TO: Impact Frontiers
FROM: BlueMark
REGARDING: Impact Performance Reporting Norms

Overall Feedback

Thank you for the opportunity to provide feedback on the draft Impact Performance Reporting Norms (“Norms”).[1] We are impressed with and excited about this work and believe both the Reporting Norms – as well as the proposed guidelines for independent reviewers of impact performance reports[2] – are meeting a huge need and gap in the impact investing market. We appreciate that the Norms draw on elements of the Conceptual Framework for Financial Reporting,[3] demonstrating areas of alignment in terms of the attributes of "useful" information for both impact and financial reporting. Overall, the Norms and supporting guidelines represent a well-thought out and robust set of criteria for high-quality impact reports, particularly at this stage in the market’s development.

The Exposure Draft (“Draft” or “ED”)[4] also does a nice job of connecting the Norms to existing industry standards like the Operating Principles for Impact Management (“Impact Principles”) and the Impact Management Project’s five dimensions of impact. While we recognize the impact investing market will need more clarity on how the Norms can be used in the context of the Integrated Reporting Framework[5] as well as current and potential regulations (e.g., SFDR, CSRD, SDR, etc.), we believe the proposed Norms represent an important first step towards building additional market consensus for impact reporting and fostering closer alignment with existing norms for broader impact management.

As Impact Frontiers is aware, BlueMark has done extensive research on the topic of impact performance reporting, including by publishing the “Key Elements of Impact Performance Reporting”[6] and developing a verification framework for evaluating the “Completeness” and “Reliability” of impact reports.[7] We are encouraged to see that the Norms reflect this research, ensuring interoperability for those GPs and LPs that have already adopted BlueMark’s “Key Elements”[8] or completed a reporting verification with BlueMark. To date, BlueMark has completed more than 25 reporting assessments and/or verifications for investors managing a combined $11.4 billion in impact AUM. These experiences have revealed significant inconsistencies in how practitioners approach impact reporting, which we believe suggests strong market demand for comprehensive guidelines rather than a lack of ambition or commitment on the part of these private fund managers.

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1 https://impactfrontiers.org/work/impact-performance-reporting/
2 https://impactfrontiers.org/wp-content/uploads/2023/10/Exposure-Draft_Supplement-on-Independent-Review-of-Impact-Performance-Reports_Public-Consultation.pdf
3 https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/
4 https://impactfrontiers.org/wp-content/uploads/2023/10/Exposure-Draft_Impact-Performance-Reporting-Norms_Public-Consultation.pdf
5 https://www.ifrs.org/issued-standards/integrated-reporting/
6 https://bluemarktideline.com/raising-the-bar/
7 https://bluemarktideline.com/raising-the-bar-2/
8 https://bluemarktideline.com/joint-statement-by-limited-partners-on-advancing-best-practices-in-impact-performance-reporting/

Impact investing practitioners agree that widely available, consistently structured, and verifiable impact reports are key to driving greater use of impact data by a range of market actors. We are heartened to see the Norms emerge as an effective prototype for an impact investing reporting standard, and we look forward to working with the market to refine and evolve these Norms over time.

Best regards,
The BlueMark team

Responses to Consultation Questions

1. Do the Norms strike the right balance between uniformity and standardization on one hand, and flexibility for preparer discretion and customization on the other? What, if anything, would you change to improve that balance?

BlueMark response
We agree that the Norms have struck the right balance between the needs of report users and the capabilities and resources of reporter preparers. Naturally, we expect some report users will ask for more information than is recommended by the Norms, just as we expect some report preparers to complain about the burden of aligning with the Norms. But this disconnect is an inevitable part of any growing and maturing market, so to that end we applaud Impact Frontiers for setting an appropriately high bar with the Norms.

As we wrote in a recent blog post about what makes a meaningful impact report: "the Norms are flexible, allowing different types of impact investors to apply them in the context of their specific strategies and goals. While this flexibility may be vexing for those seeking more uniform and templatized impact reporting, it is precisely the approach needed as practitioners begin to disclose this rich mosaic of data more consistently. It is certain, as the Norms are tested and adopted, that more structured and prescriptive reporting templates will emerge. But, in their current form, the Norms offer fertile ground for practitioners to experiment and work out how best to disclose their impact data across a common set of information categories."[9]

Our specific recommendations on improving the balance between the needs of report users and report preparers are discussed in more detail in the section on "Comments on Other Topics." But to briefly summarize, we suggest the following:

- Clarify that "evergreen" sections, such as those related to Investor Overview, Impact Management Process, and Governance, only need to be updated if there are significant changes rather than during each reporting year, although references to these sections should be made accessible to new report stakeholders. This will help ensure impact reports are kept to a manageable length.
- Encourage investment-level reporting to be mandatory, where possible, given the nuance that is often lost when aggregating metrics for reporting across a portfolio. In situations where portfolio-level aggregated reporting is the only sensible option, such as

[9] https://bluemarktideline.com/what-makes-a-meaningful-impact-report/

in the case of multi-asset portfolios or portfolios with hundreds of holdings, we would suggest requiring reporter preparers to aggregate data across all investments in the portfolio (or at the least specify the extent of coverage). We feel this is important to avoid cherry-picking of KPIs by reporter preparers while also encouraging a higher bar for transparency of impacts achieved via portfolio-level reporting approaches.

- Redefine Case Studies as “Highly recommended” instead of “Optional” given the important role that Case Studies play in providing report users with a holistic understanding of impact performance that combines quantitative and qualitative factors. To accommodate this change, we also recommend that the Norms loosen the requirements around how report preparers are expected to document their process for selecting and presenting Case Studies, specifically the recommendation that “preparers should not include only exemplary-positive cases.” (ED line 1017)
- Remove the reporting templates for reasonable and limited assurance, as those are more appropriate/credible coming from an accounting standard-setter such as IAASB. For more information on this topic, see BlueMark’s recent comment letter in response to the proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*.[10]

2. Does the suggested content and structure—in particular the list of suggested topics in “3. Impact Performance”—include the right items with the appropriate level of emphasis? Is there anything you would recommend adding, removing, or changing?

<u>BlueMark response</u>
We believe the Exposure Draft includes a thorough compilation of topics that should be included in impact reports. We particularly like the emphasis on including both quantitative and qualitative information, which we see as critical to facilitating interpretation of impact performance. The recommendations also track closely with BlueMark’s own recommendations as to what constitutes a high-quality impact report, which we discussed in more depth in an FAQ recently published in *ImpactAlpha*.[11]

We agree it makes sense to give the report preparer overall discretion in deciding how much detail is appropriate and realistic for a given fund or strategy. We also agree that while “considerable consensus exists as to the nature of information that preparers should strive to provide, and that users should expect” some level of flexibility will need to be maintained given “methods of impact measurement, analysis, and reporting are diverse enough that no standardized reporting template will be suitable for a plurality of investors.” (ED lines 886-889)

However, we believe the Norms could be strengthened with a few specific changes to the section on Impact Performance, such as:

- Amend the recommendation that “preparers are encouraged to report on every investee or asset individually if possible.” (ED line 901) The qualifier “if possible” leaves a lot of room for interpretation, so we would suggest clarifying that preparers should report on every investee or asset for which there is sufficient data and supporting information for the report user to evaluate impact performance. This change would work nicely with the “disclose-or-explain” guidance, in which the report preparer would be expected to

[10] https://www.iaasb.org/focus-areas/understanding-international-standard-sustainability-assurance-5000
[11] https://bluemarktideline.com/impactalpha-what-impact-investors-should-know-about-impact-reporting/

explain why impact performance information is unavailable (or unusable) for a specific investee or asset. (ED line 897)

- Remove the recommendation about the "disaggregation of results by stakeholder characteristics." (ED line 721) While most GPs investing in companies in developed economies should be able to collect this type of information, we feel it imposes an undue burden on those GPs specializing in developing economies where such data is likely unavailable and potentially dangerous to collect (e.g., asking about LGBTQ status in a country that outlaws gay marriage).
- Remove or clarify the recommendation about "Significant investees." (ED line 937) We feel that asking reporter preparers to identify specific investees in terms of their contribution to "the portfolio's performance on any measure of impact" will lead to cherry-picking of results and faulty calculations. We also don't see how such information would benefit report users, especially if the report preparer is already expected to report impact performance at the investment-level.
- Clarify that portfolio-level reporting should only be used in instances where the reporter preparer is unable to include comprehensive investment-level reporting, and suggest that the ideal form is to report both – with portfolio-reporting approaches acting as a summary where, in essence, the report user should be able to check the aggregate calculations for themselves using the investment-level data.
- For the report preparers that choose to include portfolio-level reporting in their disclosures, the Norms should require preparers to disclose how much of the portfolio is included in portfolio-level reporting (i.e., in terms of fund assets) along with an explanation of how the chosen percentage satisfies the goal of making impact reporting a "faithful representation" of impact performance. While we feel setting a specific threshold for portfolio-level reporting would be too prescriptive at this stage, we think future iterations of the Norms could explore introducing explicit targets for different asset classes and/or strategy types. For example, the SEC has an 80% threshold for its amended "Names Rule" in which "registered investment companies whose names suggest a focus in a particular type of investment" are required "to adopt a policy to invest at least 80 percent of the value of their assets in those investments."[12] Similarly, the Sustainability Disclosure Requirements (SDR) recently introduced by the FCA requires that any investment product that wants to use one of the four SDR investment labels must have at least 70% of the gross value of the product's assets invested in line with the stated sustainability objective.[13]
- Encourage report preparers to more directly disclose impact management frameworks (i.e., IRIS+, IMP), ESG frameworks (i.e., PRI, EDCI), and/or standards (i.e., SASB, GRI) that they are aligned to or that are directly used to inform their approach to impact management and reporting. We feel this will add more contextual information for how preparers are managing for impact in addition to giving additional credibility to any commitments made as part of the strategy.

3. Should a principle of conservatism be added? This would encourage report preparers, when facing situations in which information is uncertain or may be framed or presented in various ways, to favor possible understatement over possible overstatement of positive impact (and vice versa for negative impact).

[12] https://www.sec.gov/news/press-release/2023-188
[13] https://www.fca.org.uk/publication/consultation/cp22-20.pdf

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BlueMark response

It is inevitable that report preparers will be dealing with incomplete or uncertain information in various aspects of their reporting. While great strides have been made in the market to improve the consistency and quality of impact-related data, significant gaps still remain. As we wrote in a recent blog post about the ISSB Standards:

"Financial reporting is about more than simply disclosing a set of numbers – it's a way for investors to understand how companies are navigating risks and opportunities in both the short-term and long-term. The same should be true of sustainability and impact reporting. Quantitative metrics alone will never tell the full story of how the climate is changing and what companies are doing about it. Investors and other stakeholders require a broader set of information to understand whether to invest in a particular company as well as how best to help investees improve both financial performance and sustainability outcomes. Without this higher standard of corporate reporting, investors will be left trying to fill the gaps with incomplete and potentially irrelevant information, possibly compromising both their financial returns and impact outcomes."[14]

We think it is important for report preparers to be transparent about their data limitations, much as a social scientist would when publishing an academic paper. This information on limitations is likely most appropriate for the Annex section of the report, but in the absence of that section it should be included alongside any discussion of impact results, likely in the footnotes so as not to disrupt the flow of the report.

Such a statement could say, for example: "The information presented in this impact report is accurate to the best of our knowledge and reflects our current access to both investee data and third-party data. We have taken steps to ensure we do not unintentionally inflate positive impact results or under-report negative impacts, however we acknowledge there are limitations in the quantity and quality of data available."

4. How can field-building organizations (including but not limited to Impact Frontiers) best support collective action among report preparers and users to transition to impact performance reporting in alignment with the Norms?

BlueMark response

We expect the industry-wide transition to the Norms will be a long and winding road. While the goal of this field-building work should be facilitating greater alignment with the Norms, the reality is that report preparers (primarily GPs) will progress at widely varying speeds. Those GPs that have already published an impact report will likely have an advantage over GPs working on an impact report for the first time. Similarly, those GPs with highly sophisticated data access and management capabilities will have more comprehensive impact data to share than those GPs with comparably light-tough systems.

We see the role of field-building organizations as two-fold. First, they should help promote the existence of the Norms so that both reporter preparers and users have guidance they can use

[14] https://bluemarktideline.com/what-recent-efforts-to-standardize-corporate-sustainability-disclosures-mean-for-impact-investors/

as an input into their reporting processes. This will signal to the market that there is an established industry best practice, and also minimize attempts by report preparers to customize their reporting. Second, field-builders should focus on a particular reporting challenge facing their members or signatories in which they have particular expertise or credibility. For example, an industry association serving emerging markets investors will have unique insights into the challenges of collecting impact data from EM companies, making it better positioned to lead this work than other field-building organizations.

Those field-building organizations that specifically serve or target LPs have an especially important role to play. BlueMark's research on impact reporting has consistently shown that GPs tend to respond to LP reporting demands and requests, with several industry leaders commenting on how aligning LP demands could be the primary driver of uptake for an industry standard. In a joint statement about impact reporting, several LPs that BlueMark collaborates with said: "our ability to interpret and draw conclusions from the impact reports we receive today is hindered by the significant variability in the content and quality of these reports. We recognize that this inconsistency stems in part from the lack of widely accepted guidelines for what quality impact reporting looks like. We further recognize that we have an important role to play in establishing a common baseline for how GPs should report on their impact."[15] This suggests that an important catalyst towards adoption of the Norms could be encouraging an LP network or group of allocators to commit to demanding that their GPs use the Norms for all future impact reporting.

As for field-builders like Impact Frontiers, as well as service providers like BlueMark, there will clearly be a need for more practical reporting templates and tools as a way to facilitate easier onramps for GPs, especially those newer to impact reporting or those specializing in more niche asset classes and investment strategies. This work of building a robust infrastructure for impact reporting will likely take several years, so the initial focus should be on those areas of the impact investing market with the most growth and investment activity.

5. Impact Frontiers can steward the Norms as long as is needed. In the longer-term, however, incorporation into a larger body of standards may increase adoption and reduce proliferation of standards. What kind of entity would you see as the best long-term home of these norms?

- Industry association or membership network (e.g., GIIN, ILPA, UN PRI)
- Voluntary standard-setter with an independent standards board (e.g., ISO, ISSB, GRI)
- Incorporation of norms into jurisdictional policy and regulation

<u>BlueMark response</u>
Given the breadth and depth of the impact investing industry today, it is unlikely any single entity will be successful on their own in promoting widespread adoption of the Norms. Therefore, we would encourage a variety of industry associations and standard-setters to work directly with their members and signatories to educate them about the Norms and, if possible, assist with implementation. This would ensure that the Norms reach as large an audience as possible.

[15] https://bluemarktideline.com/joint-statement-by-limited-partners-on-advancing-best-practices-in-impact-performance-reporting/

In the meantime, we believe Impact Frontiers is well-positioned to continue stewarding the Norms, including by organizing pilot projects, facilitating future consultations, and incorporating feedback from various stakeholders. This will help ensure the Norms are maintained as a continuously evolving standard until there is more clarity about the right "longer-term home."

Responses to Questions on Independent Review

This section contains BlueMark's responses to questions in the supplemental document on the "Independent Review of Impact Performance Reports."[16]

<u>Assurance</u>

In general, we encourage the Norms to allow for a range of different approaches to independent assurance. We don't think prescribing a single universal approach is conducive to improving the quality and reliability of impact performance reports at this early stage in the market's growth. However, we agree that there are some unifying characteristics on how an independent review should be conducted and what information should be included as part of the review.

In particular, we think the list of questions/tests for assurance providers is excellent, and very helpful to promoting a shared understanding among both report preparers and independent assurers about what information will be scrutinized. However, we don't feel that the reporting templates for reasonable and limited assurance are necessary given that guidance will likely be addressed by other standard-setters, particularly IAASB.

1. Should independent reviewers be expected to validate the data provided in impact performance reports?

<u>BlueMark response</u>: We feel strongly that independent reviewers should validate some minimum level of accuracy and reliability of data presented. This may take the form of a data sampling approach or a review of data calculation methodologies, especially given that obtaining assurance of every data point may not always be feasible or cost-effective for report preparers. However, we advise on not being overly prescriptive as to the specific nature and coverage of data validation given the wide range of acceptable assurance approaches and types of impact data addressed by the Norms.

2. Should the scope of independent review vary by asset class?

<u>BlueMark response</u>: No, we think that guidance for independent reviewers should remain at the principle level, especially given the impact investing market is still developing. This flexible approach ensures that service providers can interpret the guidelines across different asset class contexts according to their understanding of what is realistic and appropriate for each investment strategy. The recent adoption of the Impact Principles by a wide range of asset owners and asset managers shows that such an approach can be successful in bringing more

[16] https://impactfrontiers.org/wp-content/uploads/2023/10/Exposure-Draft_Supplement-on-Independent-Review-of-Impact-Performance-Reports_Public-Consultation.pdf

market actors together under a shared standard or framework.[17] In the future, if it becomes apparent that different asset classes require substantially different approaches, then the guidelines can be updated with specific guidance for the asset classes that are most prevalent in the impact investing market.

3. What is the obligation of assurance providers to look "beyond the report" to additional data, documents, and practices?

<u>BlueMark response</u>: We think the process of assuring the reliability of reported data will likely, by definition, require developing an understanding of and reviewing evidence pertaining to certain underlying processes and systems. However, we suggest each service provider be allowed to determine how thorough an independent review should be to meet the objective of "obtain[ing] a reasonable basis for their conclusion or opinion." We also believe assurance providers should be expected to clearly document their methodologies and justification – for instance, by disclosing the scope of the review along with any potential limitations in the data. We encourage Impact Frontiers to propose some characteristics of a qualified assurance provider (e.g., understanding of impact investing standards and frameworks, previous experience verifying impact reports or impact management systems, etc.), however we believe the guidelines should stop short of positioning these characteristics as explicit requirements.

Comments on Other Topics

We also felt compelled to share our feedback on these additional aspects of the Exposure Draft.

<u>Case Studies</u>
The Exposure Draft lists Case Studies as an "optional" aspect of an impact report with the recommendation that they "should be selected and written in service of the qualitative characteristics of useful information." The Exposure Draft also recommends that preparers should not include only "exemplary-positive" cases to avoid any suggestion that positive information is being "cherry-picked." (ED lines 1003-1031)

We agree with the goal behind these recommendations – "contributing to a faithful representation of the impact of the portfolio as a whole." However, as currently worded, we feel the recommendations are unnecessarily strict and would represent a substantial burden for many report preparers. We would suggest making the following changes to the Norms:

- Make Case Studies "strongly recommended" instead of "optional" for GPs. We feel Case Studies, even if structured as hypotheticals, tell a much more meaningful story about impact performance than can be captured by quantitative and qualitative metrics alone. We have yet to come across a fund manager that is unable to provide an informative narrative about the impact thesis for at least one of the investments in the portfolio, no matter how early stage.
    - Case Studies should remain "optional" for LPs given LPs face different stakeholder expectations than GPs and likely would deliver less value with fund-level case studies.

[17] https://www.impactprinciples.org/

- Add a recommendation that each impact report should include at least two Case Studies, even if there are only two investments in the portfolio.
- Remove the recommendation that preparers avoid only including “exemplary-positive” cases in their impact reports. While this is commendable as a north star for the field, we feel that pressuring GPs to always include other types of Case Studies – particularly those that show negative impacts, unintended or unexpected impacts, or impact under-performance – will result in a different type of cherry-picking in which GPs select the least worst example instead of the most informative example. Additional consideration should also be given to the fact that portfolio companies may not be as forthcoming with information that reflects negatively on their individual impact performance, which can lead to data quality and data integrity issues in the impact report itself.
- To proactively address these concerns, the next iteration of the Norms should also include a list of sample topics that GPs could ask their portfolio companies to acquire a “faithful representation” of each company’s impact, both good and bad as well as intended and unintended. Including a set of questions within the Norms also gives GPs added cover when engaging with portfolio companies to avoid the appearance of any conflict or other ulterior motives.

Materiality

We found the guidance around materiality a bit theoretical/unclear. While we agree that “enterprises and investors commonly conduct top-down stakeholder and materiality assessments to determine what outcomes and impacts to disclose” and that “this approach risks excluding impacts that, while individually small in magnitude, collectively would be significant to the stakeholders experiencing them and hence material to the report user,” the Norms stop short of suggesting a specific solution to this problem. (ED lines 615-618) We feel it is a mistake to leave materiality assessments entirely up to the discretion of report preparers, especially given the wide range of materiality definitions used by different industry frameworks and standards, a fact that the Norms acknowledge in Appendix E. Therefore, we recommend that the Norms select one or two frameworks as the *preferred* definition of materiality, and allow report preparers to either align with the framework or explain why they are not able to do so – for example, due to logistical (i.e., cost) or more strategic barriers (i.e., investment strategy).

Separately, it wasn't entirely clear how to interpret the guidance in the Norms pertaining to when a materiality assessment is needed at both the firm and investment level, what constitutes such an assessment (i.e., conducted by a third party, grounded in evidence/standards, etc.), and whether it's inclusive of financially material ESG/sustainability issues (i.e., SASB) as well as issues that are material in relation to the positive outcomes being sought (i.e., GRI).

We agree with the Exposure Draft that impact investors, “facing the cost and logistical challenge of measuring all impacts on all stakeholders and aspects of the natural environment,” should “conduct an ex-ante materiality assessment to determine which impacts are expected to be material, and then measure those.” While this approach to materiality assessments will inevitably lead to some material impacts being “excluded from reports because they were never measured in the first place,” we feel the overall recommendations included in the Norms sufficiently account for this risk by encouraging report preparers to prioritize the usefulness and interpretability of impact performance reporting. We envision that future iterations of the Norms will provide additional guidance related to when materiality assessments are needed as well as the recommended scope of those assessments. The Norms may also want to explore progress on the practice of impact accounting, however we acknowledge current initiatives in that area are not yet ready to be scaled to a broad swath of the impact investing industry. (ED footnote #36)

Questions & Considerations for Impact Frontiers

Here are a few additional questions about the Exposure Draft that we would like to see addressed or clarified in the next iteration of the Norms.

- Does Impact Frontiers see a standard like IAASB as providing the model/guidance for conducting independent reviews of impact performance reports, while these Norms provide the basis for defining “suitable criteria” for the assessment of the report? Why or why not?
- Does Impact Frontiers have a view on how Impact reports aligned with the Norms should integrate (or not) with dedicated ESG Investment Reports (i.e., ESG reporting for the same portfolio) or Corporate Sustainability Reports (i.e., ESG data on investor entity)?
- Has Impact Frontiers considered mapping these Norms to disclosure requirements for SFDR and/or SDR? This may be a helpful way to encourage uptake and utilization of the Norms, especially given the number of impact investors that will have to comply with SFDR and/or SDR.