

Principles of impact reporting for financial institutions

Toward meaningful impact reporting

Consultation draft

Banking for Impact

September 2022



About Banking for Impact

Our global economy remains stalled at a critical juncture. Well-known social and environmental threats have been ignored in favour of a short-sighted economic system. Negative side effects are piling up—runaway climate change, natural resource depletion, increasing inequality, diminishing social safety nets and a widening gap between the rich and poor.

The remedy is a more inclusive market economy, one that serves people and the planet, not just shareholders. To help get there, the Banking for Impact (BFI) working group aims to create a common impact measurement and valuation approach tailored for banks. This will give banks the tools necessary for a broader view of their value creation and a better understanding of their impact on society, empowering them to use this information to report and manage impact. Towards this end, we are working on a robust, scalable and cost-effective method for the quantification, valuation, attribution and aggregation of impacts for the sector. The goal is to scale-up and standardise these efforts over time, with support from the financial industry.

The BFI has laid out its vision for measuring what matters in a [vision paper](#) available on its [website](#).

Interested in joining the BFI working group? Please contact [Sven Renon](#).

Versioning

Version Number	Date	Updates since previous version
Draft 0.1	11/04/2022	
Draft 0.2	28/04/2022	Implementation of feedback from working group <ul style="list-style-type: none">• Included links and references to relevant sections of the Impact Measurement guidance document throughout• Included additional references to other frameworks, such as the Capitals Coalition, and included additional sources such as Science Based Target Initiative (SBTi)• Made minor changes to wording and small additions to the text• Enhanced readability by breaking longer bodies of text into bullet points• Added a list of abbreviations and glossary
Draft 0.3	15/07/2022	<ul style="list-style-type: none">• Added case study on UBS as an example of Net Zero benchmarking• Specified that principles included in this document focus on reporting, a full list of principles can be found in IWAF.• Included a note on best-in-class benchmarking, as sometimes best-in-class benchmarks may not be available.

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List of abbreviations

BFI	Banking for Impact
GHG Protocol	Greenhouse Gas Protocol
IMP	Impact Management Project
PCAF	Partnership for Carbon Accounting Financials
PRB	Principles for Responsible Banking
UNEP FI	United Nations Environment Programme Finance Initiative

Introduction

Rationale and motivation

The world currently faces numerous challenges. We are a long way from achieving a satisfactory standard of living for everyone and are putting severe pressure on our planet's resources, thereby driving crises like the loss of biodiversity and climate change.

While all organisations influence the world, from the way they treat employees to the way they serve their customers, banks have influence that extends far beyond their walls. As facilitators of financial capital across sectors, they can direct funds into organisations that benefit society, and influence others to change and create more sustainable business models.

Sustainable business models facilitate tomorrow's successes. If a firm has a clear understanding of its impact on all stakeholders, that firm can position itself strategically for the transition to a more sustainable economy. Banks will benefit from taking this into account when making financing decisions: there is growing evidence that impact measurement translates into financial returns.¹

Conversely, not accurately measuring and reporting on impact poses risks to banks. Bad press about environmental and social issues can damage a bank's reputation and credibility. Social and environmental impacts are increasingly materialising on balance sheets, resulting in severe consequences, from dependency on natural resource accessibility to vulnerability in the face of new regulations. Impact measurement and reporting is a way to "future-proof" banks in the face of environmental and social challenges.

It is therefore imperative that banks not only understand their influence and the status of their impact, but increasingly use their influence to enact positive change. For more detail on the benefits of impact measurement to banks, consult [Scaling up impact measurement and management for banks](#), a vision paper published by the Banking for Impact (BFI) working group.

The BFI and the BFI methodology aims to give banks the practical and analytical tools to do just this.

About this document

This document, **Principles of impact reporting for financial institutions**, aims to guide banks to start reporting their impact. It focuses on the guiding principles of impact reporting, including descriptions and best practices for applying these principles during impact reporting.

¹ An increasing amount of research shows that focusing on positive impact correlates with better and less volatile performance: Harvard Business School (2014) found that firms in the high sustainability group outperformed those in the low sustainability group. McKinsey (2019) found that a strong ESG (Environmental, Social and Corporate Governance) proposition correlated with higher equity returns.

These principles are relevant for both internal and external reporting. While the principles apply to both, it is important to keep in mind that internal reporting needs to satisfy different criteria to guide decision-making. The practical application of these principles might therefore look different in practice, depending on the reporting purpose.

This document should be understood and used together with the other materials by BFI. See Figure 1 below.



Figure 1: Overview of core and supporting documents in the Impact methodology series

Reader's guide

For readability, this document uses the following simplifying terms:

- "Bank" is used to describe any financial institution.
- "The impact of your bank" is used to describe the set of all impacts of your bank.

This document can be read as a standalone document but will regularly refer to the other documents that are part of the **Impact Methodology series**. The Conceptual Framework of the **Impact-Weighted Accounts Framework (IWAF)** can also be consulted for more detailed explanation of key concepts and definitions.

In this document, several examples and real-world challenges are given to show the applicability of the principles. These can be identified by their position in various coloured boxes:

Real case study

This example shows the case where real banks/organisations have applied the principle. These examples are indicated by green boxes and include links to reports where more information can be found.


Note: The examples included in the document do not represent a complete list of good examples of the execution of the principle. The BFI welcomes other suggestions or cases to be included in future versions.

Practical challenges

In addition to the case studies, this document also identifies practical challenges faced by banks when following the principle being discussed. These challenges are indicated by yellow boxes.

Additional resources

Additional or helpful resources, relevant to each chapter, are also provided in the document. The resources listed in these boxes do not represent a complete list and more will be added in future versions.

 **Link:** When information aligns with a relevant section in the guide to [Impact measurement in the financial sector](#), it is shown here.

Additionally, for each principle, a rationale is provided for why the principle is important. In this section, other initiatives, who have adopted similar principles, have been referred to. Again, the initiatives mentioned in this document do not represent a complete list and more will be added in future versions.

The case for impact reporting

Impact reporting is a key step of many impact assessments, whether reports are published externally or distributed to internal stakeholders. There are several reasons to report on the results of an impact assessment.

Reporting on impact allows companies to communicate their performance on a wide range of topics spanning social, environmental and government parameters. For banks, communicating their performance beyond the bottom line is important for:

- **Building stakeholder awareness and trust:** Stakeholders increasingly expect companies to play a positive part in solving environmental and societal issues and to demonstrate that they do so. Presenting impact information in an understandable, verifiable and transparent way helps to build this trust.
- **Compliance with reporting standards:** Including impact information in reports helps to comply with reporting standards, regulatory requirements and voluntary commitments such as [Principles for Responsible Banking \(PRB\)](#). In recent years especially, heightened regulatory scrutiny has shown that transparency and accuracy of sustainability reporting is increasingly important.
- **Inform corporate decision-making:** Sustainability reports helps organisations set goals, manage sustainability-related impacts and risks and understand what drives value for its stakeholders.

Principles of impact reporting

Each subchapter focuses on one principle that is key to impact reporting. Each subchapter includes a description of the principle, an explanation of why it is important, tips for how the bank can ensure the principle is followed, a positive example of the principle in practice (a real case study) and a box highlighting practical challenges when implementing the principle.

Table 1. Checklist of reporting principles included in this document

Icon	Principle	Key questions
	1. Neutrality	<input type="checkbox"/> Are all material impacts considered? <input type="checkbox"/> If not, have the excluded impacts been disclosed?
	2. Aggregation only within welfare categories	<input type="checkbox"/> Are disaggregated views of aggregated impacts across welfare categories available? <input type="checkbox"/> Are negative impacts in the stakeholder rights welfare dimension visible?
	3. Consistency	<input type="checkbox"/> Is impact information reported consistently over time? <input type="checkbox"/> Are changes that limit comparability of reports over time clearly marked and explained?
	4. Sufficient Resolution	<input type="checkbox"/> Is reported information of sufficient resolution to satisfy the purpose of decision-making?
	5. Relevancy	<input type="checkbox"/> Are all elements relevant to the decision-making purposes of stakeholders included? <input type="checkbox"/> Are elements that are not material excluded?
	6. Reliability	<input type="checkbox"/> Can impact information be interpreted with a reasonable degree of confidence? <input type="checkbox"/> Has sufficient effort been put into ensuring that results are free from material error? <input type="checkbox"/> Has the information presented in the impact report been validated by a third party?
	7. Best-in-class benchmarking	<input type="checkbox"/> If benchmarks are used, can they be considered best-in-class?
	8. Transparency	<input type="checkbox"/> Have data sources, uncertainty, assumptions, limitations and omissions been disclosed transparently?
	9. Timely	<input type="checkbox"/> Is the impact report published in a timely way, soon after the most recent reporting?

The principles included here are adapted from [IWAF](#) principles and general characteristics. For the purpose of this document, only principles relevant for reporting are included. For a full list of principles please refer to [IWAF](#).

Neutrality

Description: Present impact such that it is neutral in all material aspects by preventing bias in any material direction, and in particular, avoiding bias that is favourable to the bank.

↔ **Link:** Steps can already be taken during impact measurement to help ensure this principle is followed. Close adherence to the principle of **materiality** (see [Glossary](#) for a definition of this term) can help to ensure neutral results. In particular, this is important when deciding which impacts to include. Both positive and negative impacts should be considered. Chapter 7 of the guide on [Impact measurement in the financial sector](#) specifies how to scope an impact assessment.

Why is this principle important?

Neutral impact reporting provides stakeholders with a view from which they can make decisions. Unbiased reporting also helps to reduce the risk of “greenwashing” and “social washing” claims.

Initiatives such as the United Nations Environment Programme Finance Initiative’s [\(UNEP FI’s\) Principles for Responsible Banking](#) (PRB) also require that banks disclose both positive and negative impacts.

This principle also aligns with those put forward by the [Capitals Coalition](#). In one of their principles, the Capitals Coalition states that key differences between impacts should be specified and addressed. More specifically, positive and negative impacts for the same stakeholder group should not be evened out. Further, impacts that cut across different capitals should be considered.

Tips for ensuring neutrality

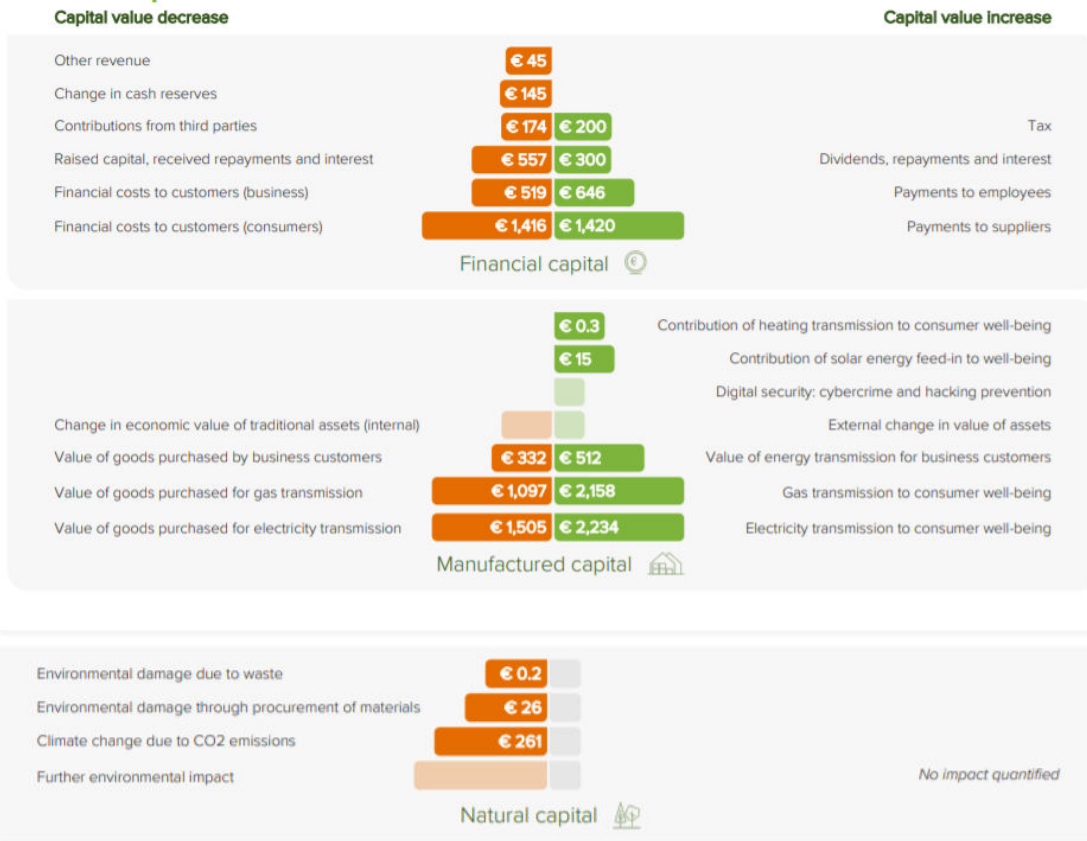
- Report on all material impacts measured
All material impacts that have been measured, including those that are negative for the bank, must be reported on.
- Make limitations clear
In cases where significant positive and negative impacts have not been measured because of time constraints or lack of data, the bank should make these limitations clear in its reporting. These impacts can also be included qualitatively.
- Provide context alongside results
This can be critical to guide readers to reach appropriate conclusions from the quantitative results. For example, when comparing the impact of two different projects or initiatives, there are many reasons why the impact arising from one project might appear better than another. One reason could be that the scope of the impacts measured for each project differ substantially so that results are not comparable. Another driver could be the stage of development of the project. A project in its scale-up phase might deliver less positive impact than a fully operational one. In these circumstances, it is key to consider additional relevant factors to draw conclusions or reach decisions.

- Ensure that the unnetted results are also visible in cases where netting is used
This is particularly important where large negative impacts could be hidden. Also see the principle in [3.2 Aggregation only within welfare categories](#).
- Consult relevant stakeholders
Relevant stakeholders should be consulted during the reporting process to ensure clarity of results.

Real case study | [Alliander](#)

Alliander develops and operates energy in networks and has been reporting on impact for several years in the form of an Integrated Profit and Loss (IP&L). They report on impact across multiple capitals and report positive and negative impact directly alongside each other. Further, where they have not been able to completely assess impact, especially negative impact, quantitatively they acknowledge and disclose this fact. This helps to ensure neutrality.

Our impact model




Practical challenges

In some cases, negative impact can be challenging to assess, as companies within an investment portfolio often do not collect the necessary data. This is typically linked to the fact that companies within an investment portfolio do not have the required data available. In such cases where sector or proxy data is also unavailable, the bank can disclose in its impact publication where material impacts have been excluded because of lack of data.

Aggregation only within welfare categories

Description: Impacts across **welfare dimensions** (see [Glossary](#) for further explanation) are only aggregated if the impacts are also shown separately elsewhere. Negative impacts that reflect an abuse of rights should not be netted against positive impacts.

Breaches of rights-based impacts should never be aggregated with impacts in the wellbeing dimension. Even if the impact of the breach of the stakeholder's right is small, it should be shown as a separate impact.

 **Link:** To ensure this principle, sufficient care should already have been taken during aggregation steps in impact measurement. Chapter 8 of the guide on [Impact measurement in the financial sector](#) provides more information on this.

Why is this principle important?

In contrast to financial information, impact is multidimensional. Aggregation could lead to the loss of important information, or in the most extreme cases could be used to hide important information.

This principle also aligns with the principles put forward by the [Capitals Coalition](#). In one of its principles, the Capitals Coalition states that key differences between impacts should be specified and addressed. More specifically, positive and negative impacts for the same stakeholder group should not be evened out.

How to ensure the principle

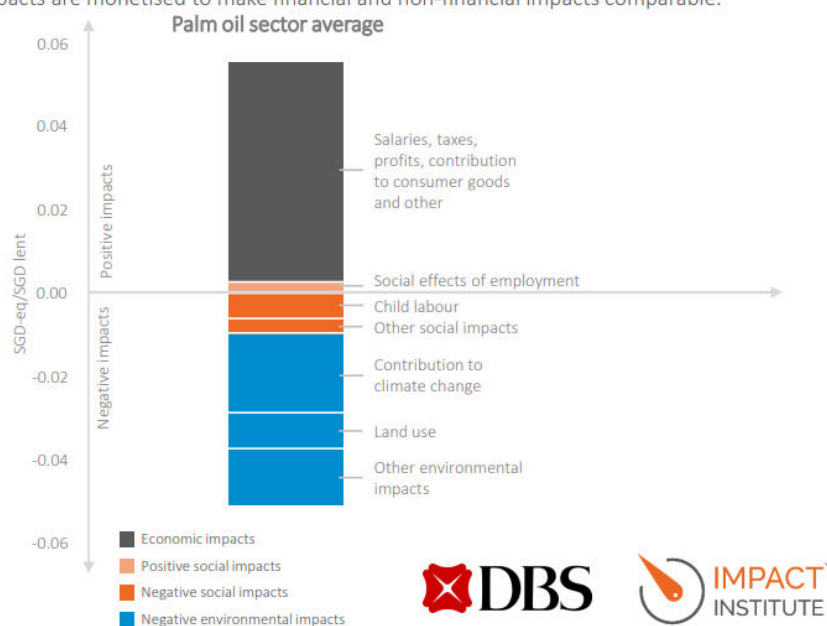
- Aggregate impact only within welfare categories
This means that impacts affecting a stakeholder's rights, for example, should not be aggregated with impacts that affect a stakeholder's wellbeing.
- Avoid aggregating impact into a single number (or total impact)
Showing impact as a single amount aggregates across welfare categories and nets negative against positive impacts. The danger is that the overall net impact may be positive, while human rights violations and other externalities occur. This facilitates *greenwashing*.
- Refrain from netting negative impacts of the stakeholder rights dimension against positive impacts
A breach of a stakeholder's right, such as child labour, cannot be justified with positive impacts in a different welfare dimension, for example, increased wellbeing from employment or an increase in earnings.

Real case study | DBS

DBS measured the economic, social and environmental impacts of financing crude palm oil production in Indonesia. DBS does not aggregate across welfare dimensions, meaning in this case study, they do not net the economic impacts such as salaries and taxes with the social and environmental negative impacts such as child labour and land use. This ensures the reader has all relevant impact information and does not conclude, after reading this report, that there are no negative externalities associated with lending to the palm oil industry.

Figure 4: Impacts of lending to the palm oil sector (SGD-eq/SGD lent) categorised per ESE domain.

Impacts are monetised to make financial and non-financial impacts comparable.




Practical challenges

Some stakeholders may request easy and steerable metrics, typically where one number can be compared to another. In these situations, not aggregating across welfare categories can pose a challenge. Communicating to stakeholders about the importance of not aggregating impact into a single amount is important to ensure that steering decisions are made based on sufficiently granular information. Overlooking negative impacts, especially in the stakeholder's rights dimension, can result in ill-informed steering decisions and pose a potential risk to the bank.

Consistency

Description: Information is reported consistently with respect to several dimensions, such as constant units and scale and the assumption, choices, estimates and calculation approaches that underly the results. Impact calculations follow best practices of calculation methods where they have already been established. This allows the users of the report to compare the report over time.

 **Link:** To ensure this principle, steps already need to have been taken during impact measurement. When assessing impacts, clearly document the approach, data used and assumptions made. See the principles outlined in the guide on [Impact measurement in the financial sector](#) for more information.

Why is this principle important?

Reporting consistently ensures that results are comparable over time and between reports. This increases the value of reported information for monitoring and enables impact management.

Aligning with this principle will also help to satisfy principles put forward by other frameworks, such as the [Partnership for Carbon Accounting Financials](#) (PCAF), which derives some of its principles from the Greenhouse Gas (GHG) Protocol. One of the GHG Protocol's five principles is consistency, which seeks to ensure the use of consistent methodologies as well as transparent documentation of any changes to data, inventory boundary, methods or any other relevant factors.

How to ensure the principle

- Show units, scale and important assumptions made alongside reported information clearly (see Transparency principle)
- Ensure that units, scale, assumptions and calculation approach stay constant across reports
Where assumptions or calculation approaches differ over time, this information should be made clear.
- Follow best practices of calculation methods

Following best practices of calculation methods helps to ensure consistency over time. Best practices are considered sufficiently robust to ensure that significant methodological updates do not occur frequently.

Real case study | ABN AMRO

Between their impact reports from 2020 and 2021, ABN AMRO updated parts of its methodology and data sources. A section in the report is dedicated to explaining what these updates entailed and why they were made. A graph is also presented that shows the impact of the updates on the presented results.

ABN AMRO Impact report: Methodology updates



Practical challenges

Improved approaches and data sources may become available over time. This can, at times, significantly influence results. It is important to indicate clearly in reporting what changes were made and how results were influenced.

Sufficient Resolution



Description: Impact disclosures have sufficient resolution, or sufficient detail, to fulfil the purpose of the decision-maker or reader. For external reporting, it is often useful to allow the user to compare performance over years and with other organisations.

↔ **Link:** To ensure this principle, multiple dimensions need already to have been considered during impact measurement. Chapter 7 of the guide on [Impact measurement in the financial sector](#) specifies how indirect and direct impacts can be considered across different **capitals** and **stakeholders**.

More information on different capitals and stakeholders can be found in the [Glossary](#).

Why is this principle important?

Sufficient resolution enables decision-making specific to your organisation's context. It allows for identifying differences between years and organisations in the impacts they create. It can also allow for the differentiation of impact between business lines or between strategic choices.

This principle will also help align with other frameworks such as the [Capitals Coalition](#). The Capitals Coalition includes a principle on presenting results at a level that is sufficiently granular for decision-making purposes.

How to ensure the principle

- Distinguish between direct and indirect impacts

An organisation has impacts that occur as a result of its own operations, as well as impacts that occur as a result of activities in its value chain. Especially for banks, a large part of the impacts often occurs in the value chain: for decision-making purposes, it is important to distinguish between the two.

Furthermore, disaggregating impact based on different products, investments and/or business lines can help identify the key drivers of impact.

- Disaggregate based on different capitals and/or stakeholders

An organisation's impact can affect changes in the different capitals, namely *natural, social, human, intellectual, manufactured and financial* capitals. Not all capitals are necessarily affected by an organisation, but it is important to distinguish between those capitals that are affected. Similarly, an organisation's impact affects different stakeholders, that is, its customers, employees, investors, society and nature and its beneficiaries. All, or some, of these stakeholders are affected by an organisation's activities and it is important to make this distinction. A stakeholders' or capitals' view can be chosen, or both, depending on the reporting purpose.

- Distinguish between positive and negative impacts

Aggregating positive and negative impacts can pose the danger of hiding negative impacts. To adequately inform decision-making, negative impacts should be shown.

Real case study | ASN Bank

ASN Bank in the Netherlands portrays its biodiversity impact using a heat map. Here, ASN focuses on giving insight into the positive and negative biodiversity impact of different investment categories and drivers of this biodiversity impact. The heat map below does not provide insight into the difference in biodiversity impact between years, which is, in this case, probably not the focus of ASN. Depending on the purpose of the visual, different choices can be made regarding resolution.

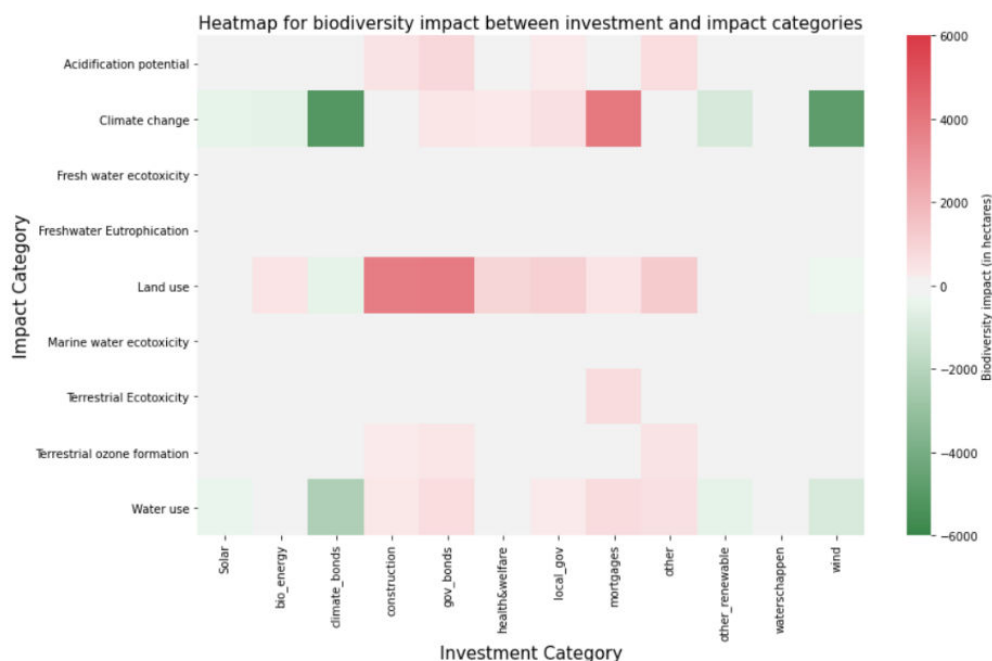


Figure 10: Heatmap for biodiversity impact between investment type and impact categories for ASN bankbalans

Practical challenges

It can be challenging to show sufficient resolution on all relevant dimensions. For example, a certain impact view may show sufficient resolution concerning impact between business lines (or investment categories, such as in the above example) but it would be difficult to show differences in terms of annual results (unless there are substantial changes to the business activities). In these cases, it is important to consider the report's purpose and ascertain which dimensions to provide more detail on.

Another key challenge is that banks may choose to report on their impact in ranges that account for uncertainty or include large margins of error. This can make it challenging to notice effects over time or compare results between organisations. It is a good rule of thumb to be as specific and detailed as possible when considering the quality of the results and the purpose of the report.

Description: Impact reporting includes all elements, for example links to strategy or scoping decisions relevant to the decision-making purposes of its stakeholders.

↔ **Link:** Steps to ensure this principle can already be taken during impact measurement. Chapter 7 of the guide on [Impact measurement in the financial sector](#) outlines how relevant impacts can be selected for further assessment and reporting. The selection is partly based on the **materiality** (see [Glossary](#) for a definition of this term) of each impact to relevant stakeholders.

Why is this principle important?

Reporting on relevant impact information is key to the bank's ability to demonstrate accountability and allows for stakeholders to draw reasonable conclusions about impact. Omitting important elements can result in unintentional harm to one or more stakeholders due to ill-informed decision-making.

This principle will also help align with other frameworks such as the [PCAF](#). As mentioned previously, PCAF principles rely in part on the principles put forward by the [GHG Protocol](#). One of the GHG Protocol's principles is *Relevance*. It ensures that presented information serves the decision-making needs of the users, both internal and external to the company.

How to ensure the principle





































- Identify material issues for stakeholders
This can be done in a materiality assessment, where issues are ranked depending on their salience to different stakeholders. Issues to stakeholders are salient if they significantly affect their welfare (positively and negatively).
- Consult relevant stakeholders to ascertain what constitutes relevant information
It can be useful to verify the material issues identified with the relevant stakeholders. Potentially, stakeholders perceive a different order of importance or can pinpoint issues not yet included in the materiality assessment.
- Refrain from excluding any significant positive or negative impacts from reported information
Such impacts are material to a stakeholder.
- Exclude information that is not material to stakeholders
When reporting on your bank's impact, it is important to exclude information that is not material to any of the stakeholders identified. For example, some volunteering initiatives can have a very small impact compared to the impact your bank is creating through its core activities. Including such information in your bank's impact report can distract from your bank's most significant impact.
Which information to include or exclude largely depends on the purpose of the report. A report focused on corporate social responsibility initiatives for example, can include information on initiatives and activities of your bank that have a small impact compared to the impacts that arise

from your bank’s core activities. A report focusing on the sustainability performance of your bank should not highlight activities that create negligible impact, in particular at the expense of activities that create significant negative impact.

- Consider impacts in both own operations and the value chain
For financial institutions the most material impacts typically lie in the value chain. Value chain impact is thus highly relevant and should be incorporated.

Real case study | Kering

Kering is a French multinational luxury goods company. They produce an environmental profit and loss (EP&L) statement. They include impacts across their supply chain, including the production and processing of raw materials. This is highly relevant in their context, as the production and processing of raw materials accounts for 65% of their total EP&L.


	TIER 0: STORES WAREHOUSE OFFICES	TIER 1: ASSEMBLY	TIER 2: MANUFACTURING	TIER 3: RAW MATERIAL PROCESSING	TIER 4: RAW MATERIAL PRODUCTION
AIR EMISSIONS 					
GHGS 					
LAND USE 					
WASTE 					
WATER CONSUMPTION 					
WATER POLLUTION 					

Practical challenges

It can be challenging to identify issues material to stakeholders. Not all stakeholders can always be questioned, and materiality assessments sometimes rely on own research and the input of third parties. As a result, some impacts may be portrayed as very important while their effect in comparison with other impacts at the bank is negligible. To avoid this, be sure to have clear criteria for when to include and exclude impacts. These can be, for example, that impacts need to be related to a core activity of your bank.

Reliability

Description: Impact information can be interpreted with a reasonable level of confidence. Sufficient effort has been put in to ensure that information is free from material error.

 **Link:** To ensure this principle, steps need already to have been taken during impact measurement. These includes the use of reliable data sources and validation of results. Chapter 8 of the guide on [Impact measurement in the financial sector](#) describes relevant data sources for an impact assessment.

Additional resources

Identifying reliable sources can be difficult. For some assessments it might be difficult even to determine what data is needed and where it can be found. [Supplement 1](#), as part of this BFI methodology series, provides an overview of data points needed for an impact assessment and lists potential sources where some of these data points can be found.

Why is this principle important?

Material error misrepresents the value created by an organisation and undermines decision-making. It limits the use of reported information and may have adverse effects on stakeholders. Achieving a reliable level of certainty in the results enables users to interpret reported information with a reasonable level of confidence.

This principle is also included in other frameworks such as the [PCAF](#), which derives this principle from the [GHG Protocol](#) and includes it under “Accuracy”. This principle ensures that results are neither a systematic over- or under-representation and that uncertainties are reduced as much as possible.

How to ensure the principle

- Conduct internal and/or external validation on the results reported
Internal validation throughout the impact measurement and reporting process is key to ensuring reliable results. External validation or engaging in a formal assurance procedure can provide stakeholders with comfort around the quality of the results.
- Present assumptions, limitations and calculations understandably and transparently
Understandable and transparent presentation of important assumptions, limitations and calculation steps can facilitate this validation step (see Transparency principle).

Real case study | Vitens

Vitens is the largest drinking water provider in the Netherlands. In their 2021 annual report, they included quantitative impact measurement on the value created for employees and on their creation of climate change. The methodology and calculation steps are described in the report. The calculations are reviewed and receive limited assurance.



This also provides a good example of the principle, [Aggregation only within welfare categories](#).

Best-in-class benchmarking

Description: Where benchmarks are used, best-in-class benchmarks should be included to ensure the impact of the bank is not compared to an exceptionally low threshold.

Why is this principle important?

Best-in-class benchmarking ensures that positive impacts are not inflated, or negative impacts downplayed artificially. This ensures the conservativeness of results and prevents *greenwashing*.

Benchmarks can also provide helpful information for the interpretation of results by putting the impact performance of the bank into context.

Additional resources

Identifying reliable best-in-class benchmarks can be difficult. Here a list of potential sources that can help you identify a benchmark relevant to the sector and topic you are interested in:

- **Impact Management Project (IMP):** The IMP provides a list of resources to identify relevant performance benchmarks.
- **Science Based Targets Initiative (SBTi):** In target setting, the SBTi recommends defining a level of ambition that is consistent with the well-below 2°C trajectory as defined in the Paris Agreement. This can be a useful benchmark for reporting on CO₂ emissions.

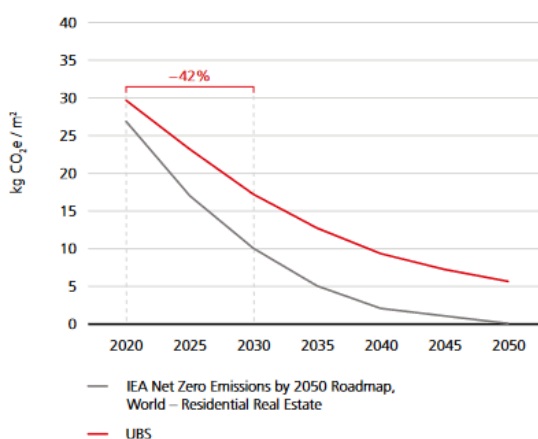
How to ensure the principle

- In cases where external benchmarks are used, it is important to use benchmarks that do not only represent sector averages but also show good or best-in-class impact performers.
- Benchmarks are more meaningful if they are specific, showing best-in-class results or organisations in a specific sector or results on specific impacts.
- Sector or industry experts can be consulted to identify and verify the use of best-in-class benchmarks.

Real case study | UBS

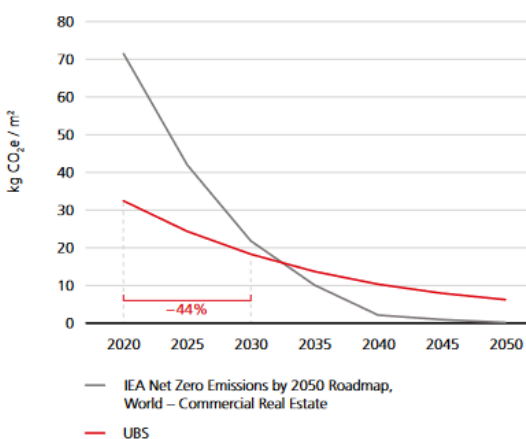
UBS reports the CO₂ emissions of its portfolios alongside IEA (International Energy Agency) Net Zero Emission pathways. Different IEA pathways are available for UBS' real estate and lending portfolios. In addition to reporting current portfolio emissions in relation to the IEA benchmark, UBS uses the pathways to define its future emission reduction path.

Residential real estate lending



Baseline and proposed reduction path for residential real estate financed by UBS, as emissions intensity in kilograms CO₂e per m².

Commercial real estate lending



Baseline and proposed reduction path for commercial real estate financed by UBS, as emissions intensity in kilograms CO₂e per m².


Practical challenges

The choice of the appropriate best-in-class benchmark can be challenging. Benchmarks differ across sectors, and it can be difficult to ascertain which benchmark is considered best-in-class. It is recommended the benchmark be made as specific as possible to the information it is being compared to. In addition, using benchmarks from reputable sources, e.g., the IMP or the United Nations can help identify trustworthy best-in-class benchmarks.

For some impacts, best in class-benchmarks may not be available. While, for example, best-in class benchmarks on climate are more readily available, this may not be the case for other environmental or social topics. If best-in-class benchmarks are not available, it is important to keep in mind that market averages or worst-in-class benchmarks should not be used as alternatives. Reporting solely using worst-in-class benchmarks downplays negative impacts and inflates positive impacts which poses the danger of greenwashing.

Transparency

Description: Data sources, uncertainties, assumptions, limitations, omissions, etc. used in impact assessments should be transparently disclosed.

 **Link:** Already documenting data used, assumptions and limitations during impact measurement can help ensure this principle. See the principles outlined in the guide on [Impact measurement in the financial sector](#), where transparency is also an important topic.

Why is this principle important?

This increases the credibility of the impact information and allows validation by a third party. Adherence to this principle can also help to align with other frameworks and initiatives.

For example, transparency is also included as a principle in the PRB and PCAF, as well as the Global Alliance for Banking on Values. The PRB includes a principle to ensure that banks are transparent and can be held accountable for the positive and negative impacts they report. The PCAF also includes transparency as a reporting principle, which states that relevant assumptions, references and calculation methodologies should be transparently disclosed. Finally, the Global Alliance for Banking on Values specifies that banks should maintain a high degree of transparency in reporting.

As noted, transparency is critical for third-party validation, for example assurance reviews or audit procedures. Documentation collected during the impact measurement and reporting process is critical for assurance providers to perform their procedures.

How to ensure the principle

- Document all calculation steps, data sources, assumptions and limitations used to produce impact results

Information that is critical for a reader to understand and interpret impact results should be disclosed publicly. This can be done in an annex or separate methodology document. More detailed information should also be gathered for the purposes of an assurance procedure.

- Provide necessary context alongside impact results

To ensure they are interpreted correctly, it is important to provide any necessary context alongside impact results. For example, if comparing the impact arising from two different business units, an estimate of the size and scope of each unit is key to drawing the correct conclusions.

- Make use of publicly available methods where possible. These are transparent and can be compared easily.

Real case study | Triodos

Triodos reports a data quality score alongside its financed CO₂ emissions. In addition to providing a quality score, Triodos also shows how this data quality score is assessed. The score allows users to identify which data was audited and which was estimated. This is a good example of ensuring transparency, as it facilitates validation and informs the audience and decision-makers on the trustworthiness of the results.

Quality score assessment method

<p>Certain (5-10% error margin in estimations)</p> <p>↑</p> <p>(40-50% error margin in estimations)</p>	Score 1	Audited GHG emissions data or actual primary energy data
	Score 2	Non-audited GHG emissions data, or other primary data
	Score 3	Averaged data that is peer/(sub)sector-specific
	Score 4	Proxy data on the basis of region or country
	Score 5	Estimated data with very limited support

Quality score in reported impact information

Climate impact of our loans and funds' investments

Impact sector	2020				2019 ¹
	Total outstanding (million EUR)	Attributed emissions (kton CO ₂ eq.)	Emission intensity (kton CO ₂ eq. / billion EUR)	Data quality score high quality = 1 low quality = 5	
Generated emissions					
Environment:					
- Organic farming	298	13	43	2.9	15
- Sustainable property	963	30	31	3.4	34
- Residential mortgages	2,739	26	9	2.3	35
- Environmental - other	298	13	42	5.0	9
Social:					
- Care for the elderly	748	29	38	3.8	24
- Healthcare - other	456	17	37	5.0	16
- Social housing	528	23	44	4.0	22
- Inclusive finance & development	816	11	13	5.0	9
- Social other & municipalities	377	13	35	5.0	15
Culture:					
- Arts and culture	501	34	67	4.6	32
- Education	322	9	29	4.1	7
- Culture - other	271	16	60	5.0	15
- IEB funds	2,306	139	60	2.9	86
	10,623	372	35	3.5	317

Practical challenges

Striking a balance between producing an engaging and understandable impact report against disclosing relevant methodological concerns can pose a challenge, which can be addressed by including the more detailed information in an accompanying methodology supplement. If existing frameworks or methodologies are used, these can also be referenced. The supplementary information can provide the interested reader with all relevant information to draw relevant conclusions on the content of the impact information.

Description: Impact reporting should be done in a timely way, soon after the reporting period has ended

Why is this principle important?

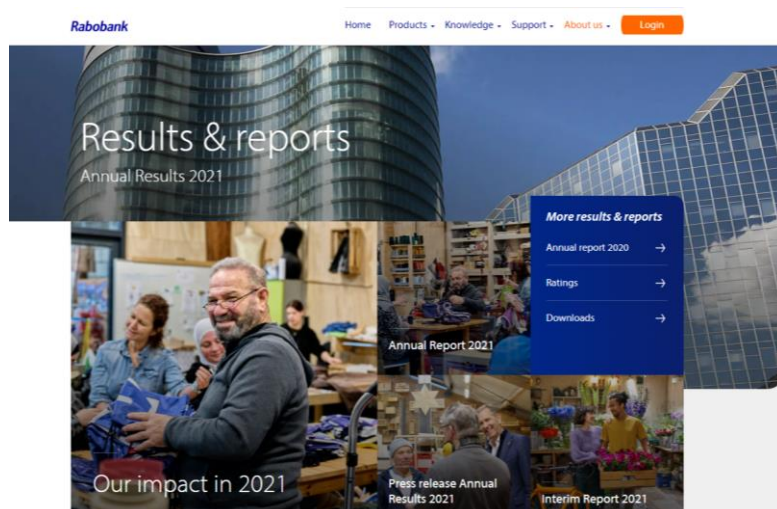
This ensures that the impact information published is recent. Not publishing impact information in a timely manner reduces its usefulness for reporting and decision-making.

How to ensure the principle

- Integrate impact reporting in the annual reporting cycle
- Conduct impact assessments in a timely manner
- Report impact information as soon as it becomes available
- Setting up a process for data collection and identifying the necessary data providers ahead of time

Real case study | Rabobank

Rabobank is a Dutch multinational bank. In recent years they have started reporting annually on their impact. This is published to coincide with their annual reporting and is incorporated into the annual reporting cycle.



Practical challenges

Data collection and impact assessments—especially if the impact of the entire bank is assessed—can require significant time and effort. Some data may only be available for previous years, or a lot of data processing may be required to make it available in the right format for analysis. This can make it challenging to report data within the relevant time frame. Setting up a standardised process for data collection and identifying the necessary data providers ahead of time can shorten the time required.

Glossary

The glossary defines key terms and concepts in impact assessment and valuation.

Stakeholder groups

It is helpful to divide the stakeholders who are affected by an organisation into groups. There is no generally accepted classification of stakeholder groups, but most classifications are similar to the following (see IWAF):

Stakeholder group	Definition
Organisation	The organisation under review
Investors	The investors (through debt or equity) in the organisation under review
Employees	The employees of the organisation under review
Suppliers	The persons or organisations who provide products or services to the organisation under review
Clients	The organisations or people who receive products or services from the organisation under review
Nature and its beneficiaries	Nature itself, to the extent it has inherent value. In addition, all persons, communities and organisations that use or enjoy natural resources
Governments, local communities and other	All governments, communities or other groups affected by the actions of the organisation or their value chain, including, in particular, the employees of value chain partners

↔ **Link:** Chapter 7 of the guide for [Impact measurement in the financial sector](#) elaborates on different stakeholders and how to select relevant stakeholders. Refer to the guide for further information.

Capitals

While traditionally only financial and tangible assets are measured, many non-financial and/or non-tangible assets are key for wellbeing, such as climate, ecosystems, biodiversity, trust or health. The International Integrated Reporting Council currently identifies six **capitals** that assets can belong to (IIRC, 2013). These capitals are outlined briefly below:

- **Natural capital** (often referred to as “environmental capital”) consists of all stocks of natural assets. It contains living (biotic) and non-living (abiotic) natural resources, including scarce resources, climate and ecosystems that provide benefits to current and future generations (“ecosystem services”).
- **Social capital** consists of value embedded in groups of people—from family to the global community—and includes social ties, networks and norms. Wellbeing effects are often listed under social capital if they only occur at the level of groups.
- **Human capital** consists of the value embedded in individual people. This includes their health and competences. Wellbeing impacts are listed under human capital if they occur at the level of individual people.
- **Intellectual capital** consists of intangible assets, either with or without legal rights. Intangible assets cover intellectual property, organisational capital and intangibles associated with the brand and reputation that an organisation has developed.
- **Manufactured capital** consists of all tangible assets. These are the assets used for production (property, plant, and equipment) and include the tangible assets of intermediate and finished products.
- **Financial capital** consists of all assets that are a form of money or other financial assets, including contracts.

Materiality

An impact is considered **material** if it satisfies one of the following criteria:

- I. The impact materially affects the future earning potential of the enterprise.
- II. The impact materially affects the welfare of one of more (external) stakeholder groups. This principle aims to ensure that the most significant impacts (in terms of size, importance to stakeholder groups and contribution to the overall impact of the bank) are included.

Welfare dimensions

A **welfare dimension** is a fundamental concept that a decision-maker considers to be a valuable criterion in decision-making.

Two key welfare dimensions that can be considered are *wellbeing* and *respect of rights*.

Respect of rights is an important welfare category. Remediating harm related to non-observance of rights is at the basis of the Principles or true pricing (True Price Foundation & Impact Economy Foundation, 2020). Examples of impacts that fall within the respect of rights welfare dimension are:

- Occupational health and safety incidents
- Child labour in the value chain
- Environmental pollution
- Depletion of scarce materials
- Contribution to climate change

Wellbeing as a welfare dimension is commonly used in impact assessment methodologies and frameworks, explicitly or implicitly. Wellbeing is a broad concept related to the satisfaction of needs and/or preferences at the individual or collective level. Examples of impacts that fall within the wellbeing welfare dimension are:

- Salaries and other comprehensive benefits
- Wellbeing from employment
- Client value of products and services
- Profit
- Value to society of a better trained workforce

↔ **Link:** Chapter 8 of the guide for [Impact measurement in the financial sector](#) provides further information on aggregation, and aggregation across welfare dimensions in particular. The guide also highlights benefits and pitfalls of aggregation.

Below, we give an illustrative example of when and when not to aggregate across welfare dimensions.

Aggregation across welfare dimensions: When and when not to aggregate

