**Impact Frontiers’ Additional Information in Response to the European Commission’s Targeted Consultation Document “Implementation of The Sustainable Finance Disclosures Regulation (SFDR)”**

December 14, 2023

We greatly appreciate the EU’s efforts to increase transparency around the sustainability of investment products and firms and address the risk of impact washing. At Impact Frontiers, part of our mission is to facilitate consensus-building initiatives on emerging topics in impact management.[[1]](#footnote-1) The Sustainable Finance Disclosures Regulation (SFDR) dovetails several of Impact Frontiers’ recent investor consultations:

1. [Impact Performance Reporting](https://impactfrontiers.org/work/impact-performance-reporting/): Impact Frontiers is facilitating a consensus-building initiative to establish Norms for investors in private markets about the content, structure, and format of impact performance reports. These draft Norms are best understood as a voluntary “social contract” among report preparers, report users, and independent reviewers that will benefit all.
2. [Investor Contribution 2.0](https://impactfrontiers.org/work/investor-contribution-2.0): Impact Frontiers and The Predistribution Initiative (PDI) jointly facilitated an industry consensus-building effort to develop resources that can support investors in measuring, managing, and reporting their positive and negative contributions to impact and systematic risk.
3. [The ABC of Impact:](https://impactfrontiers.org/work/the-abc-of-impact/) In 2023, Impact Frontiers facilitated a public consultation on the “ABC” of impact methodology created through the Impact Management Project (i.e., Act to avoid harm, Benefit stakeholders, and Contribute to solutions). On the basis of this review, Impact Frontiers proposed, sought public feedback on, and is now proceeding with modest changes and clarifications intended to increase the clarity of the concepts and consistency of usage by practitioners.

We have provided specific comments on relevant questions throughout the targeted consultation questionnaire and offer here a compilation of relevant resources and documents that have emerged from the consultation initiatives which we believe can be useful in informing possible options for improving the SFDR framework.

1. **Impact Performance Reporting**

The [draft Impact Performance Reporting Norms](http://impactfrontiers.org/wp-content/uploads/2023/10/Exposure-Draft_Impact-Performance-Reporting-Norms_Public-Consultation.pdf) that Impact Frontiers is currently inviting feedback on are designed to support investors in reducing the risk of “impact-washing” and “cherry-picking,” in their impact performance reports which are commonly expressed concerns. The goals are as follows:

* To make impact performance reporting simultaneously less onerous for report preparers and more useful for report users;
* To facilitate the flow of impact information within and across investment organizations so that it can inform decisions about investment and engagement; and
* To create open-access, non-proprietary criteria against which independent reviewers may assure, evaluate, or verify impact performance reports, enhancing appropriate consistency across independent reviewers.

We see strong alignment between our initiative and the goals of the SFDR and offer our public consultation draft as a market-tested prototype that can inform additional sustainability product labels and corresponding disclosure requirements, should the EU choose to implement them as part of the SFDR framework. We have crafted the Norms to be interoperable and non-overlapping with the SFDR framework and will continue to do so as SFDR evolves.

The draft Norms combine elements of existing impact management practice with the “Qualitative Characteristics of Useful Information” from the Conceptual Framework for Financial Reporting (Conceptual Framework) of the International Financial Reporting Standards (IFRS) Foundation.

Section 1 proposes a shared understanding of the primary users and objectives of impact performance reports and interprets the Conceptual Framework’s six qualitative characteristics of useful information in the context of impact performance reports. Section 2 proposes a shared expectation for the content and structure of impact performance reports.

The full draft Impact Performance Reporting Norms is available [here](http://impactfrontiers.org/wp-content/uploads/2023/10/Exposure-Draft_Impact-Performance-Reporting-Norms_Public-Consultation.pdf) and included as an attachment.

**2. Investor Contribution**

The tension between the apparent importance of investor contribution on the one hand, and the difficulty of measuring it on the other, has long bedeviled the impact and sustainable investing market. If future iterations of the SFDR include additional product categories with an impact-focused label, we propose the requirement of counterfactually-defined investor contribution, with an accompanying standard of evidence that is practical for investors, as characteristics for financial products that claim to be changing real-world outcomes.

Based on the insights of Investor Contribution 2.0, we define investor contribution as: a change in outcomes for end-stakeholders and/or the natural environment caused by an investor’s action(s) that would not have likely occurred in the absence of those action(s). This definition reflects the definitions of impact[[2]](#footnote-2) and outcome[[3]](#footnote-3) agreed upon by the fifteen standard-setting organisations that comprise the [Impact Management Platform](https://impactmanagementplatform.org/). It also builds on the Impact Management Project’s prior definition of investor contribution[[4]](#footnote-4) by more explicitly linking investor contribution to changes in outcomes for stakeholders. This is in contrast to alternative portrayals of investor contribution that center on investor actions.[[5]](#footnote-5)

Through our public consultation, Impact Frontiers and the Predistribution Initiative have been developing resources that can help with implementing and reporting on the approach to management and disclosure of investor contribution that is emerging from our consultations:

* [A claim template](http://impactfrontiers.org/wp-content/uploads/2023/11/Investor-Contribution-Claim-Template_231013.docx) focused on intended positive investor contribution through investment and/or engagement, and;
* [A disclosure template](http://impactfrontiers.org/wp-content/uploads/2023/02/Proposed-Investment-Structures-Governance-Disclosure-Templates-for-PE-PD-VC.docx) focused on investor contribution through investment structures and governance for PE, PD, and VC, which is primarily focused on potential negative impacts.

The positive investor contribution template is included as an attachment. Impact Frontiers will also be publishing a white paper with further context and details on the project’s methodology in early 2024.

**3. The ABC of Impact**

The “ABC” of impact methodology developed by the Impact Management Project and now stewarded by Impact Frontiers offers a classification approach that shares much in common with the categories presented in Question 4.1.4 and can help strengthen the proposed categories and offer guidance for investors as they determine the appropriate label for their financial products.

Impact Frontiers has just finished leading a public consultation process on the ABC of impact in 2023, and received feedback from investors on how this methodology can be clarified and (slightly) modified to make it more useful to practitioners. We plan to publish a white paper detailing the results of that consultation process in Q4 2023 or Q1 2024.

The latest definitions of “A,” “B,” and “C” are as follows, with more detailed information on this classification methodology available [here](https://impactfrontiers.org/norms/abc-of-enterprise-impact/):

##### A. ACT TO AVOID HARM

At a minimum, enterprises can Act to avoid harm by identifying where the organization (or asset) is causing harm to people’s well-being and the condition of the natural environment and improving those outcomes so that they are getting nearer the sustainable range established by [the societal or ecological threshold](https://impactfrontiers.org/norms/five-dimensions-of-impact/what/#good-outcome). This objective is set when the organization will improve performance on the outcome but will not achieve a sustainable outcome within the period for which the objective is being set.

##### B. BENEFIT STAKEHOLDERS

In addition to acting to avoid harm, enterprises can actively benefit stakeholders by not only acting to avoid harm for all stakeholders (A), but also maintaining or causing improved well-being for one or more group of people and/or the condition of the natural environment, so that it is within the sustainable range established by the societal or ecological threshold.

##### C. CONTRIBUTE TO SOLUTIONS

A Contribute to solutions (C) classification should be improving the well-being of a group of people or the condition of the natural environment so that the outcome is within the sustainable range, where the outcome had been unsustainable prior to engaging with the organization through no fault of the organization itself. These unsustainable outcomes should not have been originally generated by the organization itself (for instance, they might have been the result of a market or policy failure), leaving a group of people without access to something they need for their well-being or putting the availability of natural resources at risk.

For an enterprise to classify as “C” based on an outcome, half or more of the enterprise’s stakeholders experiencing that outcome should otherwise have been underserved with regard to the outcome, and half or more of the enterprises’ business should be generating that outcome, as measured by the proportion of revenue (if the outcome is associated with products or services) or costs (if the outcome is associated with enterprise operations).

An enterprise can classify as having a goal of “C” for only a discrete and pre-announced duration of time, before needing to reclassify as “A” if unsuccessful in achieving its “C” goals.

These definitions overlap with key aspects of the categories presented in question 4.1.4, and have the benefit of already being market-tested. The categories presented in question 4.1.4 are very useful, and if adopted we believe that it would be helpful to align them more directly with the existing ABC of impact definitions which are currently being used by a wide range of investors.

Additionally, the ABC of impact is a classification methodology that goes beyond the definitions themselves. That is, there is market-tested guidance (see link above) on how to go about ascertaining which category is the best fit. Thresholds (defined and detailed in our response to 4.1.13) are a key element of these definitions and encourage a rigorous approach to classification in order to justify a particular categorization. If the SDFR implements a labeling regime using the categories proposed in question 4.1.4, the ABC of impact methodology could serve as helpful guidance for investors when determining their appropriate category and lend credibility to their selection due to the rigor required for accurate and justifiable classification.

1. A successor organisation of the Impact Management Project (IMP), Impact Frontiers stewards the norms of impact management facilitated by the IMP. [↑](#footnote-ref-1)
2. “A change in an aspect of people’s well-being or the condition of the natural environment caused by an organization” ([*Terms and Concepts*](https://impactmanagementplatform.org/terms-and-concepts/#term-588), Impact Management Platform) [↑](#footnote-ref-2)
3. “The resulting level of well-being experienced by a group of people, or the condition of the natural environment” ([*Terms and Concepts*](https://impactmanagementplatform.org/terms-and-concepts/#term-588), Impact Management Platform) [↑](#footnote-ref-3)
4. “The contribution that the investor makes to enable enterprises (or intermediary investment managers) to achieve impact” ([*Investment Classifications*](https://impactmanagementplatform.org/investment-classifications/), Impact Management Platform) [↑](#footnote-ref-4)
5. “A contribution that is beyond what is available, or that is otherwise absent from the market” ([*MDB Harmonized Framework on Additionality*](https://www.ifc.org/wps/wcm/connect/7d286672-0c03-47f7-ad41-fce55d3ef359/201809_MDBs-Harmonized-Framework-for-Additionality-in-Private-Sector-Operations.pdf?MOD=AJPERES&CVID=mppa97S), IFC) [↑](#footnote-ref-5)