistent terms and labels was described as a major hurdle; the interchangeable use of 'impact', 'social return; 'value', 'results', 'effects', 'outcomes' and other similar terms, and the confusion about different types of investing (e.g. sustainable, ethical, responsible, impact) were referenced in particular. Another observer describes how the interchangeable use of terminology leads organisations to talk at cross-purposes. For a majority of investors, interpreting the information they are given remains highly problematic, with organisations using different language for the same thing, or the same language but intending different meaning.

There are risks, however, of language being too prescriptive, given the inherently contextual nature of impact. An imposed, overly granular and rigid language could have the counter effect of devoiding impact reporting of real meaning.

"There are risks to over emphasising a shared language as well. This can become a "single version of the truth that pre-determines what good looks like and can drive unintended consequences … It is important that organisations report on the change they are actually creating in a way that is meaningful for them rather than trying to force their work into an imposed framework" – *Andrew Parry, Head of Sustainable Investing, Hermes Investment Management*

The lack of a common language and associated definitions can allow for inflated claims which can undermine investor confidence, with some responders highlighting mis-use of key labels.

"We find many products will claim to be impact products rather than sustainability products because of (at best) a lack of understanding between the two and (at worst) flagrant adaptation of the language to suit a sales need" – *Amy Clarke, Co-Founder and Partner, Tribe Impact Capital LLP*

Visibility

"Visibility is the key challenge among those identified… Poor visibility of data has implications for us as a financial intermediary as it limits our ability to be accountable and transparent to the relevant members of the investment community (our investors and potential investors)" - *Madeleine Thornton, Social Impact Manager, Big Issue Invest*

Visibility, or lack of, can be seen as the extent to which social and environmental impact is as prominent and as transparent as financial performance. Commensurate levels of visibility and transparency enables balanced investment decisions to be made, where desired. The challenge of visibility resonated particularly with the investor community, who acknowledged the disproportionate lack of impact disclosures alongside financial information when looking at investment options and opportunities. As a result, investors are not easily sighted on the social and environmental impact performance of their investments.

Shared language is seen as a key driver of visibility issues, with several responders contending that in the absence of a common nomenclature, investors struggle to take stock of a company's positive or negative impact on the external world.

Comparability

"Comparability between existing investments or potential investment opportunities is very difficult" – Kurt Faulhaber. Sustainable Capital Partner, Stafford Capital Partners

Many responders on the receiving end of reporting information, such as investors or investment managers, described the difficulties they have in understanding an organisation's impact in relation to others and in assessing its relative value to them.

Comparability of impact is particularly challenging across different industries and different sectors, where definitions and interpretations of impact vary greatly dependent on an organisation's priorities.

The investor community also describes the challenges of not just comparing but also aggregating different impacts within the same portfolio, which span different geographies and sectors. This data aggregation task across funds multiplies the challenges identified above.

Some cast doubt on the feasibility of comparing impacts, describing it with words such as "impossible", or "elusive", given the underlying versatile nature of impact, and how it differs by context. There is some suggestion that a minimum set of specific indicators by industry or issue is possible to establish and could ease this difficulty. Transparency about the process used to define, measure and report on impact can also introduce the ability to at least compare on a process basis.

Assurance

"In many cases the information used is not investor grade…assurance is still limited in type and has many exclusions" – Rodney Irwin, Managing Director (Redefining Value & Education), World Business Council for Sustainable Development

The lack of assurance or verification mechanisms of impact disclosures is seen as an additional challenge to using impact reporting information to inform investment decisions. There is a sense that, at present, organisations can choose what information to report on, and they typically emphasise the positives. The reported data is also not checked for accuracy or completeness. The lack of assurance about the source of the metrics is an additional factor leading many to fear 'greenwashing' (or the equivalent depending on the specific impact).

"A lack of consistent reporting makes genuine impact difficult to identify for stakeholders. As a result 'green washing' can be a problem - either perceived or actual" – James Niven, Head of Corporate Affairs, Triodos Bank

While some form of external assurance would increase the credibility and authority of impact reporting data, there was some suggestion that in reality the gap between financial reporting, and impact reporting assurance is not as large as perceived. It's suggested that only a minority of companies are financially audited, even if perceptions are otherwise.

"[An additional challenge is] credibility with some audiences in [impact data] not being externally audited (but then, over 90% of all company accounts aren't financially audited either)" – Adrian Ashton, Advice / Consultancy / Training / Research provider, Independent

2. Challenges for reporting practitioners

Many of the challenges that investors experienced at the receiving end of reporting information are symptomatic of underlying challenges facing reporting practitioners. While some of the challenges are intrinsically linked to the definitional and measurement challenges of impact, others are of a practical nature, including organisational and regulatory barriers and other disincentives. Here we illustrate these challenges through a 'day in the life of a practitioner' example.

The challenges faced by a reporting practitioner

Amanda Sustainrep has been creating BigProfServ Ltd's impact reports for several years. She's developed some broad headings of impact with the Head of Policy, and has a regular set of indicators and measures that support each. Each year there's a review of these, and Amanda has generally been pleased that the annual impact report has expanded, become more specific, and received more attention internally if not externally.

However this year she's uneasy. The historic approach to reporting has been largely bespoke, reflecting the great things that the company does, but certainly cannot claim to represent any form of comprehensive assessment of the company's impact. The recent seminars she's been to, together with questions at the annual shareholder meeting and requests from the Investment Relations team are all beginning to suggest that the impact report is becoming more central to both management and investor focus. This in itself is good but in turn requires a fundamentally different, more professional, and more transparent approach that is linked to commercial value, which is daunting.

One of the perks of the job is the membership of a number of sustainability reporting organisations. Amanda clears her diary and gives herself a week to work up a revised proposal for the Head of Policy. She heads off to tour the organisations she's a member of, looking forward to the chance to absorb best practice and examine how other organisations are implementing this.

A week later Amanda's outline approach is taking shape. She quickly realised that, while every organisation had something to offer, there was no agreed approach; however using metrics from one, and an impact definition approach from another, was helpful and provided her with referential authority. The bespoke approach also recognised that much of the required information was not available and so this would need to evolve over a number of years. Finally Amanda worked up a strong recommendation to include the outcome with the annual report. Taking her approach, together with a back-of-the-envelope cost assessment and a request for two new hires, she knocked on the door of the Head of Policy.

15 minutes later, crestfallen, she was back in the corridor looking at her notes of the meeting. Circled and underlined was a summary of the Head of Policy's energetic 15 minute response; "I get it, but is there really a business case here? How am I to justify the increased cost?" The Head of Policy recommends Amanda takes another look at the available reporting approaches in order to find a cheaper method of implementation. Returning to her research, she makes some tweaks to her proposal and sends the next version back to her Head of Policy. Knowing she needs additional support she steels herself and picks up the phone to the CEO.

Substantive challenges

Defining impact

"There is a lack of clarity and understanding about what the term "impact" actually means and how it applies to specific sectors" – Hilary Parsons, Head of Creating Shared Value Engagement, Nestle SA

Given the contextual nature of impact, and lack of a singular currency for impact, there is limited consistency regarding 'impact' as a term itself, with over a dozen competing definitions identified by academic research on the topic[52]. A proliferation of definitions and meanings have muddied the waters at precisely the same time that growing attention on impact measurement and investment has brought an ever-growing group of organisations and participants into the domain.

In part, this lack of consensus arises from the diversity of different actors engaging in impact measurement, including the range of company characteristics and geographies. At the same time, a number of different disciplines are involved in advancing the study and practice of impact

[52] Karen Maas and Kellie Liket, 2011, "Talk the Walk: Measuring the Impact of Strategic Philanthropy", *Journal of Business Ethics* 100 (3):445 - 464

measurement, including various areas of the social sciences, international development, business and management studies, and so on. Each brings with them different terminologies and professional language.

Responses from the call for evidence reinforce this. The majority of responders, across all categories, declared that their organisation sought to define its social and environmental impact. However, the definitions of impact provided by each reveals a wide array of interpretation and framing of the term 'impact'.

When asked to define 'impact', many responders refer to their mission statement, their current impact measurement process or theory of change, or their specific activity, such as financial inclusion, or job creation. While very different interpretations, these responses do have something in common in that they are all embedded in the context of the organisations' sector and activities. Few responders indicated usage of external references, with the notable exception of the SDGs, used by five responders.

Measuring impact

"Lack of good data (trustworthy, accurate, relevant) will hold the market back" – Anon

The challenges of impact measurement have been extensively discussed and documented, and are closely linked to the difficulty of collecting or accessing reliable and timely data in a systematic way.

Attribution and causality. Social change happens in an immensely complex system with a multitude of endogenous and exogenous factors, making the links of causation and true additionality hard to establish. As a result, many organisations focus measurement only at the activity and output levels, and deceptively refer to these as their impacts.

Quantification**.** Many social and environmental impacts are still primarily qualitatively described, as opposed to economic impact. As many companies struggle with assigning measurement methodologies to qualitative conditions the concept of impact becomes distorted. Often, proximate and more readily quantifiable changes in condition are incorrectly described as 'impact'.

Positive and negative impact**.** Few organisations have embarked on efforts to quantify the totality of their social or environmental impacts. Where organisations have started accounting for their negative impacts, and how they are working to reducing them, there tends to be a bias toward positive reporting against risk related issues and challenges. Judging negative against positive impacts, to view an organisation's overall impact, is challenging as each impact is often contextual and unlikely to ever be assessed in the same way.

Determining materiality

"The key challenge is determining what impact to measure. Why and how materiality impacts on this in both financial and non-financial ways" – Alan McGill, Partner, PwC

The appropriate inclusion of material information and determination of what matters remains an important but ambiguous area for the world of impact reporting. The GRI defines two dimensions to the principle of materiality[53], with a topic qualifying as material if it ranks highly on at least one dimension; (1) The significance of the organisation's economic, environmental and social impacts, and (2) their substantive influence on the assessments and decisions of stakeholders. Words like 'significance' and 'substantive' are inherently fluid and relative, and require some grounding in the organisation's purpose, strategy, business model and operations. However, many businesses fail to make the symbiotic link between material issues, purpose and strategy.

"The key challenge is to get Board level involvement so that there is a link with strategy. To do this there must be a focus on material issues - Boards are not interested in lots of indicators on lots of matters with no indication of materiality" – Carol Adams, Professor at Durham University Business School

The lack of a set definition of, and approach to, materiality is compounded by the definitional challenges of impact, and perhaps even more pronounced for the reporting of social impact which lags behind environmental impact in that respect.

"GHG emissions quantified to GHG Protocol and reported to ISO14064… Social impact is more difficult to report in the absence of agreed metrics and materiality definition" – Jarlath Molloy, Environmental Affairs Manager at National Air Traffic Service

Responses from the call for evidence also point to the sheer volume and diversity of reporting requirements as further muddling the principle of materiality, as they carry their own differing views of the importance of factors in relation to impact and other disclosures, and different motivations for disclosure. The result of this is that it is not always clear to an organisation which factors, or measures, are most relevant to how it measures and communicates its impact.

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[53] See GRI 101: Foundation; "*In general, 'significant impacts' are those that are a subject of established concern for expert communities, or that have been identified using established tools, such as impact assessment methodologies or life cycle assessments. Impacts that are considered important enough to require active management or engagement by the organization are likely to be considered significant.*"

Practical challenges

Time and cost

"Cost [is a key challenge]. To develop a rigorous framework takes time and care" – Sarah Wilson, CEO, Minerva Analytics

"Investors want reporting but are not prepared to invest in the organisation's capacity or its own capacity to manage impact (in contrast to their focus on financial reporting capacity)" - Caroline Mason CBE, CEO, The Esmée Fairbairn Foundation

The complexity evidenced through the above challenges exacerbate the resourcing issues that come with effectively addressing social and environmental impact reporting in an organisation. Many responders describe capacity, capability and cost as key barriers to organisations reporting on their social and environmental impact.

Cost is seen as a major challenge and respondents emphasise the significant undertaking of reporting on impact to a satisfactory level of robustness. Most organisations need more capabilities which can be difficult to secure as management (most notably in investment management) rarely accept the business case. Additionally, not-for-profits, charities, and smaller bodies are often less well-resourced to gather data or manage the costs associated with regular reporting.

Regulatory overload

"A particular difficulty is the plethora of reporting requirements including standards and frameworks, regulations, requests from index providers and rating organisations" – Neil Stevenson, Managing Director, Global Implementation, IIRC

Resourcing challenges are aggravated when put in the context of the already onerous reporting requirements to which organisations are subject. The extent of reporting requirements, as documented by the WBCSD Reporting Exchange, often results in reluctance to take on any additional voluntary reporting activities. Many organisations also fail to see the business case for reporting on their impact as they don't establish a link between social and environmental value creation (and reporting thereof), and strategic purpose and financial performance. Similarly, some report a lack of clarity about how impact reporting requirements relate to the existing mainstream reporting model.

The high volume and diversity of approaches has not helped. On the contrary, some view the explosion of reporting approaches and other interventions to have created more confusion than solved issues for businesses. Commentators point to a number of inefficiencies which add to the burden of reporting communities, including the existence of multiple support mechanisms that offer approaches for the calculation and preparation of information, or requests by multiple requirement developers for the same type of information[54].

Regulation as a barrier?

Some commentators point to the potential perverse incentives contained in existing regulation of the investment community. Conventional interpretations of fiduciary duty, for example, can become an excuse for not adopting impact driven investments, because performance is measured with a limited set of factors related to past returns and volatility[55].

3. Summary of the key challenges

"Impact is difficult and complex. Trying to make it simple can create its own new set of challenges" – Matthew Cox, Investment Director, The Esmée Fairbairn Foundation

This section featured a number of key challenges:

- **Language, visibility, comparability** and **assurance** as challenges for investors;
- **Impact definition, measurement,** and **materiality** as substantive challenges faced by reporting practitioners; and
- **Time, capability** and **cost**, as well as the **existing regulatory context**, as additional practical barriers to impact reporting.

Responses from the call for evidence showed broad agreement on areas of challenge and the compelling need to drive towards greater coalescence.

While coalescence can go some way to allow us all to better understand the impact an entity has, given the underlying nature of definition and how it might differ by context, things like 'comparability' can only really be offered at a process, or output, not impact level unless organisations are highly comparable in terms of context.

[54] See for example ICAEW, *What's next for corporate reporting: Time to decide?*, 2017
[55] Wood, 'The current limits and potential role of institutional investment culture and fiduciary duty', retrieved online from World Economic Forum website

Emerging coalescence

Introduction

This section observes that there are some signs of emerging coalescence, with evidence of projects, working groups or movements that are notable according to the call for evidence. In addition, there are also a number of existing approaches, and elements of these, that support the journey to coalescence. This content is organised under four headings:

4. **The trend towards coalescence**
   Observations on emerging coalescence
5. **Notable efforts towards coalescence**
   Projects, working groups or movements which provide evidence of emerging coalescence
6. **Existing approaches which could support the journey**
   Elements of existing approaches that could be helpful to coalescence
7. **Reflections on coalescence**
   Key findings on emerging coalescence

1. The trend towards coalescence

As illustrated by the multitude of impact reporting approaches already in existence, as well as by the definitional, input and output challenges described in the previous section, the current landscape is fragmented and difficult to navigate. However, there is exponential interest in social and environmental impact reporting[56] and there are already many notable examples of projects, working groups and movements ('efforts') which are all contributing to coalescence of various aspects of this landscape.

Some coalescence efforts focus on specific issue lenses, whereas others focus on specific components of the reporting approach (as defined by the classification in this paper). All of these efforts highlight that there is a growing desire for coalescence, and suggests that momentum towards coalescence is building. Going forward, it will be important to consider the elements of the efforts highlighted below, to avoid undoing or redoing their work. In addition to these coalescence efforts, standalone reporting approaches also exist that, according to the call for

[56] https://www.cdsb.net/sites/default/files/cdsb_report_1_esg.pdf

evidence, have either high uptake or important characteristics that should be considered going forward.

2. Notable efforts towards coalescence

A number of projects, working groups or movements were notably prevalent in the call for evidence. Each provide evidence of coalescence and have elements that should be considered in the discussions on the way forward.

Reporting and benchmarking against SDGs

The SDGs, unanimously ratified by UN member states in 2015, represent the first global, comprehensive agenda for sustainable development. The 17 goals, underpinned by 169 targets and 232[57] indicators, cover not only a wide array of social and environmental issues, but economic and governance issues too. They offer a unifying common language with which to talk about these issues, and so offer an opportunity to bring together the impact pursuits of different stakeholders under a single agenda.

An overwhelming number of responders (c.70% in the call for evidence) acknowledged that the SDGs have a role to play in coalescence. It was also acknowledged by many that the SDGs offer an excellent starting point for coalescence but are too high level to be a reporting approach in themselves. Responders noted that many groups are working towards methods for measuring impact specifically against the SDGs and that leading reporting approaches are already taking the SDGs into consideration.

The **World Benchmarking Alliance**, an initiative led by Aviva, the UN Foundation, and the Index Initiative is an example of such initiative.[58] Their objective is to build on existing efforts and create corporate benchmarks to measure and compare performance of companies against the SDGs, in order to improve ease of investment in sustainable companies. **Future-Fit Business Benchmark** is another reporting approach developed against the SDGs which is gaining traction in the business community.

[57] https://unstats.un.org/sdgs/indicators/indicators-list/
[58] https://www.worldbenchmarkingalliance.org/wba/

The **Stockholm Declaration** on Investors and corporate SDG reporting is another example[59]. In 2017, GRI, the UN Global Compact and PRI co-convened an investor meeting in Stockholm to discuss financial markets' expectations of business reporting on the SDGs. The meeting led to the adoption of the Stockholm Declaration by 30 signatories with a combined total of over $1,3 trillion total asset value under management. The Declaration committed signatories to:

- Consider the SDGs a relevant framework as part of company dialogue;
- Contribute to a set of well-defined and relevant reporting disclosures linked to the SDGs to support investors and companies in achieving the Goals; and
- Work with the "Action Platform Reporting on the SDGs," co-led by the UN Global Compact and GRI, and the investor stream supported by PRI.

"[The SDGs] can help coalesce conversations between different stakeholders, and begin to drive people to the same goals which focus on solving some very large and important problems" – Kurt Faulhaber. Partner (Sustainable Capital), Stafford Capital Partners

The Impact Management Project (IMP)

IMP is a grant-funded 'public good initiative' with the goal of initiating a 'market push' towards greater standardisation of the way in which organizations and investors understand and manage their non-financial impact. Their focus is on building consensus on 1) data categories that every statement of impact performance should cover and 2) goal-setting categories that every robust impact framework should include.[60]

To date, the IMP report that they have solicited the views of 1,400 organisations across multiple sectors and geographies; from asset owners, to intermediaries, to entrepreneurs, to end-users. The project has completed its first phase of achieving conceptual agreement i.e. a shared convention for describing impact goals. Their second phase, working to enable widespread practical adoption of their convention, is ongoing.[61]

A number of responses mentioned the IMP as a valuable initiative that could support coalescence due to its widespread engagement with many actors, and its method for defining

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[59] Global Reporting Initiative, Principles for Responsible Investment, and United Nations Global Compact, *In-Focus: Addressing Investor Needs in Business Reporting on the SDGs*, 2018, p. 8, https://www.unglobalcompact.org/docs/publications/Addressing-investor-needs-SDGs-reporting_2018.pdf, accessed July 20, 2018

[60] http://www.bridgesfundmanagement.com/wp-content/uploads/2017/12/Bridges-Annual-Impact-Report-2017-v1.pdf

[61] As above

impact based on five dimensions. A few responders, such as Hermes Investment Management, noted that they intend to use IMP's methodology going forward. In particular, the IMP's work towards fostering agreement on definitions and core reporting dimensions was called out. However, it was also noted that IMP's work is still conceptual, and that more work towards practical application is needed.

"The IMP is valuable as it seeks to foster agreement on core reporting dimensions. However, the next step is to translate this theory into practice for enterprises – it is currently quite conceptual" – Tris Lumley, Director of Innovation & Development, New Philanthropy Capital

"As well as SVI [Social Value International] principles and report assurance standard, I like the Impact Management Project, use of language is excellent" – Ben Carpenter, CEO, Social Value UK

"We have been particularly impressed by the work of the Impact Management Project and their definition of the 5 pillars of impact…we are encouraged by the harmonisation achieved by the Impact Management Project" – Martin Rich, Co-Founder / Executive Director, Future-Fit Foundation

Corporate Reporting Dialogue (CRD)

"We would also draw your attention to the work of the Corporate Reporting Dialogue in encouraging harmonised approaches to corporate reporting" – Neil Stevenson, Managing Director, Global Implementation, IIRC

CRD is a response to market calls for alignment of corporate reporting approaches, standards and related requirements and a reduction in the reporting burden. Their stated aim is to identify practical ways and means by which respective approaches, standards and related requirements can be aligned. They have analysed a number of approaches and will use the information collected to communicate an opinion on the direction, content and future development of reporting approaches, standards and related requirements.

Many leading standard setters[62] (CDP, CDSB, FASB, GRI, IFRS, <IR>, ISO and SASB) are involved and their approaches have been included in the analysis, to ensure that non-financial

[62] These are CDP, CDSB, GRI, IIRC, SASB, the International Accounting Standards Board (IASB), the International Public Sector Accounting Standards Board (IPSASB), the International Organisations for Standardisation (ISO) and the Financial Accounting Standards Board (FASB)

as well as financial corporate reporting is examined.[63] Responders believe it would be important to reference the work done by the CRD when examining possibilities for coalescence. CRD's work in aligning varied financial and non-financial approaches is also referenced in wider literature as a much needed first step to better integrated reporting. On the occasion of its launch in 2014, the International Corporate Governance Network (ICGN) commended the initiative for "bringing together those that guide companies' financial and sustainability reporting, and bringing clarity for businesses and investors alike" and stimulate integrated reporting[64].

Several responders acknowledged the Corporate Reporting Dialogue as a key step in the direction of coalescence, albeit needing to sustain efforts to continue driving its agenda forward.

"[Referring to strengths of approaches] I'd suggest more progress from the Corporate Reporting Dialogue is necessary to align multiple reporting channels" – Jarlath Molloy, Environmental Affairs Manager, National Air Traffic Services

UN PRI Impact Investing Market (IMM)

"PRI [have] developed the Impact Investing Market Map (IIMM). It is a tool/methodology that provides a common language, visibility of impacts and comparability for impact investments" – Kurt Morriesen, Impact Investing, Principles for Responsible Investment

The Impact investing market map *is a resource that provides a common language, visibility of impacts and comparability for impact investments. It helps investors to identify companies that, through their products and services, generate impact across ten thematic environmental and social areas.*

Other projects and working groups

In addition to the larger initiatives highlighted, a number of working groups are also addressing aspects of coalescence. For example, the **World Economic Forum** has a workstream called "Mainstreaming Impact Investing Initiative", whose goal is to build industry coherence and collaboration to accelerate the evolution from the short-term investment mind set to one that focuses on long-term investments and sustainable impact. Their current phase of work is focusing on mobilising investors, governments and enterprises to create an enabling environment to scale both sustainable and impact investing approaches.[65] However, it was

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[63] http://integratedreporting.org/news/corporate-reporting-dialogue-launched-responding-to-calls-for-alignment-in-corporate-reporting/
[64] http://integratedreporting.org/news/corporate-reporting-dialogue-launched-responding-to-calls-for-alignment-in-corporate-reporting/
[65] https://www.weforum.org/projects/mainstreaming-sustainable-and-impact-investing

suggested by some that, because the initiative is building on existing approaches, achieving suitable impact indicators may not be realistic.

The Green Finance Initiative brings together international expertise from across the financial and professional services sector, and amongst other things, it aims to provide public and market leadership on green finance. Its members include many influential actors in the investment space, some of which overlap with responders to this exercise. Responders acknowledged that engagement with the Green Finance Taskforce, which is working on acceleration of green finance[66], may be particularly valuable on the journey to coalescence.

The Cambridge Institute for Sustainable Leadership's Investment Leaders Group (ILG). The ILG has created an overarching approach for understanding and communicating the social and environmental impact of investment portfolios. The approach, inspired by the SDGs, aims to help investors allocate capital based on empirical evidence of how the investing public reacts to sustainability data.[67]

The Embankment Project, led by the Coalition for Inclusive Capitalism, is an 18-month, evidence led project that is seeking to demonstrate that a new reporting mechanism is needed for corporations to drive long-term shareholder value through the credible measurement and comparisons of activities affecting all material stakeholders. Collaboration across the investment chain is key to this project, which currently involves corporations from across the consumer products, health services and the industrials sectors, and 15 investment and asset management organisations. This project, if successful, could enable a new coalesced approach to reporting.[68]

3. Existing approaches that could support the journey

Responders to the call for evidence suggested a large number of reporting approaches of note, affirming that there is "no need to start from scratch" (CEO, Social Investment Scotland). There is also some evidence of traction gained by some approaches, and it would make little sense to abandon them to start from the beginning.

[66] http://greenfinanceinitiative.org/workstreams/green-finance-taskforce/
[67] https://www.cisl.cam.ac.uk/business-action/sustainable-finance/investment-leaders-group/reporting-investment-impact
[68] EY Newsroom, "Global business leaders and investors unite to develop framework that measures long-term value creation for all stakeholders," EY, June 28, 2017, https://www.ey.com/gl/en/newsroom/news-releases/news-ey-global-business-leaders-and-investors-unite-to-develop-framework-that-measures-long-term-value-creation-for-all-stakeholders

"[Build on] The comprehensiveness of GRI, the comparability of SASB and the clarity of the SDG's" – Daniel Mueller, CEO / Partner, Cogneum Ltd

"The challenge is to identify and develop methodologies for the effective USE of this information by key decision makers, investors and civil society. The last thing the world needs is yet another attempt to create a new disclosure framework!" – Tim Mohin, CE, The Global Reporting Initiative

"The IRIS standard aligns with over 50 other standards (i.e. the underlying data is comparable) - including broad guidance like the GRI and SASB, as well as industry specific ones like Gogla, SPTF, CSAF and many others…over 60% of impact investors use IRIS" – Kelly McCarthy, Director, Global Impact Investing Network

The SDGs were mentioned most frequently in the call for evidence, followed by the GRI. The IMP, CDSB, <IR> and TCFD were also mentioned a number of times. However, it is worth noting that those involved in the development of a reporting approach indicated partiality towards the framework/s that responders' organisations have developed. The level of sector specificity, and tools which enable practitioners through technology, are two areas considered helpful where they exist. Some commentators also noted the coalescing of existing approaches. For example, <IR> and CDSB frameworks and TCFD disclosure recommendations all share similar disclosure requirements around processes, strategy, performance, and governance.

4. Reflections on coalescence

While definitional challenges and a proliferation of approaches has led to a complex landscape for impact reporting, there is a widespread recognition that greater coalescence around a common set of terms and approaches is needed.

Without providing all the answers, the SDGs present an important opportunity to establish a common language for 'what' impact organisations seek. Now, a number of cross-sector initiatives are looking to build upon the SDGs to develop an approach for impact reporting that can achieve common usage.

As we move into phase 2, the Taskforce will reflect on the opportunities that could ultimately lead to coalescence to transform the social and environmental impact reporting landscape.

Ways forward

Moving towards greater coalescence

While the landscape for social and environmental impact reporting is currently diverse and fragmented, there is widespread support and appetite to move towards greater coalescence. A wide range of stakeholders recognise the need to find a path to greater commonality and consistency between approaches, despite the inherently contextual nature of impact, and there are early signs of coalescence emerging as discussed in Section 5.

The call for evidence exercise elicited views on the potential focus of further coalescence. This section seeks to distil the key areas of consensus and outline the ongoing debate to form a basis for a practical and effective way forward. This section is organised in three parts:

1. **Ethos**
   The case for the way forward being principles-based and characterised by transparency

2. **Common foundations**
   The areas that are most ready for a more consolidated approach

3. **Governance**
   Who should take responsibility and how the way forward should be governed

1. Ethos

As set out earlier in this paper, the definition of impact is inherently contextual. There is no common currency for impact, as there is for financial performance, speed or weight. Rather, each individual organisation must articulate the link between their activities and broader positive and negative effects for the people and the planet. This means that the concept of an impact standard is challenging, or even impossible, in the words of one respondent.

"[Impact reporting can] not at all [be] standardised. The world is not standard" – Danyal Sattar, Head of Social Investment, Joseph Rowntree Foundation

As a result, there is strong support for a principles based approach, where standardisation is only sought at a strategic level, in a manner that can universally apply to all contexts. Several respondents describe a top layer of standardisation, supplemented with flexible features at issue, sector or organisation level.

"It should have a standardised core, optional sections and the ability for an organisation to add bespoke information that they feel is relevant" – *Daniel Mueller, CEO & Partner, Cogneum Ltd*

Principles, in contrast to standards, provide an open-ended conceptual basis for organisations on how impact should be reported. This is seen as enabling sufficient commonality for impact reporting to be clear and accessible to interested observers, without forcing organisations to artificially report in a way that is not faithful or focused on their particular context. Several commentators have drawn the analogy with principles-based accounting.

"Principles is the right word - not another tool or a framework, but an agreement around principles of how we approach this (see also accounting). Inventing another framework or tool will just add another framework or tool. So principles, guidance, support and training - is where this should go" – *Nick Temple, CEO, Social Investment Business*

Constructed properly, a principles-based approach (such as those of the IIRC, CDSB and TCFD) would enable businesses and organisations of different types to report on different kinds of impacts, but following a commonly understood, recognised and accessible process.

Transparency becomes paramount to ensuring that the reporting exercise and its outputs are fully understood and trusted, allowing the reporting organisation to clarify how the principles have been interpreted. Commentators stress the need for transparency, encouraging companies to 'show their workings' in public and enable their impact reporting to have credibility in the face of public challenge.

"We will never agree on a definition of social impact or social value, it remains open. So what is being reported (purpose, motivations) must be defined more transparently" – *Tim Goodspeed, Director, morethanouputs (EFM Ltd)*

"Any harmonised approach must be fully open-source and transparent, allowing market participants to work together to continuously evolve and improve it" – *Martin Rich, Co-Founder / Executive Director, Future-Fit Foundation*

2. Common foundations

It is clear from the call for evidence that some areas of the reporting approach present greater opportunity for rapid coalescence than others do. The call for evidence found a broad consensus on the value of the SDGs as **a common issues lens,** which could be supplemented by an industry specific lens. Also cited as important, albeit with less consensus, was **a common understanding and definition of impact** in the context of reporting. This common understanding can act as a foundation for further coalescence around approaches to balanced reporting (reporting on both positive and negative impact) and materiality. Although seen as further away from reaching a point of coalescence, **metrics and indicators, outputs and the use of technology** should be noted as areas for further exploration.

Contributors to the call for evidence were clear that an important component of any definition of impact and reporting approach is the **balance** across both negative and positive impact. In assessing materiality of issues and information to report on, there is a strong view that a principles-based approach to reporting should drive transparency around both negative and positive impacts, in order to present a fair-handed, honest account of contribution.

A common issues lens

While responses to the call for evidence form an ambivalent picture as to whether social and environmental issues should be handled separately or together when reporting on impact, they offer insightful reflections on the challenge of dealing with the interrelatedness of issues considered through impact reporting, and the solution that the SDGs provide.

"Ultimately they [social and environmental issues] are intrinsically interlinked. Whilst there is separate guidance on each (e.g. the separate Natural and Social Capital Protocols) they mirror each other. I think that combining them should lead to efficiencies and greater harmonisation" – Rosie Dunscombe, Technical Director, Natural Capital Coalition

"If we use the SDGs we get away from siloing into social and environmental. They are universal, they work in all markets and they're about sustainable development" – Amy Clarke, Co-Founder / Partner, Tribe Impact Capital LLP

"The SDGs, while not perfect, offer the best and most comprehensive global framework we have. In particular, because they recognise that the challenges we face are inter-related" – James Niven, Head of Corporate Affairs, Triodos Bank

While the SDGs do not represent a complete set of social and environmental issues, they have resonance and credibility as a shared set of challenges that require collective action by Governments, companies, investors and individuals. The SDGs are increasingly recognised by large companies as thematic language for articulating *what* impact they intend to make. As a result, the SDGs represent an opportunity to support coalescence as a starting point for *what* issues organisations report their impact against.

"SDGs provide a good base and are well recognised - they should provide the starting point for coalescence" – Anonymous, Assurance Partner, Grant Thornton UK LLP

"[The SDGs can play] a big role to speak the same language and get things moving in the same directions" – Damien Lardoux, Portfolio Manager, EQ Investors

Commentators were however clear that, despite reporting approaches having being developed with them as the foundation[69], the SDGs are not a reporting approach in and of themselves. Nevertheless, they can be front and centre of impact reporting.

"The SDGs can provide a unifying way of helping to describe the future we want to create and why the above listed approaches are helpful. However, they are not suitable for forming part of the methodology itself" – Martin Rich, Co-Founder and Executive Director, Future-Fit Foundation

While impact will vary by context, there is an opportunity for different sectors to use the SDGs to agree on clear parameters around impact issues and objectives that are meaningful and material for their particular sector. Within a particular industry, companies may vary in their products and service offerings and operations, but the fundamental problems that they all are trying to solve, and the people they seek to serve, will share significant commonalities.

There is an opportunity for industries to contribute to, and benefit from, a coalescence of approaches to impact reporting that would enable a group of companies, with consideration of wider stakeholders, to agree a minimum set of common, consistent impact objectives that are clearly understood and reported against.

"SDGs will play different role at different abstraction levels (nationally and at sector and company level)" – Barend van Bergen, Partner, EY

[69] http://integratedreporting.org/news/iirc-teams-with-icas-on-sustainable-development/

Greater commonality of definitions of impact

This paper has extensively discussed the inherent definitional challenge of impact. This challenge is the foundational issue at the root of many of the other observed difficulties for reporting practitioners and investors alike.

"Comparability of impact between entities in a similar sector, who have slightly different definitions of their own 'impact' [is challenging]. Although difficult to define impact across all sectors, it would be useful to have a common language across thematic areas" - Pete Lawson, Fund Manager, The FSE Group

The lack of clarity and **common understanding of what constitutes impact and how it should be reported** drives much of the diversity of reporting approaches, as illustrated by the diversity of reporting outputs. Recent industry efforts led by the IMP have focused on developing conceptual definitions of impact abstracted from any specific sector or theme. The five dimensions of impact (what, how much, who, contribution, risk)[70] through which the initiative defines impact hold promise as a common frame of understanding from all sector or investment-chain-position standpoints, and potential application through reporting.

A shared understanding of impact can act as the foundation for a common process to determining materiality and balance. Indeed, as discussed in section 4, **materiality** flows from the definition of impact, and is fraught with similar challenges of context-specificity and interpretation.

"For a principles-based approach to reporting to achieve consistency, there should be a common method for determining materiality, which sets out with clarity, the rationale for choices made around reporting - often a different lens is used for financial and non-financial information" – Amanda Swaffield, Deloitte UK

[70] http://www.impactmanagementproject.com/understand-impact/

Further areas for exploration

While the call for evidence exposed progress towards coalescence around a common issues lens and definition of impact, other components of impact reporting approaches stand out as potential areas for additional progress. These include **metrics and indicators**, **outputs** and **technology**.

"[There is a] lack of variety of metrics for all outcome areas" – Rose Beale, Thematic Analyst (Responsible Investment), Columbia Threadneedle Investments

"We think key principles should include a metric driven approach that is quantifiable, an adjustable approach that can be tailored to different investments" – Kurt Faulhaber, Partner (Sustainable Capital), Stafford Capital Partners

There are multiple, and respected, collections of indicators including IRIS, those provided by the UNGC that sit under the SDGs, and the guidance provided by the TCFD for indicators by sector, to serve as aspiration. These are undoubtedly useful, but responses to the call for evidence suggest this aspect of impact reporting requires further evolution before coalescence towards an identified set of metrics or indicators can be achieved.

The potential role that technology can play in driving and enabling coalescence was mentioned by many, especially with regard to the collection and processing of data.

"Hermes believes that technology may play a big part in the transformation of the impact reporting world"– Andrew Parry and Maxine Wille, Hermes Investment Management

"Technology will enable delivery of a standardised framework for impact data collection and reporting" – Sam Bamert, Founder / CEO, Ask Inclusive Finance

This reflects the trend of the corporate reporting world at large which is currently exploring how new technologies can be used in advancing corporate reporting[71]. Two interesting data related areas flow from this; (1) **real world evidence** and (2) the balance of internally vs **externally generated information** on an organisation.

Through advances in data science and data collection, **real world evidence** creates the opportunity to understand impact in a more dynamic, immediate, less approximated way e.g. the real time monitoring of someone's mental state as they take anti-depressants.

[71] See for example, ICAEW, *What's next for corporate reporting: Time to decide?,* 2017

The increasing amount of **externally generated information** through third parties measures some dimensions of the impact of an organisation e.g. satellite imagery, GPS tracking, or air quality sensors used for insurance can be a measure of impact of other organisations. As more information is collected, the cost of data relevant to impact should reduce, and the incentive for an organisation knowing what others know about its impact increases.

Another technology driven opportunity is the sophistication of underlying systems. These offer the promise of a more effective and efficient way of collecting and reporting impact data, aggregating and organising information from other company systems, providing the management and monitoring processes to refine approaches, and offering the opportunity to report in multiple formats.

Whatever technological advances emerge with applications across the reporting domain, it will be critical to identify and incorporate these opportunities within the evolution of impact reporting and support the journey towards coalescence.

3. Governance

While there is broad support to accelerate the journey towards coalescence, there are competing views on how this can be best and most rapidly achieved. In considering the practical steps towards greater coalescence, the role of different actors and the potential timeframe should be considered.

Actors driving coalescence

While contention remains regarding who should be leading efforts forwards, it is widely acknowledged that **Government** and **industry** both have their part to play in driving coalescence. Existing **approach-owners** will also take an important role as the need to draw on existing approaches was greatly emphasised.

Over a third of responders to the call for evidence ascribed a protagonist role to **Government,** in a capacity of impartial convenor and coordinator of the industry.

"I believe that the Government should coordinate these efforts, but of course all other stakeholders should be included" – R.Selmic, Research Fellow, Birmingham Business School

"The Government … can play a pivotal role by helping organisations convene and provide funding as an incentive once all organisations have agreed on a common standard" – Tris Lumley, Director of Innovation & Development, New Philanthropy Capital

Other voices emphasised the need for **industry actors** to lead coalescence efforts, with some further divergence as to whether the impetus should come from investors demanding better reporting, or organisations building further capability for understanding and reporting their impact.

The role that **investors** could play was a particular area of contention, in recognition of their influential position in light of their financial leverage.

"Investors must drive it, involving government to orchestrate a universal approach and ensure it's made public" – Gerbrand Haverkamp, Executive Director, Index Initiative (current) World Benchmarking Alliance (future)

"The more pressure from investors, the quicker changes will be made" – Sophie Carruth, Head of Sustainability (Europe), LaSalle Investment Management

Others, however, were strongly opposed to investors taking the lead, placing the authority in the hands of the **organisations,** who are best placed to meaningfully engage with the question of their own impact.

"*Certainly not the investors. A top-down imposition, implying a vertical power relationship, by the holders of the money who aren't the experts in delivering social change, would be deeply unhelpful. Any encouragement towards better reporting must come from within the sector*" *– Phil Caroe, Director of Impact Finance, Allia*

"This ultimately needs to be led by the enterprises themselves as they are the ones delivering the impact on the ground" – Martin Rich, Co-Founder / Executive Director, Future-Fit Foundation

Approach-owners will also have their role to play on this journey towards coalescence. Respondents to the call for evidence agreed that there is an imperative to build on existing work and integrate ongoing efforts, rather than build anything new.

"Using the tools we have today and partnering with organisations already doing this work, this can be achieved in a year" – Kelly McCarthy, Director, Global Impact Investing Network

"As much of what is needed is in place already, this could be a very short timescale" – Anne Lythgoe, Vice Chair, The Social Audit Network

Timeframe of coalescence

The majority of responders believed that coalescence could be achieved **within the next 5 years**, but that significant strides forward could be made in the next 6 to 12 months alone.

"In 2 to 4 years much progress can be made. This will likely be iterative for years to come if not indefinitely. Accounting standards are still changing for example" – Kurt Faulhaber, Partner (Sustainable Capital), Stafford Capital Partners

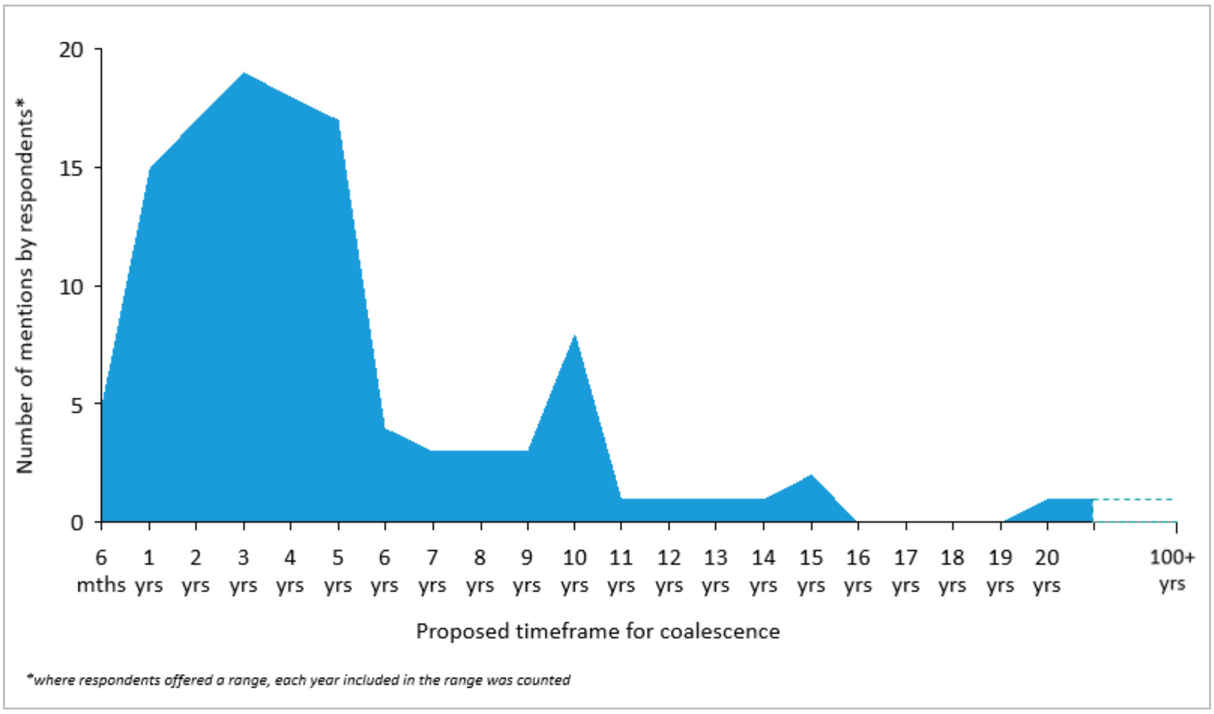


Figure 9: Timeframe for coalescence as suggested by call for evidence respondents

Some responders continued to emphasise the need for tangible incentives to drive coalescence, and reiterated the urgency and opportunity cost of no action.

"We believe that this can be achieved very quickly, given the UK market's extensive experience in this field. This should be appropriately resourced and supported by government. Delays increase the costs of addressing the issue" – Simon Messenger, Managing Director, Climate Disclosure Standards Board

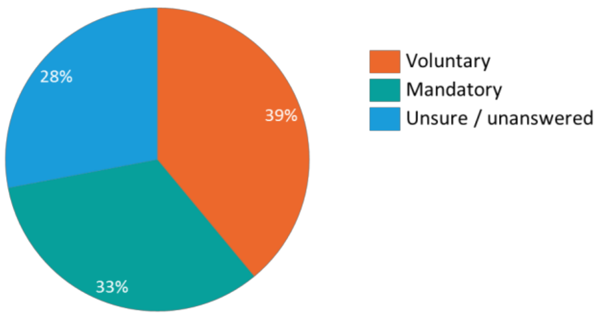
"This is a continuous process of assimilation that will take years to complete, and will need mandatory reporting at the company level to complete the task" – Andrew Parry and Maxine Wille, Hermes Investment Management

Regulatory or mandated intervention

Respondents to the call for evidence shared contrasting views around the degree to which approaches to impact reporting should be mandated, whether by regulation or other means. Some argue that regulatory intervention would significantly accelerate the timescale of coalescence, whereas others argue that it would hamper progress.

Proponents of mandatory measures saw it as the only way forward to achieve change at the necessary scale and pace, referencing the current lack of incentives as the main bottleneck to overcoming organisational barriers to widespread, systematic and robust reporting practices. Mandatory changes to reporting approaches would create new incentives and potentially set a 'level playing field'. Several respondents anchored their arguments in academic evidence, drawing parallels with the history of financial reporting.

Analysis of Call for Evidence responses – can coalescence be achieved via mandatory or voluntary means?*



* Original question (Q17): In the UK context specifically, do you think that a harmonised approach is achievable without mandatory measures?

"It is urgent. Companies will respond as soon as it is mandatory and enforced and some will not respond before then. There is a substantial body of academic research supporting this assertion" – *Carol Adams, Professor, Durham University Business School*

"If we follow the lessons and evolution of financial reporting, then it is not until it is statutory that need for comparability drives harmonisation and consistency. At the moment, lack of standards or lack of commitment to existing standards, means anyone can report anything or create a new approach. I guess it's human nature, and unfortunately it needs to be statutory or it'll never happen. Voluntary codes are not enough" – *Tim Goodspeed, Director, morethanouputs (EFM Ltd)*

However, other commentators highlighted the risk carried by mandatory intervention, by calling on past examples where regulation is debated for years, does not reach agreement and highly politicises an issue. Others argued that it could cause backwards progress, and hamper the experimentation and innovation needed to drive improved reporting practice. Some see regulation as counter to the spirit of collaboration and, ultimately, coalescence.

"We worry when we see specific frameworks being embedded in law as this can lead to lack of innovation/evolution… Good leadership suddenly goes backwards when a rule is introduced because it is seen as the target and not the floor" – *Sarah Wilson, CEO, Minerva Analytics*

"Encouragement by setting the best practice standard would be a more gentle and persuasive approach. Top down gets peoples backs up" – Ian Campbell, Vice Chair, Community Economy Limited

In light of such a division in opinion, the incentives and disincentives of regulatory intervention require further consideration.

APPENDIX

CONTENTS

Contributors

Better Reporting Working Group

The working group met face to face and virtually four times during the course of phase one and will continue to progress the work through phase two. The group were responsible for steering the approach, inputting to the insights and reviewing the final paper.

Chair: Paul Druckman, former CEO of International Integrated Reporting Council

Organisation	**Representative**	**Role**
Accounting 4 Sustainability	Jessica Fries	Executive Chairman
Aviva Investors	Steve Waygood	Chief Responsible Investment Officer
Carbon Disclosure Project	Paul Simpson	CEO
Climate Disclosure Standards Board	Simon Messenger	Managing Director
Corporate Reporting Dialogue	Ian Mackintosh	Chair
Corporate Reporting Dialogue	Wim Bartels	Partner, Sustainability Reporting and Assurance
Durham University Business School	Carol Adams	Professor of Accounting
Financial Reporting Council	Rosalind Szentpeteri	Project Director
First State Investments	Will Oulton	Director, Responsible Investment
Global Reporting Initiative	Eszter Vitorino	Head of Capital Markets Engagement
Impact Management Project	Olivia Prentice	Manager
International Integrated Reporting Council	Andrew Jones	Investor Engagement
International Integrated Reporting Council	Neil Stevenson	Managing Director, Global Implementation
Natural Capital Coalition	Mark Gough	CEO

Organisation	Representative	Role
Network for Sustainable Financial Markets	Martina Macpherson	President
Principles for Responsible Investment	Kurt Morriesen	Senior Manager, Impact Investing
Saïd Business School	Robert G. Eccles	Visiting Professor of Management Practice
Sustainability Accounting Standards Board	Steven O. Gunders	Treasurer
The Investment Association	Jess Foulds	Policy Advisor, Investment and Capital Markets
Triodos Bank	James Niven	Head of Corporate Affairs
United Nations Global Compact	Bernhard Frey	Senior Manager, Environment, Climate and Reporting
World Business Council for Sustainable Development	Rodney Irwin	Managing Director

Bilaterals

A number of key representatives were interviewed as an input to the exercise. These organisations were chosen on the basis of their influence and use of impact report related to investments. Input has been incorporated throughout the paper and anonymised where requested by the contributor.

Organisation	Representative	Role
Accounting 4 Sustainability	Jessica Fries	Executive Chairman
Department for Business, Energy & Industrial Strategy	Seema Jami-O'Neill, Chris Tollady	Assistant Directors
Durham University Business School	Carol Adams	Professor of Accounting
Financial Reporting Council	Tracy Vegro	Executive Director (Strategy and Resources)
Global Impact Investing Network	Lissa Glasgo	Senior Associate, IRIS/IMM
Green Finance Taskforce	Ben Caldecott	Founding Director
Hermes Investment Management	Andrew Parry, Maxine Wille	Head of Sustainable Investing,

Organisation	Representative	Role
Impact Management Project	Olivia Prentice	Manager
New Philanthropy Capital	Tris Lumley, Anoushka Kenley	Director of Innovation & Development
Task Force on Climate-related Financial Disclosures	Russell Picot	Special Advisor
The 100 Group	Jenny Webster	Director of the 100 Group Secretariat
Index Initiative (current) World Benchmarking Alliance (future)	Gerbrand Haverkamp	Director

Project SteerCo

The Implementation Taskforce Steering Committee was set up for greater involvement and scrutiny on the Better Reporting Working Group's processes.

Organisation	Representative	Role
Allianz Global Investors	Elizabeth Corley (Project Sponsor)	Vice Chair
Big Society Capital	Harvey McGrath	Chairman
CFA Institute	Will Goodhart	CEO
Esmée Fairbairn Foundation	Caroline Mason	CEO
Financial Reporting Council	Olivia Dickson (Chair of SteerCo)	Non-Executive Director
Grant Thornton	David Newstead	Partner
International Integrated Reporting Council	Paul Druckman	CEO
Social Finance	David Hutchison	CEO
The Investment Association	Chris Cummings	CEO
Triodos	David Carrington	Former Member of Supervisory Board
Triodos	Bevis Watts	CEO

UK NAB, Education Outcomes Fund for Africa and the Middle East	Jared Lee	Head of Policy, Principal

Call for evidence

Profile of Call for Evidence responders (including Bilaterals)

Profile category	Responders in this category included:	Number
Approach owner	• Leaders of organisations, bodies and taskforces who have developed reporting approaches and initiatives	15
Business	• Leaders of private UK companies • Industry representatives of Finance Directors of FTSE 100	4
Business (practitioner)	• Reporting experts selling reporting services as part of multinational professional services firms, boutique consultancies or as independent	13
Charity and / or social enterprise	• Executive and Director level representatives of not-for-profit organisations, a majority focusing on inclusive/responsible finance	9
Civil society	• Academics in the accounting, international development and sustainability fields • Leaders of associations and advocacy groups in the social impact or responsible finance space	13
Impact investor	• Leaders of philanthropic organisations with an inclusive / responsible finance focus • Social investment fund managers	13
Investor	• Directors and asset managers for sustainable / impact funds of large financial institutions • ESG researchers of large financial institutions • Heads of sustainability and corporate responsibility of large financial institutions • Retail investors with a social value / impact emphasis	23
Public sector	• Government departments or representatives	2
Total		**92**

Organisations who submitted a response to the call for evidence (excluding those that wished to remain anonymous)

1. 100 Group [look at minutes]
2. Abundance Investment
3. Allia
4. Allianz Global Investors
5. Ask Inclusive Finance
6. Association of Member Nominated Trustees
7. Big Issue Invest
8. Big Society Capital
9. Birmingham Business School
10. Bottriell Adams LLP
11. Central England Co-Operative
12. Charities Aid Foundation
13. City of London Corporation & City Bridge Trust
14. Climate Disclosure Standards Board
15. Cogneum Ltd
16. Columbia Threadneedle Investments
17. Community Economy Limited
18. Corporate Reporting Dialogue
19. Cystic Fibrosis Trust
20. Department for Business, Energy and Industrial Strategy
21. DNV GL Business Assurance
22. Durham Business School
23. Durham University
24. EQ Investors
25. Ernst & Young
26. Financial Reporting Council
27. Fredericks Foundation
28. Future-Fit Foundation
29. Global Impact Investing Network
30. Golden Lane Housing
31. Grant Thornton UK LLP
32. Hermes Investment Management
33. Impact Management Project
34. Impact Value
35. Index Initiative (current) World Benchmarking Alliance (future)
36. Institutional Cap
37. International Integrated Reporting Council
38. Joseph Rowntree Foundation
39. LaSalle Investment Management
40. Little Blue Research
41. Liz Riley Consultancy
42. Minerva Analytics
43. morethanouputs (EFM Ltd)
44. Muzinich & Co
45. National Air Traffic Services
46. Natural Capital Coalition
47. New Philanthropy Capital
48. Oxford Sustainable Finance Programme (and Green Finance Taskforce)
49. Pension PlayPen
50. PricewaterhouseCoopers
51. Principles for Responsible Investment
52. Pro Bono Economics
53. QBE Insurance Group
54. Resonance
55. Responsible Finance
56. ShareAction
57. Social Enterprise UK
58. Social Finance Ltd
59. Social Investment Business
60. Social Investment Scotland
61. Social Value UK
62. SoPact
63. Stafford Capital Partners
64. Sustainable Accounting Standards Board
65. Swinburne University
66. Task Force on Climate-related Financial Disclosures
67. The Co-operative Bank
68. The Esmée Fairbairn Foundation
69. The FSE Group
70. The Global Reporting Initiative
71. The Social Audit Network
72. Tribe Impact Capital LLP
73. Triodos Bank
74. Triodos Investment Management
75. UK Sustainable Investment and Finance Association
76. University of Oxford
77. WHEB Asset Management LLP
78. Willis Towers Watson
79. World Business Council For Sustainable Development

Note:

- Some organisations provided multiple submissions through different responders
- Additionally some Bilateral respondents also submitted a response to the call for evidence
- A total of four responders responded in an anonymous or independent consultant capacity

Questionnaire

The call for evidence was open 30th May – 30th June and aimed to gather evidence from reporting, impact and investment experts. Evidence was gathered based on the agreed problem statement and call for evidence questions as follows.

Section 1: Background	
Introduction	In 2016, the UK government set up an independent Advisory Group to answer an important question: How can the providers of savings, pensions and investments engage with individuals to enable them to support more easily the things they care about through their savings and investment choices? In November 2017 the Advisory Group published their report, Growing a Culture of Social Impact Investing in the UK, which provides recommendations grouped around five action areas. An Implementation Taskforce has been set up to carry forward the five action areas. With an interim report to Government planned for June. The role of the Taskforce is to catalyse collaboration between industry experts. While the Taskforce focuses on stimulating the UK retail investor, the value chain is global and therefore this exercise reflects that global context. One of the action areas is to develop better reporting of non-financial outcomes. This is being led by the Better Reporting workstream. The aim is to provide leadership so that by November there are clear options for coalescence towards a harmonised approach for businesses, social enterprises, charities and investors to report their impact on people (social impact) and planet (environmental impact). These options will acknowledge and draw on the extensive work done in this area already, and should not be seen as an exercise to create a new framework.
The current context	The UK Government's Industrial Strategy sets out a plan for building an economy that works for everyone, so that there are great places in every part of the UK for people to work, and for businesses to invest, innovate and grow. It has long been recognised that businesses have a critical contribution to make to the building of a thriving and inclusive economy, thereby having an important impact on societies

	across the world. In line with this the revised Corporate Governance Code in the UK proposes that one of the functions of the Board is to ensure that the company makes a contribution to wider society. Many businesses recognise that their contribution to wider society is a critical component of their success, and hold themselves accountable for delivering increasing positive social and environmental impact over time. Many charities have also long sought to evaluate their performance in terms of impact and this is a growing trend. At the same time, there has been a rapid emergence of social enterprises, which again changes the landscape for reporting of social and environmental impact. Finally, more individuals are also considering the wider social and environmental impact of the choices they make. The focus of our work is to accelerate the development of investment and savings products which enable individuals to support more easily the things they care about through their savings and investment choices. Research over decades demonstrates that reporting influences actions, but the lack of commonality in the way social and environmental impact is reported makes it difficult for the community of providers and stewards of investment and savings products, to develop products that consider social and environmental impact. As a consequence, members of the public are unable to make choices on this basis. However, businesses, social enterprises and charities currently lack the tools and language to report their social and environmental impact in a way that is actionable and comparable by members of the investment community and the wider general public. The context for impact reporting is dynamic and existing initiatives targeted at enhancing non-financial reporting need to be considered including upcoming developments such as the FRC's feedback statement on the guidance to the strategic report, BEIS legislation on arrangements for responsible business, the FRC's project on the future of corporate reporting, the FRC's feedback statement on the Corporate Governance Code, the FRC's upcoming review of the Stewardship Code and the UK implementation of the Shareholder Rights Directive.
Problem statement	There is no commonly used approach to enable UK businesses, social enterprises, charities and investors to define or report social and environmental impact. This creates challenges for members of the public, civil society groups, public sector organisations and retail and institutional participants in the market for investment and

	savings products who wish to consider social and environmental impact. In particular impact driven investors and investees face reporting challenges which inhibit the growth in the market for impact driven savings and investments.
Key challenges	1. Shared language for impact: A common language for reporting impact is lacking, this results in inefficient and arbitrary selection of the 'best fit' impact reporting framework for the specific context (across sectors, geography, investment and impact types at entity and portfolio level). 2. Visibility of impact: Reporting of impact, alongside financial performance, is minimal. This is inhibiting the understanding of long-term business value that comes from the pursuit of impact alongside profit. 3. Comparability of actual and forecast impact: Comparability of impact across organisations is limited, due in part to the lack of standard methods and measures, and the number of competing approaches, none of which are comprehensive. 4. Confidence in impact as a measure of performance: Confidence in impact driven investing is limited as actual returns for society are hard to measure. One of the big challenges of impact measurement is that it requires data from outside the company's walls. This work is focused on gathering evidence related to challenges 1 to 3. Challenge 4 is outside of the scope of this work stream but coalescence towards a harmonised approach is expected to have a positive impact on all of these challenges.
Mapping the current landscape: call for evidence questions	Through this call for evidence, we aim to gather the latest insight into current experiences of and approaches to reporting social and environmental impact. This evidence gathering will inform our mapping of the current landscape of impact reporting, which will, in turn, inform the exploration of options for coalescence towards a harmonised approach. The questionnaire below comprises 20 questions, designed to collect evidence around four key areas, namely: - Existing definition(s) of impact - Existing challenges to reporting social and environmental impact - Perspectives on existing approaches to reporting social and environmental impact - Perspectives on coalescing towards a more harmonised approach Given the wide audience that this call for evidence is targeting, we recognise that not

	all questions will apply to all respondents. For that reason, only a select number of questions are mandatory. Responses will be collated and provide input towards an interim report to Government in June. The findings of this initial evidence gathering and landscaping exercise will shape the subsequent phase of work. This will explore clear options for coalescence towards a harmonised approach for businesses, social enterprises, charities and investors to report on social and environmental impact. We would like to thank you in advance for your input.
Section 2: About yourself	
A	What is the name of your organisation? (If you are affiliated with multiple organisations, please list those which are most relevant and in what capacity you are responding)
B	What is your role within the organisation(s)?
C	What is your connection with impact reporting? (For example, you may be one or more of these types; Investor or investee, Reporting practitioner, Standard setting body, Civil society group or any other stakeholder)
Section 3: Defining impact	
1	Does your organisation seek to define its social and / or environmental impact?
2	If yes, how is this social and / or environmental impact defined? (If relevant, please outline any external definitional reference used as input to your definition)
Section 4: Challenges to reporting social and environment impact in the context of savings and investment choices	
3	Please say which of the stated challenges you experience (if any), and describe how the challenge affects your organisation (or others you service or aggregate)?
4	Are there any additional challenges to your (or others you service or aggregate) organisation's reporting of social and environmental impact? Are there any additional challenges to organisations' impact reporting more widely?
5	How do these challenges affect the different investor and stakeholder communities in considering impact when enabling, informing or making savings and investment choices? (Please refer to specific groups as identified in the introduction to this section)

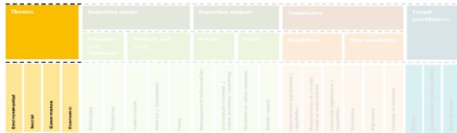
Section 5: Perspectives on existing approaches to reporting social and environmental impact	
6	What approach(es) does your organisation currently take to reporting your (or others you service or aggregate) organisation's social and environmental impact? (Please reference specific guidance, methodology and tools, and formats as relevant, and the process taken to reporting. Please also specify target audience and location of reporting, if applicable)
7	What do you see as the strengths of the referenced approach(es)? (Please give reference to aspects of specific frameworks, standards and guidance when referencing each strength)
8	What do you see as the gaps and / or limitations of the referenced approach(es)? (Please give reference to aspects of specific frameworks, standards and guidance when referencing each gap and / or limitation)
9	What approaches do you see as leading example(s) of reporting, if any? And how do they effectively tackle aspects of the language, visibility and comparability challenges to reporting of social and environmental impact? (Please outline which approach is addressing which aspect/s of the challenge/s)
Section 6: Coalescing on a solution	
10	What should the key principles of a harmonised approach be? (e.g. guidance, methodology and tools, reporting format…)
11	We have referred to social and environmental impact in this document. Is this beneficial to coalescence or should each dimension (social, environmental) be considered separately?
12	How standardised do you think this harmonised approach can or should be?
13	Over what time frame can this be achieved?
14	What elements of existing approaches, if any, should form part of a more harmonised approach? (Please give reference to aspects of specific frameworks, standards and guidance)
15	What role might the Sustainable Development Goals (SDGs) play in coalescence (if any)?
16	How and who should be driving / leading adoption of a more harmonised approach for organisations to report their social and environmental impact?
17	In the UK context specifically, do you think that a harmonised approach is achievable without mandatory measures?

Section 7: Final details	
Closing statements	We may publish all responses to this call for evidence, excluding individual or organisation contact details, on the website of the Implementation Taskforce on Social Impact Investing (www.grow-impact-investing.org).
18	Please let us know if you would prefer us to exclude your submission on the Taskforce website, as described above, by ticking this box
19	Please tell us any other questions you feel we should be gathering evidence on?
20	Please leave us your email address if you wish to receive a copy of the summary report and be kept in touch with our work in the next stages

Response analysis

Following the collation of evidence the analysis was carried out by examining the overall trends across the evidence. The evidence was also examined through different cuts of the inputs, particularly type of organisation the responder represented, in order to test the insights for skews caused by different factors.

The final draft of the paper was reviewed by the working group in order to ensure it represented the insights in a clear and concise way that could be used during the next phase.



Landscape classification

Better Reporting classification (1/4): Themes

Themes

Thematic areas which are a specific focus on reporting. It is acknowledged that there is an interdependence between thematic areas, for example reducing negative environmental impact will deliver associated social benefits

Environmental

Impact on the natural environment, for example CO^2 emissions

Social

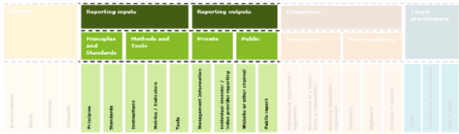
Impact on the well-being of communities, individuals and families

Governance

The system of rules, practices and processes through which businesses make decisions which consider non-financial impact

Economic

Impact on the economy and prospects for development



Better Reporting classification (2/4): Reporting inputs and reporting outputs

Reporting inputs *Principles, standards, methods or tools that enable an organisation to define, measure and report their non-financial impact*					**Reporting outputs** *Usually resulting from the implementation of inputs, these components allow an organisation to present their findings in a range of reporting formats*			
Principles and Standards *Approaches that provide a conceptual basis for non-financial impact reporting, often brought to life through the definition of minimum requirements or best practice*		**Methods and Tools** *A set of practical 'instructions', 'metrics/indicators' or 'tools' that help organisations with defining, measuring and reporting non-financial impact*			**Private** *A format whereby organisations can report information internally*		**Public** *A format whereby organisations can report information externally*	
Principles *Approaches that largely comprise guidance which serve as the foundation for reporting*	**Standards** *Approaches that largely comprise specific requirements which form a minimum requirement (e.g. codes)*	**Instructions** *A set of clear directions that an organisation has to take in order to successfully implement an approach*	**Metrics / Indicators** *A system or standard of units of measurement and associated collection methodologies (e.g. exclusions)*	**Tools** *One or more artefacts provided to an organisation to assemble, categorise and process information*	**Management Information** *A report used for management decision making*	**Individual investor / index provider reporting** *A report that is to a specific external party but is still not public*	**Website or other channel** *A report of impact information on public channels*	**Public report** *An official report such as the Annual Report which is publicly available*

Better Reporting classification (3/4): Compliance

Compliance

The degree to which an organisation is mandated to successfully and completely apply an approach to non-financial reporting

Mandatory

Where an approach to non-financially reporting must be satisfactorily applied by an organisation in order to legally operate or participate in a specific business group

Non-mandatory

Where an approach to non-financially reporting does not have to be satisfactorily applied by an organisation in order to legally operate or participate in a specific business group

Operational regulation / legislation

Where an organisation is required to implement an approach to operate in a specific geography due to regulation or legislation

Membership of a trade body or association

Where an organisation is required to implement an approach to being a member of an organised group

Financial regulation / legislation

Where an organisation is required to implement an approach in order to be listed on a stock exchange or raise capital by other means in the markets in which it wishes to do so

Voluntary

Where an approach is applied by an organisation out of free will and aims to promote best practice

Signatory

Where an organisation must fulfil a certain set of criteria in order to qualify or/and maintain their signatory membership or accreditation

Comply or explain

An approach where an organisation has to give a reasonable explanation for not complying with certain requirements

Better Reporting classification (4/4): Target practitioners

Target practitioners

The organisations / individuals that the approach is aimed to be implemented by

Sector

The relevant sector / sectors in which the approach can be applied by the target user

Investment chain position

The position in the investment chain (e.g. Corporate, Retail, Large institution, Broker)

Size of entity

The size of the entity utilising the approach to help them report on impact

Approach overview

Most prevalent 16 approaches as they emerged from the call for evidence

Approach	Author		Summary Description
Accounting for Sustainability (A4S)	A4S	Accounting for Sustainability (A4S)	• The approach intends to: - Inspire finance leaders to adopt sustainable and resilient business models - Transform financial decision making to enable an integrated approach, reflective of environmental and social issues
B Impact Assessment ("B Impact")	B Lab	B Lab	• This is an industry standard for measuring impact for small and medium sized enterprises • It includes a set of standards, benchmarks and tools and has a three step process: assess, compare and improve
Big Society Capital Outcomes Matrix ("BSC Outcomes Matrix")	BIG SOCIETY CAPITAL	Big Society Capital	• This is a tool that aims to help organisations plan and measure their social impact • It includes outcomes and measures for nine outcome areas and 15 beneficiary groups. • The approach was developed in partnership with social investment financial intermediaries, front line organisations and impact experts
Carbon Disclosure Project (CDP)	CDP	Carbon Disclosure Project (CDP)	• This is a global framework for climate-related financial disclosure • The approach intends to: - Provide data as well as insight so that investors and purchasers can make better-informed investments - Make environmental reporting and risk management a business norm
CDSB Climate Change Reporting Framework ("CDSB")	CDSB Climate Disclosure Standards Board	Climate Disclosure Standards Board (CDSB)	• This is a framework that intends to help organisations: - Report environmental information with the same rigour as financial information - Elicit information of value to investors in gauging how climate change affects their strategy, performance and prospects
Future-Fit Business Benchmarking ("Future Fit")	Future-Fit Business Benchmark	Future-Fit Foundation	• This is a tool that aims to: - Help companies and investors transform how they create long-term value - Identify environmental and social performance thresholds that all companies should try to reach, and a way to assess progress toward them
GIIN's IRIS Metrics ("IRIS")	GIIN GLOBAL IMPACT INVESTING NETWORK	Global Impact Investing Network (GIIN)	• These are a set of metrics that intend to help measure investments' social, environmental and financial performances • It is offered as a free public good in order to support transparency, credibility, and accountability in impact measurement practices across the impact investment industry

Approach	Author		Summary Description
Global Reporting Initiative (Sustainability Reporting Standards) (“GRI”)		Global Reporting Initiative (GRI)	• These are a set of global standards that intend to: - Serve as a global standard for sustainability reporting - Inspire accountability, help identify and manage risks, - Support companies with the protection of the environment as well as the improvement of society, governance and stakeholder relations
Guide to Social Return on Investment (“SROI”)		Social Value UK	• The approach aims to provide a clear framework for anyone interested in measuring, managing and accounting for social value or social impact • It has consulted practitioners, members, academics and others with an interest in social and environmental value and impact measurement
The Impact Management Project (“IMP”)		Impact Management Project (IMP)	• This is a public good initiative that aims to build consensus on: - Data categories that every statement of impact performance should cover - Goal-setting categories that every robust impact framework should include • The approach was developed as multi-stakeholder effort and has solicited views of over 700 organisations across multiple sectors and geographies
Integrated Reporting (“<IR>”)		International Integrated Reporting Council (IIRC)	• The approach intends to: - Achieve greater cohesion and efficiency to the reporting process via a clear, concise and comparable format - Encourage businesses to adopt ‘integrated thinking’ - Improve the quality of information available to providers of financial capital and focus on value creation
Natural Capital Protocol (“NCP”)		Natural Capital Coalition	• This is a standardised framework that aims to: - Help businesses identify, measure and value their impacts and dependencies on natural capital - Bring together and build on a number of approaches that already exist • The approach was developed by both the public and private sector and is freely available to all under a Creative Commons license
UN Global Compact Communication on Progress ("UNGC")		United Nations Global Compact (UNGC)	• The approach aims act as a mechanism to inform company stakeholders (e.g., investors, consumers, civil society, governments, etc.) on progress made in implementing the ten principles • The ten principles cover the following areas – human rights, labour standards, environment and anti-corruption

Approach	Author		Summary Description
UN Principles for Responsible Investment ("PRI")	PRI Principles for Responsible Investment	Principles for Responsible Investment (PRI)	• These are a set of investment principles that offer a range of actions for investors to effectively incorporate ESG issues into their investment practice • The approach aims to foster good governance, integrity and accountability by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation
Recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD")	TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES	Task Force on Climate-related Financial Disclosures	• The approach intends to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities – there is large emphasis on governance, strategy, risk management, and metrics and targets • It was developed by the Task Force and drew on member expertise, stakeholder engagement, and existing climate-related disclosure regimes
SASB Standards ("SASB")	SUSTAINABILITY ACCOUNTING SASB STANDARDS BOARD	Sustainability Accounting Standards Board (SASB)	• These are a set of standards that intend to: - Help public corporations disclose financially material information to investors in a cost-effective and decision-useful format - Achieve sector / industry-specificity by covering 79 industries in 11 sectors

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