Appendixes to the paper, *Towards a Conceptual Framework for Sustainability Reporting* authored on behalf of the Capitals Coalition.

Appendix A - The Conceptual Framework for Sustainability Reporting

The structure and wording of this Appendix follows the CFFR. We have inserted comment boxes to highlight issues that would require further development or where more substantive changes to the CFFR may be required. Many paragraphs are unchanged, some have been amended and highlighted in yellow and some have been struck through and highlighted in grey.

CHAPTER 1—THE OBJECTIVE OF GENERAL PURPOSE SUSTAINABILITY REPORTING

Introduction

1.1 The objective of ~~general purpose financial~~ Sustainability reporting forms the foundation of the proposed interim *Conceptual Framework for Sustainability Reporting*. Other aspects of the *Conceptual Framework*—the qualitative characteristics of, and the cost constraint on, useful ~~financial~~ Natural, Social and Human Capital information, a reporting entity concept, elements of ~~financial~~ Natural, Social and Human Capital statements, recognition and derecognition, measurement, presentation and disclosure — flow logically from the objective.

Objective, usefulness and limitations of general purpose ~~financial~~ Sustainability reporting

1.2 The objective of general purpose ~~financial~~ Sustainability reporting[1] is to provide Natural, Social and Human Capital information about the

[1] Throughout the *Conceptual Framework*, the terms '~~financial~~ Natural, Social and Human Capital reports' and '~~financial~~ Natural, Social and Human Capital reporting' refer to general purpose financial reports and general purpose financial reporting unless specifically indicated otherwise.

reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.[2] Those decisions involve decisions about:

(a) buying, selling or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

1.3 The decisions described in paragraph 1.2 depend on the Natural, Social and Human Capital returns[3] that existing and potential investors, lenders and other creditors expect, for example, ~~dividends, principal and interest payments or marker price increases~~ changes in well-being experienced by people and planet as a consequence of the entity's operations. Investors', lenders' and other creditors' expectations about Natural, Social and Human Capital returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) ~~future net cash inflows to the entity~~ changes in well-being to people and planet and on their assessment of management's stewardship of ~~the entity's economic resources~~ social and environmental resources used by and the economic resources owned by the entity[4]. The entity's economic resources are reflected in the financial reports but their use can cause changes in well-being and changes in the Natural, Social and Human Capital resources on which the entity depends. The economic resources will therefore also be reflected in Natural, Social and Human Capital reports. The Natural, Social and Human Capital resources on which the entity depends can change as can the dependency of the entity on those resources. Existing and potential investors, lenders and other creditors need information to help them make those assessments.

1.4 To make the assessments, of Natural, Social and Human Capital performance, described in paragraph 1.3, existing and potential investors, lenders and other creditors need information about:

(a) the ~~economic~~ social and environmental resources ~~of~~ on which the entity depends and their replacement or use by the entity, and changes in those resources and ~~claims~~ use (see paragraphs 1.12–1.21); and

[2] Throughout the *Conceptual Framework*, the term 'entity' refers to the reporting entity unless specifically indicated otherwise.
[3] In this context Natural, Social and Human Capital returns are positive changes in well-being. Changes in natural, Social and Human capital are result in changes in well-being. Natural, Social and Human Capital refers to the maintenance of and improvement in well-being. Human Rights set a minimum requirement for some aspects of well-being. The SDGs represent a global set of globally agreed targets necessary for achieving a minimum level of well-being.
[4] The economic resources owned and used by the entity includes Natural, Social and Human Capital resources. These are reflected in the financial reports but a full understanding of the Natural, Social and Human Capital performance of the entity will require these to be disaggregated within the financial reports.

(b) how efficiently and effectively the entity's management and governing board[35] have discharged their responsibilities to use the ~~entity's economic~~ social and environmental resources on which the entity depends (see paragraphs 1.22–1.25).

(c) the positive and negative changes to well-being that are a consequence of the use of the entity's economic resources

(d) the positive and negative changes to well-being that are a consequence of the use of the Natural, Social and Human Capital resources

(e) the thresholds and allocations against which these changes will be assessed[6].

1.5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose ~~financial~~ Natural, Social and Human Capital reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed[7].

1.6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks[8].

1.7 General purpose financial reports are not designed to show the impact value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

1.8 Individual primary users have different, and possibly conflicting, information needs and desires. The ~~Board, in developing Standards, will seek~~ Conceptual Framework for Natural, Social and Human Capital Reporting seeks to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including

[35] Throughout the *Conceptual Framework*, the term 'management' refers to management and the governing board of an entity unless specifically indicated otherwise

[6] Thresholds relate to the minimum levels of performance in relation to planetary boundaries and human rights. Allocations are the allocation of globally agreed targets to an entity.

[47] Throughout the *Conceptual Framework*, the terms 'primary users' and 'users' refer to those existing and potential investors, lenders and other creditors who must rely on general purpose ~~financial~~ Natural, Social and Human Capital reports for much of the ~~financial~~ Natural, Social and Human Capital information they need.

[8] The Management Commentary is designed to address some of this information

additional information that is most useful to a particular subset of primary users[9].

1.9 The management of a reporting entity is also interested in ~~financial~~ Natural, Social and Human Capital information about the entity. However, management need not rely on general purpose ~~financial~~ Natural, Social and Human Capital reports because it is able to obtain the Natural, Social and Human Capital information it needs internally.

1.10 Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose ~~financial~~ Natural, Social and Human Capital reports useful. However, those reports are not primarily directed to these other groups.

1.11 To a large extent, Natural, Social and Human Capital reports are based on estimates, judgements and models rather than exact depictions. The *Conceptual Framework* establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive. As with most goals, the *Conceptual Framework*'s vision of ideal ~~financial~~ Natural, Social and Human Capital reporting is unlikely to be achieved in full, at least not in the short term, because it takes time to understand, accept and implement new ways of analysing ~~transactions and other events~~ changes in wellbeing (see 4.6). Nevertheless, establishing a goal towards which to strive is essential if ~~financial~~ Natural, Social and Human Capital reporting is to evolve so as to improve its usefulness.

Information about ~~a reporting entity's economic resources~~ the social and environmental resources used by a reporting entity, claims against the entity and changes in resources and claims

1.12 General purpose ~~financial~~ Natural, Social and Human Capital reports provide information about the ~~financial~~ Natural, Social and Human Capital position of a reporting entity, which is information about the ~~entity's economic~~ social and environmental resources ~~and claims against the reporting entity~~ on which the entity depends, and the entities use or replacement of those resources. ~~Financial~~ Natural, Social and Human Capital reports also provide information about the effects of transactions and other events that change a reporting entity's ~~economic resource and claims~~ access to social and environmental resources. Both types of information provide useful input for decisions relating to providing resources to an entity.

[9] This information can be included where these needs are material in the context of the entity overall materiality assessment. However, where these needs arise from an interest in impacts and dependencies, the valuation of that impact, particularly in the context of the use or resources that exceed planetary thresholds is likely to be material.

~~Economic resources and claims~~ Use and replacement of social and environmental resources

1.13 Information about the nature and amounts of ~~a reporting entity's economic resources and claims~~ the social and environmental resources used by a reporting entity can help users to identify the reporting entity's ~~financial~~ Natural, Social and Human Capital strengths and weaknesses. That information can help users to assess the reporting entity's ~~liquidity and solvency~~ contribution to Natural, Social and Human Capital against social norms, ~~its needs for additional financing~~ and how successful it is likely to be in ~~obtaining the financing~~ improving that position. That information can also help users to assess management's stewardship of the ~~entity's economic~~ social and environmental resources used by the entity. Information about priorities and requirements ~~of~~ arising from existing ~~claims~~ dependencies helps users to predict how future ~~cash flows~~ changes in wellbeing will be distributed among those ~~with a claim against the reporting entity~~ who also depend on those Natural, Social and Human Capital resources.

1.14 Different types of ~~economic~~ social and environmental resources affect a user's assessment of the reporting entity's prospects for ~~future cash flows~~ changes in well-being differently. Some future ~~cash flows~~ changes in wellbeing result directly from existing ~~economic~~ social and environmental resources, such as ~~accounts receivable~~ water use. Other ~~cash flows~~ changes in wellbeing result from using several resources in combination to produce and market goods or services to customers. Although those ~~cash flows~~ changes in wellbeing cannot be identified with ~~individual economic~~ the use of replacement of individual social and environmental resources ~~(or claims)~~, users of ~~financial~~ Natural, Social and Human Capital reports need to know the nature and amount of the Natural, Social and Human Capital resources available for use in a reporting entity's operations.

Changes in social and environmental resources

1.15 Changes in ~~a reporting entity's economic~~ the social and environmental resources used ~~and claims~~ by a reporting entity result from that entity's ~~financial~~ Natural, Social and Human Capital performance (see paragraphs 1.17–1.20) and from other events ~~or transactions such as issuing debt or equity instruments~~ (see paragraph 1.21). To properly assess both the prospects for future net ~~cash inflows~~ positive impact to the reporting entity and management's stewardship of the ~~entity's economic resources~~ social and environmental resources used by the entity, users need to be able to identify those two types of changes.

1.16 Information about a reporting entity's ~~financial~~ Natural, Social and Human Capital performance helps users to understand the Natural, Social and Human Capital returns that the entity has produced on both its economic resources and on the social and environmental resources it has used. Information about the returns the entity has produced can help users to assess management's stewardship of the entity's economic resources and the social and environmental resources it has used. Information about the variability and components of ~~that~~ those returns is also important, especially in assessing the uncertainty of future ~~cash flows~~ changes in wellbeing. Information about a reporting entity's past ~~financial~~ Natural, Social and Human Capital performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the entity's future Natural, Social and Human Capital returns on its economic resources and the social and environmental resources it has used.

~~Financial~~ Natural, Social and Human Capital performance reflected by accrual accounting

1.17 Accrual accounting depicts the effects of transactions and other events and circumstances on ~~a reporting entity's economic~~ the social and environmental resources used by a reporting entity and claims in the periods in which those ~~effects~~ changes in wellbeing occur, even if the resulting ~~cash recipients and payments~~ positive and negative changes in wellbeing occur in a different period. This is important because information about ~~a reporting entity's economic~~ the social and environmental resources on which a reporting entity depends and claims and changes in ~~its economic~~ the available social and environmental resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about ~~cash receipts and payments~~ positive and negative changes in wellbeing during that period.

1.18 Information about a reporting entity's ~~financial~~ Natural, Social and Human Capital performance during a period, reflected by changes in ~~its economic~~ the social and environmental resources ~~and claims other than by obtaining additional resources directly from investors and creditors (see paragraph 1.21),~~ on which an organisation depends and its use of those resources is useful in assessing the entity's past and future ability to generate net ~~cash inflows~~ positive changes in wellbeing. That information indicates the extent to which the reporting entity has ~~increased its available economic resources~~ reduced dependency on social and environmental resources, and thus its capacity for generating net ~~cash inflows~~ positive changes in wellbeing through its operations ~~rather than by obtaining additional resources directly from investors and creditors~~. Information about a reporting entity's ~~financial~~ Natural, Social and Human Capital performance during a period can also help users to assess management's stewardship of the ~~entity's economic~~ social and environmental resources on which the entity depends.

1.19 Information about a reporting entity's ~~financial~~ Natural, Social and Human Capital performance during a period may also indicate the extent to which events such as changes in ~~market prices or interest rates~~ impact or dependency values have increased or decreased the entity's ~~economic~~ dependency on social and environmental resources and claims, thereby affecting the entity's ability to generate net ~~cash inflows~~ positive changes in wellbeing.

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~~Financial~~ Natural, Social and Human Capital performance reflected by past ~~cash flows~~ changes in wellbeing

1.20 Information about a reporting entity's ~~cash flows~~ changes in wellbeing during a period also helps users to assess the entity's ability to generate future net ~~cash inflows~~ positive changes in wellbeing and to assess management's stewardship of the ~~entity's economic~~ social and environmental resources on which the entity depends. That information indicates how the reporting entity ~~obtains and spends cash, including information about its borrowing and repayment of debt, cash dividends or other cash distributions to investors, and other factors that may affect the entity's liquidity or solvency~~ creates and destroys well-being. Information about ~~cash flows~~ changes in wellbeing helps users understand a reporting entity's operations, evaluate its ~~financial and investing activities, assess its liquidity or solvency~~ reputation and interpret other information about ~~financial~~ Natural, Social and Human Capital performance.

Changes in ~~economic~~ social and environmental resources and claims not resulting from ~~financial~~ Natural, Social and Human Capital performance

1.21 A reporting entity's ~~economic~~ dependence on social and environmental resources and claims may also change for reasons other than ~~financial performance~~ Natural, Social and Human Capital performance ~~such as issuing debt or equity instruments~~. Information about this type of change is necessary to give users a complete understanding of why the reporting entity's ~~economic~~ dependency on social and environmental resources and claims changed and the implications of those changes for its future ~~financial~~ Natural, Social and Human Capital performance.

Information about use of the entity's economic Natural, Social and Human Capital resources used by the entity

1.22 Information about how efficiently and effectively the reporting entity's management has discharged its responsibilities to use the ~~entity's economic~~ social and environmental resources helps users to assess management's stewardship of those resources. Such information is also useful for predicting how efficiently and effectively management will use the ~~entity's economic~~ social and environmental resources in future periods. Hence, it can be useful for assessing the entity's prospects for future net ~~cash inflows~~ positive impact.

1.23 Examples of management's responsibilities to use the ~~entity's economic~~ social and environmental resources on which the entity depends include protecting those resources from unfavorable effects of economic factors, such as price and technological changes, and ensuring that the entity complies with applicable laws, regulations and contractual provisions.

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Relationship with economic resources

1.24 The use of economic resources has consequences for the well-being of people and planet. These consequences are the positive and negative impacts. The treatment depends on how these consequences are accounted for:

(a) Consequences that are economic phenomena that are relevant and can be faithfully represented will be included financial statements. Where the faithful representation is consistent with the value of the change in well-being experienced

(b) Consequences that are economic phenomena that are relevant and can be faithfully represented will be included financial statements. Where the faithful representation is not consistent with the value of the change in well-being experienced, the difference would need to be accounted for in the Natural, Social and Human Capital statements.

(c) Consequences that are economic phenomena that are relevant and cannot be faithfully represented, but are relevant and can be faithfully represented in the Natural, Social and Human Capital statements.

(d) Consequences that are not economic phenomena and are social or environmental phenomena and are relevant and can be faithfully represented in the Natural, Social and Human Capital statements.

Consequences of use of economic, social and environmental resources

1.25 Consequences that are changes to the well-being of people or planet can occur throughout the value chain from original sourcing of resources used by the entity to the use of products or services by customers of the entity. Information on these will be useful to users where they are relevant and can be faithfully represented.

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As the IASB has proposed in its development of Management Commentary, the qualitative characteristics are generally relevant and applicable to non-financial information. Accordingly, only minor modifications are needed to clarify applicability to social and environmental resources. The important change required addresses the users and the purpose (and decisions) for which they will use the information provided. The concept of relevant means that users, decisions and purpose need to be clearly identified.

CHAPTER 2—QUALITATIVE CHARACTERISTICS OF USEFUL ~~FINANCIAL~~ NATURAL, SOCIAL AND HUMAN CAPITAL INFORMATION

Introduction

2.1 The qualitative characteristics of useful ~~financial~~ Natural, Social and Human Capital information discussed in this chapter identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its ~~financial~~ Natural, Social and Human Capital report (Natural, Social and Human Capital information).

2.2 ~~Financial~~ Natural, Social and Human Capital reports provide information about the reporting entity's economic resources, ~~claims against the reporting entity~~ dependency of social and environmental resources, and the ~~effects of~~ changes to well-being arising from transactions throughout the value chain and other events and conditions that change those resources ~~and claims~~. (This information is referred to in the *Conceptual Framework* as information about the ~~economic~~ social and environmental phenomena.) Some ~~financial~~ Natural, Social and Human Capital reports also include explanatory material about management's expectations and strategies for the reporting entity, and other types of forward-looking information.

2.3 The qualitative characteristics of useful ~~financial~~ Natural, Social and Human Capital information apply to ~~financial~~ Natural, Social and Human Capital information provided in ~~financial~~ Natural, Social and Human Capital statements, as well as to ~~financial~~ Natural, Social and Human Capital information provided in other ways. Cost, which is a pervasive constraint on the reporting entity's ability to provide useful ~~financial~~ Natural, Social and Human Capital information, applies similarly. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information. For example, applying them to forward-looking information may be different from applying them to information about economic, social and environmental resources and ~~claims~~ changes in those resources.

Qualitative characteristics of useful ~~financial~~ Natural, Social and Human Capital information

2.4 If ~~financial~~ Natural, Social and Human Capital information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of ~~financial~~ Natural, Social and Human Capital information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

2.5 The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

2.6 Relevant ~~financial~~ Natural, Social and Human Capital information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Natural, Social and Human Capital information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

2.7 Throughout the Conceptual Framework, the terms 'qualitative characteristics' and 'cost constraint' refer to the qualitative characteristics of, and the cost constraint on, useful ~~financial~~ Natural, Social and Human Capital information.

2.8 ~~Financial~~ Natural, Social and Human Capital information has predictive value if it can be used as an input to processes employed by users to predict future outcomes changes to well-being or to dependencies. ~~Financial~~ Natural, Social and Human Capital information need not be a prediction or forecast to have predictive value. Financial Natural, Social and Human Capital information with predictive value is employed by users in making their own predictions.

2.9 ~~Financial~~ Natural, Social and Human Capital information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

2.10 The predictive value and confirmatory value of ~~financial~~ Natural, Social and Human Capital information are interrelated. Information that has predictive value often also has confirmatory value. For example, ~~revenue~~ information on impacts for the current year, which can be used as the basis for predicting ~~revenue~~ impacts in future years, can also be compared with impact predictions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

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Materiality

2.11 Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose ~~financial~~ Natural, Social and Human Capital reports (see paragraph 1.5) make on the basis of those reports, which provide ~~financial~~ Natural, Social and Human Capital information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's ~~financial~~ Natural, Social and Human Capital report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

2.12 ~~Financial~~ Natural, Social and Human Capital reports represent ~~economic~~ social and environmental phenomena in words and numbers. To be useful, ~~financial~~ Natural, Social and Human Capital information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of ~~an economic~~ a social and environmental phenomenon and its legal[10] form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the ~~economic~~ social and environmental phenomenon ~~(see paragraphs 4.59-4.62)~~.

2.13 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The ~~Board's~~ objective of the Conceptual Framework for ~~financial~~ Natural, Social and Human Capital Reporting is to maximise those qualities to the extent possible.

2.14 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of ~~assets~~ different changes to wellbeing (see Table 4.1) would include, at a minimum, a description of the nature of the ~~assets~~ changes in the group, a numerical depiction of all of the ~~assets~~ changes in the group, and a description of what the numerical depiction represents (for example, ~~historical cost or fair value~~ contingent value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

2.15 A neutral depiction is without bias in the selection or presentation of ~~financial~~ Natural, Social and Human Capital information. A neutral depiction is not slanted, weighted, emphasised, deemphasised or otherwise manipulated to increase the probability that ~~financial~~ Natural,

[10] Legal refers to common law, equity law, public laws and international agreements, conventions though the United Nations and globally agreed goals.

Social and Human Capital information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant ~~financial~~ Natural, Social and Human Capital information is, by definition, capable of making a difference in users' decisions.

2.16 Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that ~~assets and income~~ positive impacts are not overstated and ~~liabilities and expenses~~ negative impacts are not understated. Equally, the exercise of prudence does not allow for the understatement of ~~asset or income~~ positive impacts or the overstatement of ~~liabilities and expenses~~ negative impacts. Such misstatements can lead to the overstatement or understatement of ~~income and expenses~~ impacts in future periods.

2.17 The exercise of prudence does not imply a need for asymmetry, for example, a systematic need for more persuasive evidence to support the recognition of ~~assets or income~~ positive impacts than the recognition of negative impacts ~~liabilities or expenses~~. Such asymmetry is not a qualitative characteristic of useful financial information. Nevertheless, particular Standards may contain asymmetric requirements if this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

2.18 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable ~~price or~~ value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

2.19 When monetary amounts in ~~financial~~ Natural, Social and Human Capital reports cannot be observed directly and must instead be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of the preparation of ~~financial~~ Natural, Social and Human Capital information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information (see paragraph 2.22).

Applying the fundamental qualitative characteristics

2.20 Information must both be relevant and provide a faithful representation of what it purports to represent if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.

2.21 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify ~~an economic~~ a social and environmental phenomenon, information about which is capable of being useful to users of the reporting entity's ~~financial~~ Natural, Social and Human Capital information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the ~~economic~~ social and environmental phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

2.22 In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of ~~financial~~ Natural, Social and Human Capital reporting, which is to provide useful information about ~~economic~~ social and environmental phenomena. For example, the most relevant information about a phenomenon may be a highly uncertain estimate. In some cases, the level of measurement uncertainty involved in making that estimate may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that phenomenon. In some such cases, the most useful information may be the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. In other such cases, if that information would not provide a sufficiently faithful representation of that phenomenon, the most useful information may include an estimate of another type that is slightly less relevant but is subject to lower measurement uncertainty. In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate.

Enhancing qualitative characteristics

2.23 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

2.24 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

2.25 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

2.26 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

2.27 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of ~~financial~~ Natural, Social and Human Capital information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

2.28 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant ~~economic~~ social and environmental phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant ~~economic~~ social and environmental phenomenon by another reporting entity.

2.29 Although a single ~~economic~~ social and environmental phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same ~~economic~~ social and environmental phenomenon diminishes comparability.

Verifiability

2.30 Verifiability helps assure users that information faithfully represents the ~~economic~~ social and environmental phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

2.31 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting ~~cash~~ the number of people experiencing a change in wellbeing. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. ~~An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, using the first-in, first-out method).~~

2.32 It may not be possible to verify some explanations and forward-looking ~~financial~~ Natural, Social and Human Capital information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

2.33 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

2.34 Classifying, characterising and presenting information clearly and concisely makes it understandable.

2.35 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from ~~financial~~ Natural, Social and Human Capital reports might make the information in those ~~financial~~ Natural, Social and Human Capital reports easier to understand. However, those reports would be incomplete and therefore possibly misleading.

2.36 ~~Financial~~ Natural, Social and Human Capital reports are prepared for users who have a reasonable knowledge of business model and business strategy and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex ~~economic~~ social and environmental phenomena.

Applying the enhancing qualitative characteristics

2.37 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

2.38 Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

The cost constraint on useful ~~financial~~ sustainability reporting

2.39 Cost is a pervasive constraint on the information that can be provided by ~~financial~~ Natural, Social and Human Capital reporting. Reporting ~~financial~~ Natural, Social and Human Capital information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

2.40 Providers of ~~financial~~ Natural, Social and Human Capital information expend most of the effort involved in collecting, processing, verifying and disseminating ~~financial~~ Natural, Social and Human Capital information, users ultimately bear those costs in the form of reduced returns and gain the benefits of improved Natural, Social and Human Capital performance. Users of ~~financial~~ Natural, Social and Human Capital information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

2.41 Reporting ~~financial~~ Natural, Social and Human Capital information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more sustainable functioning of capital markets and a lower cost of capital for the ~~economy~~ society as a whole. An individual potential or current investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

2.42 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed Standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

2.43 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of ~~financial~~ Natural, Social and Human Capital information will vary. Therefore, the ~~Board~~ Conceptual Framework seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital ~~(publicly and privately)~~, different users' needs or other factors.

The reporting entity concept is useful and necessary for defining the boundary of the entity that is reporting but what it is reporting on will include impacts and dependencies that sit outside the boundaries as defined in the CFFR. If the purpose requires accountability and accounting for consequences the definition of the boundary would also change. Accordingly, while the transactive component of an entity's actions (e.g. payment of energy charges) will occur within the reporting entity's boundary as defined in the CFFR, the boundary for the impacts and relational elements will be much broader and will be a function of the entity's business model.

In addition, the statements would address more than one capital. In the CFFR only one capital is being reported and the concept of the maintenance of capital is left to section 8. Whilst this structure has been retained in this interim CFSR, it may be necessary to bring that forward in an integrated CFSR (see Section 8).

CHAPTER 3—~~FINANCIAL~~ NATURAL, SOCIAL AND HUMAN CAPITAL STATEMENTS AND THE REPORTING ENTITY

~~Financial~~ Natural, Social and Human Capital statements

3.1 Chapters 1 and 2 discuss information provided in general purpose ~~financial~~ Natural, Social and Human Capital reports and Chapters 3–8 discuss information provided in general purpose ~~financial~~ Natural, Social and Human Capital statements, which are a particular form of general purpose ~~financial~~ Natural, Social and Human Capital reports. F~~inancial~~ Natural, Social and Human Capital statements[11] provide information about ~~economic~~ social and environmental resources ~~of~~ that the reporting entity depends on, ~~claims against the entity~~ the use of those resources, and changes in wellbeing arising from the use of those resources and ~~claims~~ the entity's economic resources, that meet the definitions of the elements of ~~financial~~ Natural, Social and Human Capital statements (see Table 4.1).

Objective and scope of ~~financial~~ Natural, Social and Human Capital statements

3.2 The objective of ~~financial~~ Natural, Social and Human Capital statements is to provide ~~financial~~ Natural, Social and Human Capital information about the reporting entity's impact assets and impact liabilities, social equity,

[11] Throughout the *Conceptual Framework*, the term '~~financial~~ Natural, Social and Human Capital statements' refers to general purpose ~~financial~~ Natural, Social and Human Capital statements.

~~income~~ positive and ~~expenses~~ negative impacts[12] that is useful to users of ~~financial~~ Natural, Social and Human Capital statements in assessing the prospects for future net ~~cash inflows to~~ impacts of the reporting entity and in assessing management's stewardship of the ~~economic~~ social and environmental resources that entity depends on (see paragraph 1.3 and Section 8).

3.3 That information is provided:

(a) in the statement of ~~financial~~ Natural, Social and Human Capital position, by recognising impact assets, impact liabilities and social equity;

(b) in the statement(s) of ~~financial~~ Natural, Social and Human Capital performance[13], by recognising income positive and expenses negative impacts on capitals; and

(c) in other statements and notes, by presenting and disclosing information about:

(i) recognised impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts (see paragraph 5.1), including information about their nature and about the risks arising from those recognised impact assets and impact liabilities;

(ii) impact assets and impact liabilities that have not been recognised (see paragraph 5.6), including information about their nature and about the risks arising from them;

(iii) cash flows;

(iv) contributions from holders of equity claims and distributions to them; and

(v) the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

Reporting period

3.4 ~~Financial~~ Natural, Social and Human Capital statements are prepared for a specified period of time (reporting period) and provide information about:

(a) impact assets and impact liabilities—including unrecognised impact assets and impact liabilities—and social equity that existed at the end of the reporting period, or during the reporting period; and

[12] Impact Assets, impact liabilities, social equity, positive and negative impacts are defined in Table 4.1. They are the elements of Natural, Social and Human Capital statements.
[13] The *Conceptual Framework* does not specify whether the statement(s) of Natural, Social and Human Capital performance comprise(s) a single statement or two statements.

(b) ~~income~~ positive and ~~expenses~~ negative impacts for the reporting period.

3.5 To help users of ~~financial~~ Natural, Social and Human Capital statements to identify and assess changes and trends, ~~financial~~ Natural, Social and Human Capital statements also provide comparative information for at least one preceding reporting period.

3.6 Information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if it:

(a) relates to the entity's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to positive or negative impacts for the reporting period; and

(b) is useful to users of ~~financial~~ Natural, Social and Human Capital statements.

For example, if an impact asset or impact liability is measured by estimating future ~~cash flows~~ impacts, information about those estimated future impacts may help users of financial statements to understand the reported measures. ~~Financial~~ Natural, Social and Human Capital statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting entity.

3.7 ~~Financial~~ Natural, Social and Human Capital statements include information about transactions and other events that have occurred after the end of the reporting period providing that information is necessary to meet the objective of ~~financial~~ Natural, Social and Human Capital statements (see paragraph 3.2).

Perspective adopted in ~~financial~~ Natural, Social and Human Capital statements

3.8 ~~Financial~~ Natural, Social and Human Capital statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors.

Impact going concern assumption

3.9 Financial Natural, Social and Human Capital statements are normally prepared on the assumption that the reporting entity is an impact going concern and will continue in operation for the foreseeable future. Where there is a net negative social equity the implication is that the business purpose, approach to value generation and strategy would need to change for the entity to continue trading. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the ~~financial~~ Natural, Social and Human

Capital statements may have to be prepared on a different basis. If so, the ~~financial~~ Natural, Social and Human Capital statements describe the basis used.

The reporting entity

3.10 A reporting entity is an entity that is required, or chooses, to prepare ~~financial~~ Natural, Social and Human Capital statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

3.11 Sometimes one entity (parent) has control over another entity (subsidiary). If a reporting entity comprises both the parent and its subsidiaries, the reporting entity's ~~financial~~ Natural, Social and Human Capital statements are referred to as 'consolidated ~~financial~~ Natural, Social and Human Capital statements' (see paragraphs 3.15–3.17). If a reporting entity is the parent alone, the reporting entity's ~~financial~~ Natural, Social and Human Capital statements are referred to as 'unconsolidated ~~financial~~ Natural, Social and Human Capital statements' (see paragraphs 3.18–3.19).

3.12 If a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, the reporting entity's ~~financial~~ Natural, Social and Human Capital statements are referred to as 'combined ~~financial~~ Natural, Social and Human Capital statements'.

3.13 Determining the appropriate boundary of a reporting entity can be difficult as the boundary is determined by the usefulness of information on Natural, Social and Human Capital phenomena throughout the value chain. This is difficulty is increased if the reporting entity:

(a) is not a legal entity; and

(b) does not comprise only legal entities, whether or not only linked by a parent-subsidiary relationship

3.14 In such cases, determining the boundary of the reporting entity is driven by the information needs of the primary users of the reporting entity's ~~financial~~ Natural, Social and Human Capital statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

(a) the boundary of the reporting entity does not contain an arbitrary or incomplete set of ~~economic~~ social or environmental activities;

(b) including that set of ~~economic~~ social and environmental activities within the boundary of the reporting entity results in neutral information; and

(c) a description is provided of how the boundary of the reporting entity was determined and of what constitutes the reporting entity.

Consolidated and unconsolidated ~~financial~~ Natural, Social and Human Capital statements

3.15 Consolidated ~~financial~~ Natural, Social and Human Capital statements provide information about the impact assets, impact liabilities, social equity, ~~impacts~~ income and ~~expenses~~ liabilities of both the parent and its subsidiaries as a single reporting entity. That information is useful for existing and potential investors, lenders and other creditors of the parent in their assessment of the prospects for future ~~net cash inflows~~ impacts of the parent. This is because net ~~cash inflows~~ impacts of the parent include ~~distributions~~ allocations to the parent from its subsidiaries, and those allocations depend on net ~~cash inflows~~ impacts of the subsidiaries.

3.16 Consolidated financial statements are not designed to provide separate information about the assets, liabilities, equity, income and expenses of any particular subsidiary. A subsidiary's own financial statements are designed to provide that information.

3.16 Consolidated Sustainability statements include information on the impacts within the value chain relating to the activities of the reporting entity. These can be based on information provided by organisations within the value chain or will be estimated by the reporting entity. Subsidiaries may or may not form part of the value chain.

3.17 Consolidated Natural, Social and Human Capital statements are not designed to provide separate information about the impact assets, impact liabilities, social equity, positive and negative impacts of any particular subsidiary. A subsidiary's own Natural, Social and Human Capital statements are designed to provide that information.

3.18 Unconsolidated ~~financial~~ Natural, Social and Human Capital statements are designed to provide information about the parent's impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts, and not about those of its subsidiaries. That information can be useful to existing and potential investors, lenders and other creditors of the parent because:

(a) a ~~claim against~~ dependency of the parent typically does not ~~give the holder of that claim a claim against~~ imply a dependency of the subsidiaries~~; and~~

(b) in some jurisdictions, the amounts that can be legally distributed to holders of equity claims against the parent depend on the distributable reserves of the parent.

Another way to provide information about some or all impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts of the parent alone is in consolidated ~~financial~~ Natural, Social and Human Capital statements, in the notes.

3.19 Information provided in unconsolidated ~~financial~~ Natural, Social and Human Capital statements is typically not sufficient to meet the information needs of existing and potential investors, lenders and other creditors of the parent. Accordingly, when consolidated ~~financial~~ Natural, Social and Human Capital statements are required, unconsolidated ~~financial~~ Natural, Social and Human Capital statements cannot serve as a substitute for consolidated ~~financial~~ Natural, Social and Human Capital statements. Nevertheless, a parent may be required, or choose, to prepare unconsolidated ~~financial~~ Natural, Social and Human Capital statements in addition to consolidated ~~financial~~ Natural, Social and Human Capital statements.

Determining the elements of natural, social and human capital statements will require further development. As an interim CFSR the starting point is the elements in the CFFR but this raises a number of issues.

The comparison of using social, environmental/natural, social and human capital for this interim CFSR as a replacement for economic/financial in the CFFR raised the lack of comparability of the terms social and environmental with natural, social and human capitals and highlighted potential issues with how economic and financial are being used in the CFFR. This arises from the use of economic phenomena in the CFFR which become social and environmental phenomena in the interim CFSR as the fundamental building block.

The use of economic benefits or disbenefits became social and environmental benefits and disbenefits, and economic returns became social and environmental returns.

The CFFR determines the existence of these elements by reference to control over resources and obligations to transfer resources. In this interim CFSR the term ‘responsibilities’ has been used instead of ‘control’ to reflect stewardship over capitals whether owned or not. Obligations can still be used though these now also arise from responsibilities. There would appear to be a potential overlap between obligations in the CFFR and in a future integrated CFSR.

More clarity is required over definitions and relationships between phenomena, resources, returns, benefits/disbenefits, capital and resources. There is increasing convergence over the use of wellbeing and maintaining and enhancing wellbeing as being the purpose of economic activity. In this interim CFSR the terms returns, benefits and disbenefits are still used but with a move towards using changes in wellbeing instead of both. A change in wellbeing would arise from a change or a movement in the stock of resources or in capitals which can be described as the impacts. Impact assets and impact liabilities then represent the sustainability position of an entity.

More work will also be required to understand how these ‘assets’ and ‘liabilities’ form systems in a similar, though wider, manner to the concept of a cash generating unit (CGU) in financial reporting.

Nonetheless we believe that the elements in financial reporting provide a useful frame for these considerations.

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CHAPTER 4—THE ELEMENTS OF ~~FINANCIAL~~ NATURAL, SOCIAL AND HUMAN CAPITAL STATEMENTS

Introduction

4.1 The elements of ~~financial~~ Natural, Social and Human Capital statements defined in the *Conceptual Framework* are:

(a) impact assets, impact liabilities and social equity, which relate to a reporting entity's ~~financial~~ Natural, Social and Human Capital position; and

(b) ~~income~~ positive and ~~expenses~~ negative impacts, which relate to a reporting entity's ~~financial~~ Natural, Social and Human Capital performance.

4.2 Those elements are linked to the ~~economic~~ social and environmental resources~~, claims~~ and changes in those resources ~~and claims~~ discussed in Chapter 1, and are defined in Table 4.1.

Table 4.1—The elements of ~~financial~~ Natural, Social and Human Capital statements

Item discussed in Chapter 1	Element	Definition or description
~~Economic~~ social and environmental resource	Impact asset (includes dependency)	Additions to a present ~~economic~~ social or environmental resource on which the entity depends for the creation of social, environmental or economic returns as a result of past events. ~~An economic~~ a social or environmental resource is a ~~right~~ responsibility that has the potential to produce social, environmental or economic benefits which have potential to increase wellbeing
~~Claim~~ Social and environmental resource.	Impact liability (includes dependency)	Subtractions from a present ~~obligation of~~ social or environmental resource on which the entity ~~to transfer an~~ depends for the creation of social, environmental or economic ~~resources~~ returns as a result of past events which have the potential to decrease wellbeing
Social environmental or economic resource	Social equity	The residual interest in the ~~assets of the entity~~ impact ~~after deducting all its liabilities~~.
Positive consequences for well-being	~~Income~~ Positive impact	Increase in wellbeing ~~assets, or decreases in liabilities, that result in increases in equity, other than those~~

		~~relating to contributions from holders of equity claims~~.
Negative consequences for well-being	~~Expenses~~ Negative impact	Decrease in ~~assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims~~ wellbeing.
Other changes in ~~economic resources and claims~~ well-being	-	Contributions from ~~holders~~ society of social equity, and distributions to them.
	-	Exchanges of impact assets or impact liabilities that do not result in increases or decreases in social equity.

Definition of an asset

4.3 ~~An asset~~ An impact asset is a present social, human or natural capital resource ~~present economic resource controlled by the entity as a result of past events~~, where the use of that resource has the potential to produce social, environmental or economic benefits or disbenefits. An impact liability is a reduction in that resource.

4.4 ~~An economic resource is a right that has the potential to produce economic benefits.~~ Social and environmental benefits are positive changes in well-being. Social and environmental disbenefits are negative changes in well-being. Economic benefits are net positive cash flows that, when distributed, have the potential to produce positive and negative changes in well-being.

4.5 This section discusses four aspects of those definitions:

(a) ~~right~~ wellbeing (see paragraph 4.6);

(b) potential to produce social environmental or economic benefits or disbenefits (see paragraph 4.7–4.9);

(c) ~~control~~ responsibility (see paragraphs 4.10–4.15), and

(d) Income and expenses (see paragraph 4.16).

~~Right~~ Well-being

4.6 Well-being is a balanced state of being where no fundamental psychological or physical human needs are significantly deficient, and the foundations of physical and psychological health are present in enough measure to meet challenges faced. Wellbeing is also referred to as a state of flourishing or a 'good life'. Hedonic wellbeing and happiness are not directly equitable with wellbeing as defined here. Both individuals and groups (or communities) may have wellbeing. Collective wellbeing is made up of supportive relationships, trust and belonging and responsibility for

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each other and the continuing provision of wellbeing for future generations (sustainability). Wellbeing can be assessed through both the subjective and objective - human needs are found to be universal with the way of achieving them subjective and socially constructed. Different foundations of physical and psychological health are required depending on challenges faced and some of these can be best understood by the individual but others best assessed objectively.

~~Rights that have the potential to produce economic benefits take many forms, including:~~

~~(a) rights that correspond to an obligation of another party (see paragraph 4.39), for example:~~

~~(i) rights to receive cash.~~

~~(ii) rights to receive goods or services.~~

~~(iii) rights to exchange economic resources with another party on favourable terms. Such rights include, for example, a forward contract to buy an economic resource on terms that are currently favourable or an option to buy an economic resource.~~

~~(iv) rights to benefit from an obligation of another party to transfer an economic resource if a specified uncertain future event occurs (see paragraph 4.37).~~

~~(b) rights that do not correspond to an obligation of another party, for example:~~

~~(i) rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.~~

~~(ii) rights to use intellectual property.~~

~~4.7 Many rights are established by contract, legislation or similar means. For example, an entity might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, an entity might also obtain rights in other ways, for example:~~

~~(a) by acquiring or creating know-how that is not in the public domain (see paragraph 4.22); or~~

~~(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements (see paragraph 4.31)~~

~~4.8 Some goods or services—for example, employee services—are received and immediately consumed. An entity's right to obtain the economic benefits produced by such goods or services exists momentarily until the entity consumes the goods or services.~~

~~4.9~~ ~~Not all of an entity's rights are assets of that entity—to be assets of the entity, the rights must both have the potential to produce for the entity economic benefits beyond the economic benefits available to all other parties (see paragraphs 4.14 – 4.18) and be controlled by the entity (see paragraph 4.19–4.25). For example, rights available to all parties without significant cost — for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain—are typically not assets for the entities that hold them.~~

~~4.10~~ ~~An entity cannot have a right to obtain economic benefits from itself. Hence:~~

~~(a)~~ ~~debt instruments or equity instruments issued by the entity and repurchased and held by it—for example, treasury shares—are not economic resources of that entity; and~~

~~(b)~~ ~~if a reporting entity comprises more than one legal entity, debt instruments or equity instruments issued by one of those legal entities and held by another of those legal entities are not economic resources of the reporting entity.~~

~~4.11~~ ~~In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset (see paragraphs 4.48 –4.55). For example, legal ownership of a physical object may give rise to several rights, including:~~

~~(a)~~ ~~the right to use the object;~~

~~(b)~~ ~~the right to sell rights over the object;~~

~~(c)~~ ~~the right to pledge rights over the object; and~~

~~(d)~~ ~~other rights not listed in (a)–(c).~~

~~4.12~~ ~~In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the economic resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.~~

~~4.13~~ ~~In some cases, it is uncertain whether a right exists. For example, an entity and another party might dispute whether the entity has a right to receive an economic resource from that other party. Until that existence uncertainty is resolved—for example, by a court ruling—it is uncertain whether the entity has a right and, consequently, whether an asset exists. (Paragraph 5.14 discusses recognition of assets whose existence is uncertain.)~~

Potential to produce ~~economic benefits~~ social, environmental, or economic benefits and disbenefits

~~4.14~~ 4.7 ~~An economic resource is a right that has the potential to produce economic benefits.~~ For the potential to exist, it does not need to be certain, or even likely, that the ~~right~~ use will produce benefits or disbenefits. It is only necessary that the ~~right~~ use ~~already exists~~ has occurred and that, in at least one circumstance, it would produce benefits or disbenefits ~~beyond those available to all other parties~~:

a) beyond those available to all other parties

b) that would not have occurred without the use of the resource.

~~4.15~~ ~~A right can meet the definition of an economic resource, and hence can be an asset, even if the probability that it will produce economic benefits is low. Nevertheless, that low probability might affect decisions about what information to provide about the asset and how to provide that information, including decisions about whether the asset is recognised (see paragraphs 5.15–5.17) and how it is measured.~~

~~4.16~~ 4.8 ~~An economic~~ A social, environmental resource could produce ~~economic~~ social, environmental or economic benefits by entitling or enabling ~~it~~ the entity to do, for example, one or more of the following:

(a) receive contractual cash flows or another economic resource;

(b) exchange economic resources with another party on favourable terms;

(c) replace or enhance social or environmental resources

~~(c)~~(d) produce cash inflows or avoid cash outflows by, for example:

(i) using the ~~economic~~ social or environmental resource either individually or in combination with other ~~economic~~ resources to produce goods or provide services that create positive (and negative impacts); or

(ii) using the ~~economic~~ social or environmental resource to enhance the value of other social, environmental or economic resources.

~~(iii)~~ ~~leasing the economic resource to another party;~~

~~4.17~~ 4.9 Although ~~an economic~~ a social or environmental resource derives its value from its present potential to produce future social, environmental or economic benefits, the ~~economic~~ resource is the present ~~right~~ responsibility that contains that potential, not the future ~~economic~~ benefits that ~~the right may produce~~ might arise from the responsibility. ~~For example, a purchased option derives its value from its potential to produce economic benefits through exercise of the option at a future date. However, the economic resource is the present right—the right to exercise the option at a future date. The economic resource is not the future economic benefits that the holder will receive if the option is exercised.~~

~~4.18~~ ~~There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that the entity has sought future economic benefits, but does not provide conclusive proof that the~~

~~entity has obtained an asset. Similarly, the absence of related expenditure does not preclude an item from meeting the definition of an asset. Assets can include, for example, rights that a government has granted to the entity free of charge or that another party has donated to the entity.~~

~~Control~~ Responsibility

~~4.19~~ ~~Control links an economic resource to an entity. Assessing whether control exists helps to identify the economic resource for which the entity accounts. For example, an entity may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the entity's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.~~

4.10 Responsibilities arise where the use of a resource has the potential to produce social or environmental benefits or disbenefits. Responsibility is the trigger for considering whether there a sustainability phenomena. An entity has the responsibility to:

(a) Act as the agent of the party or parties who share access to and use those social or environmental resources

(b) Act as the agent of the party or parties who experience a positive change in well-being as a consequence of the use of those resources

(c) Act as the steward of those social or environmental resources where no party can be identified

~~4.20~~ ~~An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the economic resource and from obtaining the economic benefits that may flow from it. It follows that, if one party controls an economic resource, no other party controls that resource.~~

4.11 An entity is responsible for consequences from the use of a social environmental or economic resource if it has the present ability to direct, in whole or in part, the use of those resources. Where the entity has the right to direct the use of the resource, and therefore has control, the resource is an economic resource. Directing the use need not include the present ability to prevent other parties from directing the use of the same social or environmental resource. Social and environmental resources may:

(a) have common ownership, for example water use; or

(b) be owned by another party, for example labour that is required within the value chain but unpaid.

4.12 Where there is control and the entity has the ability to direct the use of the resource, it will be included in the financial statements (where it meets the requirements for useful information). The entity will be responsible for

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the consequences of the use of an economic resource unless the consequences have been included in contracts with the parties experiencing the consequences and measured from the perspective of those parties acceptance of a transfer of an economic resource that is equivalent to the change in well-being.

~~4.21~~ 4.13 An entity has the present ability to direct the use of ~~an economic~~ a social or environmental resource if it has the ~~right~~ ability to deploy some of that ~~economic~~ social or environmental resource in its activities. ~~or to allow another party to deploy the economic resource in that other party's activities~~.

~~4.22~~ 4.14 ~~Control of an economic resource usually arises from an ability to enforce legal rights.~~ However, ~~control~~ the ability to deploy can ~~also~~ arise if an entity has ~~other~~ means of ensuring that it, and no other party, has the present ability to direct the use of the ~~economic~~ social and environmental resource and obtain the benefits that may flow from it. For example, water flowing through land owned by the entity. ~~an entity could control a right to use know-how that is not in the public domain if the entity has access to the know-how and the present ability to keep the know-how secret, even if that know-how is not protected by a registered patent.~~

4.15 Many consequences are established by legal precedent. However, an entity might also obtain rights in other ways, for example:

(a) Scientific research

(b) Direct engagement with those expected to experience a change in well-being

(c) International conventions, for example the Declaration of Human Rights, UN General Principles for Business and Human Rights, ILO conventions and Women's Empowerment Principles

(d) Global goals recognised by the UN covering the period of the Natural, Social and Human Capital report, for example the Sustainable Development Goals.

~~4.23~~ ~~For an entity to control an economic resource, the future economic benefits from that resource must flow to the entity either directly or indirectly rather than to another party. This aspect of control does not imply that the entity can ensure that the resource will produce economic benefits in all circumstances. Instead, it means that if the resource produces economic benefits, the entity is the party that will obtain them either directly or indirectly.~~

~~4.24~~ ~~Having exposure to significant variations in the amount of the economic benefits produced by an economic resource may indicate that the entity controls the resource. However, it is only one factor to consider in the overall assessment of whether control exists.~~

~~4.25~~ ~~Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to arrange sales of goods controlled by the principal. If an agent has custody of an economic resource controlled by the~~

~~principal, that economic resource is not an asset of the agent. Furthermore, if the agent has an obligation to transfer to a third party an economic resource controlled by the principal, that obligation is not a liability of the agent, because the economic resource that would be transferred is the principal's economic resource, not the agent's.~~

Income and expenses

4.16 There is a close association between incurring expenditure and creating impact assets or impact liabilities, but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that the entity has sought future social or environmental benefits or created disbenefits but does not provide conclusive proof that the entity has created an impact asset or an impact liability. Similarly, the absence of related expenditure does not preclude an item from meeting the definition of an impact asset or impact liability. Impact assets and liabilities can include, for example, benefits or liabilities arising from economic resources that another party has donated to the entity.

Definition of an impact asset

4.17 An impact asset is

(a) a present social or environmental resource created as a consequence of the transactions of the entity and as a consequence of past events; or

(b) a positive change in well-being experienced as a consequence of the transactions of the entity as a result of past events where the change in well-being is not part of a contract with the parties experiencing a change in wellbeing and is measured from the perspective of those parties' acceptance of a transfer of an economic resource that is equivalent to the change in well-being

(c) a positive change in well-being experienced as a consequence of an entities use of social or environmental resources.

4.18 In addition an impact asset must have the potential to create benefits or positive changes in well-being.

4.19 Some resources—for example, unpaid labour —are received and immediately consumed. An entity's responsibility for the potential to produce social, environmental benefits or disbenefits exists momentarily until the uses the social or environmental resources.

4.20 In many cases, the set of responsibilities arising from use of a physical object is accounted for as a single asset. Conceptually, the social or environmental resource is the set of responsibilities, not the physical object. Nevertheless, describing the set of responsibilities as the physical object will often provide a faithful representation of those responsibilities in the most concise and understandable way.

Definition of an impact liability

~~4.26~~ 4.21 An impact liability is ~~a present obligation of the entity to transfer an economic resource as a result of past events~~:

~~4.27~~ ~~For a liability to exist, three criteria must all be satisfied:~~

(a) ~~the entity has an obligation (see paragraphs 4.28–4.35);~~ a present social or environmental resource reduced as a consequence of the transactions (or the operation of the business model) of the entity as a consequence of past events; or

(b) ~~the obligation is to transfer an economic resource (see paragraphs 4.36–4.41); and~~ a negative change in well-being experienced as a consequence of the transactions of the entity as a result of past events where the change in well-being is not part of a contract with the parties experiencing a change in wellbeing and measured from the perspective of those parties' acceptance of a transfer of an economic resource that is equivalent to the change in well-being; or

(c) ~~the obligation is a present obligation that exists as a result of past events (see paragraphs 4.42–4.47).~~ A negative change in well-being experienced as a consequence of an entities use of social or environmental resources.

4.22 In addition an impact liability must:

(a) be a present obligation as the result of past events

(b) have the potential to create disbenefits, or reduce well-being.

Obligation

~~4.28~~ 4.23 ~~The first criterion for a liability is that the entity has an obligation.~~ A social or environmental obligation is created where one of above conditions is met.

~~4.29~~ 4.24 An obligation is a duty or responsibility that an entity has no practical ability to avoid. An obligation is always owed to another party (or parties). The other party (or parties) could be a person or another entity, a group of people or other entities, or society at large. It is not necessary to know the identity of the party (or parties) to whom the obligation is owed.

~~4.30~~ 4.25 ~~If one party has an obligation to transfer an economic resource, it follows that another party (or parties) has a right to receive that economic resource.~~ However, a requirement for one party to recognise an impact liability and measure it at a specified amount does not imply that the other party (or parties) must recognise an impact asset or measure it at the same amount. ~~For example, particular Standards may contain different recognition criteria or measurement requirements for the liability of one party and the corresponding asset of the other party (or parties) if those different criteria or requirements are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.~~

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~~4.31~~ 4.26 Many obligations are established by ~~contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed~~ reference to equity law and can be obligations even if not be legally enforceable or where one party may have to take a legal action against the entity. Obligations can also arise, however, from an entity's customary practices, published policies or specific statements if the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a 'constructive obligation'. A practical ability to avoid the obligation excludes avoidance where this conflicts with equity or with international conventions including the UN Declaration of Human Rights, ILO conventions or the Women's Empowerment Principles.

~~4.32~~ 4.27 In some situations, an entity's duty or responsibility ~~to transfer economic resources~~ is conditional on a particular future action that the entity itself may take. Such actions could include operating a particular business or operating in a particular market on a specified future date, or exercising particular options within a contract. In such situations, the entity has an obligation if it has no practical ability to avoid taking that action.

~~4.33~~ 4.28 A conclusion that it is appropriate to prepare an entity's ~~financial~~ Natural, Social and Human Capital statements on an impact going concern basis also implies a conclusion that the entity ~~has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or by ceasing to trade~~ does not have or is not expected to have net negative impacts.

~~4.34~~ ~~The factors used to assess whether an entity has the practical ability to avoid transferring an economic resource may depend on the nature of the entity's duty or responsibility. For example, in some cases, an entity may have no practical ability to avoid a transfer if any action that it could take to avoid the transfer would have economic consequences significantly more adverse than the transfer itself. However, neither an intention to make a transfer, nor high likelihood of a transfer, is sufficient reason for concluding that the entity has no practical ability to avoid a transfer.~~

~~4.35~~ 4.29 In some cases, it is uncertain whether an obligation exists. The approach to identifying a negative impact and assessing the materiality of the impact will involve existence and outcome uncertainty. For example, if another party is seeking compensation for an entity's alleged act of wrongdoing, it might be uncertain whether the act occurred, whether the entity committed it or ~~how the law applies~~ what the consequences are. Until that existence uncertainty is resolved ~~- for example, by a court ruling -~~, it is uncertain whether the entity has an obligation to the party seeking compensation and, consequently whether an impact liability exists. ~~Paragraph 5.14 discusses recognition of liabilities whose existence is uncertain.)~~

~~Transfer of an economic resource~~

~~4.36~~ ~~The second criterion for a liability is that the obligation is to transfer an economic resource.~~

~~4.37~~ ~~To satisfy this criterion, the obligation must have the potential to require the entity to transfer an economic resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the entity to transfer an economic resource.~~

~~4.38~~ ~~An obligation can meet the definition of a liability even if the probability of a transfer of an economic resource is low. Nevertheless, that low probability might affect decisions about what information to provide about the liability and how to provide that information, including decisions about whether the liability is recognised (see paragraphs 5.15–5.17) and how it is measured.~~

~~4.39~~ ~~Obligations to transfer an economic resource include, for example:~~

~~(a)~~ ~~obligations to pay cash.~~

~~(b)~~ ~~obligations to deliver goods or provide services.~~

~~(c)~~ ~~obligations to exchange economic resources with another party on unfavourable terms. Such obligations include, for example, a forward contract to sell an economic resource on terms that are currently unfavourable or an option that entitles another party to buy an economic resource from the entity.~~

~~(d)~~ ~~obligations to transfer an economic resource if a specified uncertain future event occurs.~~

~~(e)~~ ~~obligations to issue a financial instrument if that financial instrument will oblige the entity to transfer an economic resource.~~

~~4.40~~ 4.30 Instead of fulfilling an obligation to transfer an economic resource to the party that has a right to receive that resource, entities sometimes decide to, for example:

~~(a)~~ ~~settle the obligation by negotiating a release from the obligation;~~

~~(b)~~ ~~transfer the obligation to a third party; or~~

~~(c)~~ ~~replace that obligation to transfer an economic resource with another obligation by entering into a new transaction.~~

~~4.41~~ ~~In the situations described in paragraph 4.40, an entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation.~~

Present obligation as a result of past events

~~4.42~~ 4.31 The ~~third~~ second criterion for an impact liability is that the obligation is a present obligation that exists as a result of past events.

~~4.43~~ 4.32 A present obligation exists as a result of past events only if:

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~~(a)~~ the entity has already ~~obtained economic benefits~~ used social or environmental resources or ~~taken~~ created a negative change in well-being as a result of an action.

~~(b)~~ ~~as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer~~

~~4.44~~ ~~The economic benefits obtained could include, for example, goods or services. The action taken could include, for example, operating a particular business or operating in a particular market. If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.~~

~~4.45~~ 4.33 ~~If new legislation is enacted, a present obligation arises only when, as a consequence of obtaining economic benefits or taking an action to which that legislation applies, an entity will or may have to transfer an economic resource that it would not otherwise have had to transfer. The enactment of legislation is not in itself sufficient to give an entity a present obligation.~~ The existence of legislation or the enaction of new legislation does not create the obligation although it may reduce existence uncertainty. Similarly, an entity's customary practice, published policy or specific statement of the type mentioned in paragraph 4.24 gives rise to a present obligation only when, as a consequence of ~~obtaining economic benefits, or~~ taking an action, to which that practice, policy or statement applies, the entity will or may have the responsibility to make good reduction in the resource and reduction in wellbeing. ~~to transfer an economic resource that it would not otherwise have had to transfer.~~

~~4.46~~ 4.34 A present obligation can exist even if making good ~~a transfer of economic resources~~ cannot be enforced until some point in the future. ~~For example, a contractual liability to pay cash may exist now even if the contract does not require a payment until a future date. Similarly, a contractual obligation for an entity to perform work at a future date may exist now even if the counterparty cannot require the entity to perform the work until that future date.~~

~~4.47~~ 4.35 ~~An entity does not yet have a present obligation to transfer an economic resource if it has not yet satisfied the criteria in paragraph 4.29, that is, if it has not yet obtained economic benefits, or taken an action, that would or could require the entity to transfer an economic resource that it would not otherwise have had to transfer. For example, if an entity has entered into a contract to pay an employee a salary in exchange for receiving the employee's services, the entity does not have a present obligation to pay the salary until it has received the employee's services. Before then the contract is executory— the entity has a combined right and obligation to exchange future salary for future employee services (see paragraph 4.56-4.58~~

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Impact assets and impact liabilities

Unit of account

~~4.48~~ 4.36 The unit of account is the ~~right~~ responsibility or the group of ~~rights~~ responsibilities, ~~obligation or the group of obligations, or the group of rights and obligations, to which,~~ to which recognition criteria and measurement concepts are applied.

~~4.49~~ 4.37 A unit of account is selected for an impact asset or liability when considering how recognition criteria and measurement concepts will apply to that impact asset or impact liability and to the related ~~income~~ positive or ~~expenses~~ negative impacts. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, ~~contracts may sometimes be recognised individually but measured as part of a portfolio of contracts~~ impacts may sometimes be recognised individually but measured as a group of impacts. For presentation and disclosure, impact assets, impact liabilities, ~~income~~ positive and ~~expenses~~ negative impacts may need to be aggregated or separated into components.

~~4.50~~ ~~If an entity transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account (see paragraphs 5.26–5.33).~~

~~4.51~~ 4.38 A unit of account is selected to provide useful information, which implies that:

(a) the information provided about the impact asset or impact liability and about any related ~~income~~ positive or ~~expenses~~ negative impacts must be relevant. Treating a group of ~~rights and obligations~~ responsibilities as a single unit of account may provide more relevant information than treating each ~~right and obligation~~ responsibility as a separate unit of account if, for example, those ~~rights and obligations~~ responsibilities:

(i) cannot be or are unlikely to be the ~~subject~~ consequence of separate transactions;

(ii) cannot or are unlikely to expire in significantly different patterns;

(iii) have similar ~~economic~~ social and environmental characteristics and risks[14] and hence are likely to have similar implications for the prospects for future net ~~cash inflows to the entity or net cash outflows from~~ impacts for the entity; or

(iv) are used together in the business activities conducted by an entity to ~~produce cash flows~~ create impacts and are measured

[14] Recognising that risks are experienced by some or all of the people or planet experiencing the change in well-being

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by reference to estimates of their interdependent future ~~cash flows~~ impacts.

(b) the information provided about the impact asset or impact liability and about any related ~~income~~ positive or ~~expenses~~ negative impacts must faithfully represent the substance of the consequence of a transaction or other event from which they have arisen. Therefore, it may be necessary to treat ~~rights or obligations~~ responsibilities arising from different sources as a single unit of account, or to separate the ~~rights or obligations~~ responsibilities arising from a single source ~~(see paragraph 4.62)~~. Equally, to provide a faithful representation of unrelated ~~rights or obligations~~ responsibilities, it may be necessary to recognise and measure them separately.

~~4.52~~ 4.39 Just as cost constrains other ~~financial~~ Natural, Social and Human Capital reporting decisions, it also constrains the selection of a unit of account. Hence, in selecting a unit of account, it is important to consider whether the benefits of the information provided to users of ~~financial~~ Natural, Social and Human Capital statements by selecting that unit of account are likely to justify the costs of providing and using that information. In general, the costs associated with recognising and measuring impact assets, impact liabilities, ~~income~~ positive and ~~expenses~~ negative impacts increase as the size of the unit of account decreases. Hence, in general, rights or ~~obligations~~ responsibilities arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

~~4.53~~ 4.40 Sometimes, ~~both rights and obligations~~ responsibilities arise from the same source. For example, some contracts establish ~~both rights and obligations~~ responsibilities for each of the parties. If those ~~both rights and obligations~~ responsibilities are interdependent and cannot be separated, they constitute a single inseparable impact asset or impact liability and hence form a single unit of account. ~~For example, this is the case with executory contracts (see paragraph 4.57). Conversely, if rights are separable from obligations, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities.~~ Conversely, as responsibilities may result in positive and negative changes in well-being, these will be grouped separately. ~~In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account treating them as a single asset or a single liability.~~

~~4.54~~ 4.41 Treating a set of ~~right and obligations~~ responsibilities as a single unit of account differs from offsetting impact assets and impact liabilities (see paragraph 7.10).

~~4.55~~ 4.42 Possible units of account include:

(a) an individual ~~right or individual obligation~~ responsibility.

~~(b)~~ ~~all rights, all obligations, or all rights and all obligations, arising from a single source, for example, a contract;~~

~~(c) a subgroup of those rights and/or obligations—for example, a subgroup of rights over an item of property, plant and equipment for which the useful life and pattern of consumption differ from those of the other rights over that item; (d) a group of rights and/or obligations arising from a portfolio of similar items;~~

~~(e) a group of rights and/or obligations arising from a portfolio of dissimilar items—for example, a portfolio of assets and liabilities to be disposed of in a single transaction; and~~

~~(f) a risk exposure within a portfolio of items—if a portfolio of items is subject to a common risk, some aspects of the accounting for that portfolio could focus on the aggregate exposure to that risk within the portfolio.~~

(a) those with a positive change in well-being and all those with a negative change in wellbeing relating to a subgroup of those affected by the action;

(b) all those with a positive change in well-being and all those with a negative change in well-being relating to a group of those affected who share contractual relationship with the entity, for example employees;

(c) all responsibilities arising from a single source, for example, a contract regardless of those affected.

~~Executory contracts~~

~~4.56 An executory contract is a contract, or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.~~

~~4.57 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation are interdependent and cannot be separated. Hence, the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 5) and the measurement basis (see Chapter 6) selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.~~

~~4.58 To the extent that either party fulfils its obligations under the contract, the contract is no longer executory. If the reporting entity performs first under the contract, that performance is the event that changes the reporting entity's right and obligation to exchange economic resources into a right to receive an economic resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting entity's right and obligation to exchange economic resources into an obligation to transfer an economic resource. That obligation is a liability.~~

~~**Substance of contractual rights and contractual obligations**~~

~~4.59~~ ~~The terms of a contract create rights and obligations for an entity that is a party to that contract. To represent those rights and obligations faithfully, financial statements report their substance (see paragraph 2.12). In some cases, the substance of the rights and obligations is clear from the legal form of the contract. In other cases, the terms of the contract or a group or series of contracts require analysis to identify the substance of the rights and obligations.~~

~~4.60~~ ~~All terms in a contract—whether explicit or implicit—are considered unless they have no substance. Implicit terms could include, for example, obligations imposed by statute, such as statutory warranty obligations imposed on entities that enter into contracts to sell goods to customers.~~

~~4.61~~ ~~Terms that have no substance are disregarded. A term has no substance if it has no discernible effect on the economics of the contract. Terms that have no substance could include, for example:~~

~~(a)~~ ~~terms that bind neither party; or~~

~~(b)~~ ~~rights, including options, that the holder will not have the practical ability to exercise in any circumstances.~~

~~4.62~~ ~~A group or series of contracts may achieve or be designed to achieve an overall commercial effect. To report the substance of such contracts, it may be necessary to treat rights and obligations arising from that group or series of contracts as a single unit of account. For example, if the rights or obligations in one contract merely nullify all the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that the two contracts create no rights or obligations. Conversely, if a single contract creates two or more sets of rights or obligations that could have been created through two or more separate contracts, an entity may need to account for each set as if it arose from separate contracts in order to faithfully represent the rights and obligations (see paragraphs 4.48–4.55).~~

Definition of social equity

~~4.63~~ 4.43 Social equity is the residual interest in the impacts assets of the entity after deducting all its impact liabilities. Society in general has a claim on the residual interest in the impact assets of the entity after deducting all its impact liabilities. In other words, it is a claim against the entity that does not meet the definition of an impact liability. It is the society's equitable interest in the entity and represents the value that has been created for society. Society's claim relates to viability and the option for society to remove a license to operate.

~~4.64~~ ~~Equity claims are claims on the residual interest in the assets of the entity after deducting all its liabilities. In other words, they are claims against the entity that do not meet the definition of a liability. Such claims may be established by contract, legislation or similar means, and include, to the extent that they do not meet the definition of a liability:~~

(a) ~~shares of various types, issued by the entity; and~~

(b) ~~some obligations of the entity to issue another equity claim.~~

~~4.65~~ ~~Different classes of equity claims, such as ordinary shares and preference shares, may confer on their holders different rights, for example, rights to receive some or all of the following from the entity:~~

(a) ~~dividends, if the entity decides to pay dividends to eligible holders;~~

(b) ~~the proceeds from satisfying the equity claims, either in full on liquidation, or in part at other times; or~~

(c) ~~other equity claims.~~

~~4.66~~ ~~Sometimes, legal, regulatory or other requirements affect particular components of equity, such as share capital or retained earnings. For example, some such requirements permit an entity to make distributions to holders of equity claims only if the entity has sufficient reserves that those requirements specify as being distributable.~~

~~4.67~~ 4.44 Business activities are often undertaken by entities such as sole proprietorships, partnerships, trusts or various types of government business undertakings. ~~The legal and regulatory frameworks for such entities are often different from frameworks that apply to corporate entities. For example, there may be few, if any, restrictions on the distribution to holders of equity claims against such entities.~~ Nevertheless, the definition of social equity ~~in paragraph 4.63~~ of the *Conceptual Framework* applies to all reporting entities.

Definitions of ~~income~~ positive and ~~expenses~~ negative impacts

~~4.68~~ 4.45 ~~Income~~ Positive impacts are increases in ~~assets~~ well-being~~, or decreases in liabilities,~~ that result in increases in social equity, other than those relating to contributions to ~~holders of equity claims~~ social equity from other sources.

~~4.69~~ 4.46 ~~Expenses~~ Negative impacts are decreases in ~~assets~~ well-being~~, or increases in liabilities~~ that result in decreases in social equity, other than those relating to distributions to holders of social equity.

~~4.70~~ ~~It follows from these definitions of income and expenses that contributions from holders of equity claims are not income, and distributions to holders of equity claims are not expenses.~~

~~4.71~~ 4.47 ~~Income~~ Positive and ~~expenses~~ negative impacts are the elements of ~~financial~~ Natural, Social and Human Capital statements that relate to an entity's ~~financial~~ Natural, Social and Human Capital performance. Users of ~~financial~~ Natural, Social and Human Capital statements need information about both an entity's ~~financial~~ Natural, Social and Human Capital position and its ~~financial~~ Natural, Social and Human Capital performance. Hence, although ~~income~~ positive and ~~expenses~~ negative impacts are defined in terms of changes in impact assets and impact liabilities, information about ~~income~~ positive and ~~expenses~~ negative impacts is just as important as information about impact assets and impact liabilities.

~~4.72~~ 4.48 Different transactions and other events generate ~~income~~ positive and ~~expenses~~ negative impacts with different characteristics. Providing information separately about ~~income~~ positive and ~~expenses~~ negative impacts with different characteristics can help users of ~~financial~~ Natural, Social and Human Capital statements to understand the entity's ~~financial~~ Natural, Social and Human Capital performance (see paragraphs 7.13–7.17).

Recognition follows the same logic of the CFFR although the subject matter is not the same. Sustainability accounting standards of practice would create more consistency in disclosure.

CHAPTER 5—RECOGNITION AND DERECOGNITION

The Recognition Process

5.1 Recognition is the process of capturing for inclusion in the statement of ~~financial~~ Natural, Social and Human Capital position or the statement(s) of ~~financial~~ Natural, Social and Human Capital performance, an item that meets the definition of one of the elements of ~~financial~~ Natural, Social and Human Capital statements—an impact asset, an impact liability, social equity, ~~income~~ positive or ~~expenses~~ negative impact. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items— in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an impact asset, an impact liability or social equity is recognised in the statement of ~~financial~~ Natural, Social and Human Capital position is referred to as its 'carrying amount'.

5.2 The statement of position and statement(s) of ~~financial~~ Natural, Social and Human Capital performance depict an entity's recognised impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts in structured summaries that are designed to make ~~financial~~ Natural, Social and Human Capital information comparable and understandable. An important feature of the structures of those summaries is that the amounts recognised in a statement are included in the totals and, if applicable, subtotals that link the items recognised in the Natural, Social and Human Capital statement.

5.3 Recognition links the elements, the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance as follows (see Diagram 5.1):

(a) in the statement of ~~financial~~ Natural, Social and Human Capital position at the beginning and end of the reporting period, total impact assets minus total impact liabilities equals total social equity; and

(b) recognised changes in social equity during the reporting period comprise:

(i) ~~income~~ positive impacts minus ~~expenses~~ negative impacts recognised in the statement(s) of ~~financial~~ Natural, Social and Human Capital performance; plus

(ii) contributions from holders of social equity claims, minus distributions to holders of social equity claims.

5.4 The statements are linked because the recognition of one item (or a change in its carrying amount) requires the recognition or derecognition of one or more other items (or changes in the carrying amount of one or more other items). For example:

(a) the recognition of ~~income~~ positive impact occurs at the same time as:

(i) the initial recognition of an impact asset, or an increase in the carrying amount of an impact asset; or

(ii) the derecognition of an impact liability, or a decrease in the carrying amount of an impact liability.

(b) the recognition of ~~expenses~~ negative impact occurs at the same time as:

(i) the initial recognition of an impact liability, or an increase in the carrying amount of an impact liability; or

(ii) the derecognition of an impact asset, or a decrease in the carrying amount of an impact asset.

Diagram 5.1: How recognition links the elements of ~~financial~~ Natural, Social and Human Capital statements

Statement of ~~financial~~ Natural, Social and Human Capital position at beginning of reporting period
Impact assets minus liabilities equals social equity analyzed across capitals

+

Statement(s) of ~~financial~~ Natural, Social and Human Capital performance
~~Income~~ Positive ~~minus~~ and ~~expenses~~ negative Impacts analysed across capitals

+ (Changes in social equity)

Contributions from holders of social equity claims minus distributions to holders of social equity claims

=

Statement of ~~financial~~ Natural, Social and Human Capital position at end of reporting period
Impact assets minus liabilities equals social equity analysed across capitals

5.5 The initial recognition of impact assets or liabilities arising from the use of social or environmental resources, transactions or other events may result in the simultaneous recognition of both ~~income~~ positive and ~~related~~

~~expenses~~ negative impacts. ~~For example, the sale of goods for cash results in the recognition of both income (from the recognition of one asset—the cash) and an expense (from the derecognition of another asset—the goods sold). The simultaneous recognition of income and related expenses is sometimes referred to as the matching of costs with income.~~ Application of the concepts in the *Conceptual Framework* leads to such matching when it arises from the recognition of changes in impact assets and impact liabilities. However, matching of ~~costs with income~~ positive and negative impacts is not an objective of the *Conceptual Framework*. The *Conceptual Framework* does not allow the recognition in the statement of ~~financial~~ Natural, Social and Human Capital position of items that do not meet the definition of an impact asset, an impact liability or social equity.

Recognition criteria

5.6 Only items that meet the definition of an impact asset, an impact liability or social equity are recognised in the statement of ~~financial~~ Natural, Social and Human Capital position. Similarly, only items that meet the definition of ~~income~~ positive or ~~expenses~~ negative impacts are recognised in the statement(s) of ~~financial~~ Natural, Social and Human Capital performance. However, not all items that meet the definition of one of those elements are recognised.

5.7 Not recognising an item that meets the definition of one of the elements makes the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance less complete and can exclude useful information from ~~financial~~ sustainability statements. On the other hand, in some circumstances, recognising some items that meet the definition of one of the elements would not provide useful information. To meet the objectives of the Conceptual Framework for Natural, Social and Human Capital Reporting the balance is towards completeness. An impact asset or impact liability is recognised only if recognition of that impact asset or impact liability and of any resulting ~~income~~ positive, ~~expenses~~ negative impacts or changes in social equity provides users of ~~financial~~ Natural, Social and Human Capital statements with information that is useful, i.e., with:

(a) relevant information about the impact asset or impact liability and about any resulting ~~income~~ positive or ~~expenses~~ negative impacts or changes in social equity ~~(see paragraphs 5.12–5.17);~~ and

(b) a faithful representation of the ~~impact~~ asset or ~~impact~~ liability and of any resulting ~~income~~ positive or ~~expenses~~ negative impacts or changes in social equity ~~(see paragraphs 5.18–5.25)~~.

5.8 Just as cost constrains other ~~financial~~ Natural, Social and Human Capital reporting decisions, it also constrains recognition decisions. There is a cost to recognising an impact asset or impact liability. Preparers of ~~financial~~ Natural, Social and Human Capital statements incur costs in obtaining a relevant measure of an impact asset or impact liability. Users of ~~financial~~ Natural, Social and Human Capital statements also incur costs in analysing and interpreting the information provided. An impact asset or impact liability is recognised if the benefits of the information provided to users of ~~financial~~ Natural, Social and Human Capital statements by recognition are likely to justify the costs of providing and using that information. In some cases, the costs of recognition may outweigh its benefits.

5.9 It is not possible to define precisely when recognition of an impact asset or impact liability will provide useful information to users of ~~financial~~ Natural, Social and Human Capital statements, at a cost that does not outweigh its benefits. What is useful to users depends on the item and the facts and circumstances. Consequently, judgement is required when deciding whether to recognise an item, and thus recognition requirements may need to vary between and within Standards.

5.10 It is important when making decisions about recognition to consider the information that would be given if an impact asset or impact liability were not recognised. For example, if no impact asset is recognised when expenditure is incurred, a ~~expense~~ negative impact is recognised. Over time, recognising the expense may, in some cases, provide useful information, for example, information that enables users of ~~financial~~ Natural, Social and Human Capital statements to identify trends.

5.11 Even if an item meeting the definition of an impact asset or impact liability is not recognised, an entity may need to provide information about that item in the notes. It is important to consider how to make such information sufficiently visible to compensate for the item's absence from the structured summary provided by the statement of ~~financial~~ Natural, Social and Human Capital position and, if applicable, the statement(s) of ~~financial~~ Natural, Social and Human Capital performance.

Relevance

5.12 Information about impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts is relevant to users of ~~financial~~ Natural, Social and Human Capital statements. However, recognition of a particular impact asset or impact liability and any resulting ~~income~~ positive, ~~expenses~~ negative impacts or changes in social equity may not always provide relevant information. That may be the case if, for example:

(a) it is uncertain whether an impact asset or impact liability exists (see paragraph 5.14); or

(b) an impact asset or impact liability exists, but the probability of an inflow or outflow of ~~economic~~ social or environmental benefits or dis-benefits is low (see paragraphs 5.15–5.17).

5.13 The presence of one or both of the factors described in paragraph 5.12 does not lead automatically to a conclusion that the information provided by recognition lacks relevance. Moreover, factors other than those described in paragraph 5.12 may also affect the conclusion. It may be a combination of factors and not any single factor that determines whether recognition provides relevant information.

Existence uncertainty

5.14 ~~Paragraphs 4.13 and 4.35 discuss cases in which it is uncertain whether an asset or liability exists.~~ In some cases, that existence uncertainty, possibly combined with a low probability of inflows or outflows of ~~economic~~ social or environmental benefits or disbenefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an impact asset or impact liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the impact asset or impact liability is recognised, explanatory information about the uncertainties associated with it may need to be provided in the ~~financial~~ Natural, Social and Human Capital statements.

Low probability of an inflow or outflow of ~~economic~~ social or environmental benefits or disbenefits

5.15 An impact asset or impact liability can exist even if the probability of an inflow or outflow of ~~economic~~ social or environmental benefits or dis-benefits is low (see paragraphs 4.8 and 4.29).

5.16 If the probability of an inflow or outflow of ~~economic~~ social or environmental benefits or dis-benefits is low, the most relevant information about the impact asset or impact liability may be information about the magnitude of the possible inflows or outflows, their possible timing and the factors affecting the probability of their occurrence. The typical location for such information is in the notes.

5.17 Even if the probability of an inflow or outflow of ~~economic~~ social or environmental benefits is low, recognition of the impact asset or impact liability may provide relevant information beyond the information described in paragraph 5.16. Whether that is the case may depend on a variety of factors. For example:

(a) if an impact asset or an impact liability is ~~incurred~~ created in an exchange transaction on market terms, its cost generally does not reflect the probability of an inflow or outflow of ~~economic~~ social or environmental benefits. Thus, that cost may not be relevant information, ~~and~~ although it is generally readily available. ~~Furthermore, not recognising the asset or liability would result in the recognition of expenses or income at the time of the exchange, which might not be a faithful representation of the transaction (see paragraph 5.25(a).~~ Where this cost has been recognised in the financial statements this difference between that cost and the measurement of the change in well-being would be recognised in the Natural, Social and Human Capital statements.

(b) if an impact asset or impact liability arises from the use of social or environmental resources (an event that is not an exchange transaction), recognition of the impact asset or impact liability typically results in recognition of ~~income~~ positive or ~~expenses~~ negative impacts. If there is only a low probability that the impact asset or impact liability will result in an inflow or outflow of ~~economic~~ social or environmental benefits or disbenefits, users of

~~financial~~ Natural, Social and Human Capital statements might regard the recognition of the impact asset and income, or the impact liability and expenses, as providing relevant information.

Faithful representation

5.18 Recognition of a particular impact asset or impact liability is appropriate if it provides not only relevant information, but also a faithful representation of that impact asset or impact liability and of any resulting positive or negative impacts or changes in social equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the impact asset or impact liability or by other factors.

Measurement uncertainty

5.19 For an impact asset or impact liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. As noted in paragraph 2.19, the use of reasonable estimates is an essential part of the preparation of ~~financial~~ Natural, Social and Human Capital information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

5.20 In some cases, the level of uncertainty involved in estimating a measure of an impact asset or impact liability may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that impact asset or impact liability and of any resulting ~~income~~ positive or ~~expenses~~ negative impacts or changes in social equity. The level of measurement uncertainty may be so high if, for example, ~~the only way of estimating that measure of the asset or liability is by using cash-flow-based measurement techniques and, in addition,~~ on where one or more of the following circumstances exists:

(a) the range of possible outcomes is exceptionally wide, and the probability of each outcome is exceptionally difficult to estimate.

(b) the measure is exceptionally sensitive to small changes in estimates of the probability of different outcomes—for example, if the probability of future ~~cash~~ inflows or outflows of social or environmental benefits and dis-benefits occurring is exceptionally low, but the magnitude of those ~~cash~~ inflows or outflows will be exceptionally high if they occur.

(c) measuring the impact asset or impact liability requires exceptionally difficult or exceptionally subjective allocations of ~~cash flows~~ benefits or disbenefits ~~that do not relate solely to the asset or liability being measured~~ where the estimation of the relation to the transaction or use of social environmental resources is also subject to very high levels of outcome or measurement uncertainty.

5.21 In some of the cases described in paragraph 5.20, the most useful information may be the measure that relies on the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. This is especially likely to be the case if that measure is the most relevant measure of the impact asset or impact liability. In other cases, if that information would not provide a sufficiently faithful representation of the impact asset or impact liability and of any resulting ~~income~~ positive or ~~expenses~~ negative impacts or changes in social equity, the most useful information may be a different measure (accompanied by any necessary descriptions and explanations) that is slightly less relevant but is subject to lower measurement uncertainty.

5.22 In limited circumstances, all relevant measures of an impact asset or impact liability that are available (or can be obtained) may be subject to such high measurement uncertainty that none would provide useful information about the impact asset or impact liability (and any resulting ~~income~~ positive or ~~expenses~~ negative impacts or changes in social equity), even if the measure were accompanied by a description of the estimates made in producing it and an explanation of the uncertainties that affect those estimates. In those limited circumstances, the impact asset or impact liability would not be recognised.

5.23 Whether or not an impact asset or impact liability is recognised, a faithful representation of the impact asset or impact liability may need to include explanatory information about the uncertainties associated with the impact asset or impact liability's existence or measurement, or with its outcome—the amount or timing of any inflow or outflow of ~~economic~~ social or environmental benefits or dis-benefits that will ultimately result from it (see paragraphs 6.28–6.30).

Other factors

5.24 Faithful representation of a recognised impact asset, impact liability, social equity, ~~income~~ positive or ~~expenses~~ negative impacts involves not only recognition of that item, but also its measurement as well as presentation and disclosure of information about it (see Chapters 6-7).

5.25 Hence, when assessing whether the recognition of an impact asset or impact liability can provide a faithful representation of the impact asset or impact liability, it is necessary to consider not merely its description and measurement in the statement of ~~financial~~ Natural, Social and Human Capital position, but also:

(a) the depiction of resulting ~~income~~ positive or ~~expenses~~ negative impacts and changes in social equity. ~~For example, if an entity acquires an asset in exchange for consideration, not recognising the asset would result in recognising expenses and would reduce the entity's profit and equity. In some cases, for example, if the entity does not consume the asset immediately, that result could provide a misleading representation that the entity's financial position has deteriorated.~~

(b) whether related impact assets and impact liabilities are recognised. If they are not recognised, recognition may create a recognition inconsistency (accounting mismatch). That may not provide an understandable or faithful representation of the overall effect of the transaction or other event giving rise to the impact asset or impact liability, even if explanatory information is provided in the notes.

(c) presentation and disclosure of information about the impact asset or impact liability and resulting ~~income~~ positive and ~~expenses~~ negative impacts or changes in social equity. A complete depiction includes all information necessary for a user of ~~financial~~ Natural, Social and Human Capital statements to understand the ~~economic~~ social or environmental phenomenon depicted, including all necessary descriptions and explanations. Hence, presentation and disclosure of related information can enable a recognised amount to form part of a faithful representation of an impact asset, an impact liability, social equity, ~~income~~ positive or ~~expenses~~ negative impact.

Derecognition

5.26 Derecognition is the removal of all or part of a recognised impact asset or impact liability from an entity's statement of ~~financial~~ Natural, Social and Human Capital position. Derecognition normally occurs when that item no longer meets the definition of an impact asset or of an impact liability:

(a) for an impact asset, derecognition normally occurs when ~~the entity loses control of all or part of the recognised asset~~ there are no consequences from the use of resource; and

(b) for an impact liability, derecognition normally occurs when the entity no longer has a present obligation for all or part of the recognised impact liability.

5.27 Accounting requirements for derecognition aim to faithfully represent both:

(a) any impact assets and liabilities retained after the transaction or other event that led to the derecognition (including any impact asset or impact liability acquired, incurred or created as part of the transaction or other event); and

(b) the change in the entity's impact assets and impact liabilities as a result of that transaction or other event.

5.28 The aims described in paragraph 5.27 are normally achieved by:

(a) derecognising any impact assets or impact liabilities that have expired or have been consumed, ~~collected~~, fulfilled or transferred, and recognising any resulting ~~income~~ positive or ~~expenses~~ negative impacts. In the rest of this chapter, the term 'transferred component' refers to all those impact assets and impact liabilities;

(b) continuing to recognise the impact assets or impact liabilities retained, referred to as the 'retained component', if any. That retained component becomes a unit of account separate from the transferred component. Accordingly, no ~~income~~ positive or ~~expenses~~ negative impacts are recognised on the retained component as a result of the derecognition of the transferred component, unless the derecognition results in a change in the measurement requirements applicable to the retained component; and

(c) applying one or more of the following procedures, if that is necessary to achieve one or both of the aims described in paragraph 5.27:

   (i) presenting any retained component separately in the statement of ~~financial~~ Natural, Social and Human Capital position;

   (ii) presenting separately in the statement(s) of ~~financial~~ Natural, Social and Human Capital performance any ~~income~~ positive or ~~expenses~~ negative impacts recognised as a result of the derecognition of the transferred component; or

   (iii) providing explanatory information.

5.29 In some cases, an entity might appear to transfer an impact asset or impact liability, but that impact asset or impact liability might nevertheless remain an impact asset or impact liability of the entity. For example;

(a) if an entity has apparently transferred an impact asset but retains responsibility exposure to significant positive or negative variations in the amount of ~~economic~~ social or environmental benefits or disbenefits that may be produced by the impact asset, ~~is sometimes indicates that the entity might continue to control that asset (see paragraph 4.24);~~ for example where economic resources with associated negative consequences are transferred, this indicates that the entity might continue to share responsibility of the use of that resource. Or

(b) if an entity has transferred an asset to another party that holds the asset as an agent for the entity, the transferor still controls the asset (see paragraph 4.25).

5.30 In the cases described in paragraph 5.29, derecognition of that impact asset or impact liability is not appropriate because it would not achieve either of the two aims described in paragraph 5.27.

5.31 When an entity no longer has a transferred component, derecognition of the transferred component faithfully represents that fact. However, in some of those cases, derecognition may not faithfully represent how much a transaction or other event changed the entity's impact assets or impact liabilities, even when supported by one or more of the procedures described in paragraph 5.28(c). In those cases, derecognition of the transferred component might imply that the entity's ~~financial~~ Natural, Social and Human Capital position has changed more significantly than it has. ~~This might occur, for example:~~

~~(a)~~ ~~if an entity has transferred an asset and, at the same time, entered into another transaction that results in a present right or present obligation to reacquire the asset. Such present rights or present obligations may arise from, for example, a forward contract, a written put option, or a purchased call option.~~

~~(b)~~ ~~if an entity has retained exposure to significant positive or negative variations in the amount of economic benefits that may be produced by a transferred component that the entity no longer controls.~~

5.32 If derecognition is not sufficient to achieve both aims described in paragraph 5.27, even when supported by one or more of the procedures described in paragraph 5.28(c), those two aims might sometimes be achieved by continuing to recognise the transferred component. This has the following consequences:

(a) no ~~income~~ positive or ~~expenses~~ negative impacts are recognised on either the retained component or the transferred component as a result of the transaction or other event;

(b) the proceeds received (or paid) upon transfer of the impact asset (or impact liability) are treated as a loan received (or given); and

(c) separate presentation of the transferred component in the statement of ~~financial~~ Natural, Social and Human Capital position, or provision of explanatory information, is needed to depict the fact that the entity no longer has any responsibilities arising from the transferred component. Similarly, it may be necessary to provide information about ~~income~~ positive or ~~expenses~~ negative impacts arising from the transferred component after the transfer.

5.33 One case in which questions about derecognition arise is when a contract is modified in a way that reduces or eliminates existing responsibilities. In deciding how to account for contract modifications, it is necessary to consider which unit of account provides users of ~~financial~~ Natural, Social and Human Capital statements with the most useful information about the impact assets and impact liabilities retained after the modification, and about how the modification changed the entity's impact assets and impact liabilities:

(a) if a contract modification only eliminates existing rights or obligations, the discussion in paragraphs 5.26–5.32 is considered in deciding whether to derecognise those responsibilities;

(b) if a contract modification only adds new rights or obligations, it is necessary to decide whether to treat the added rights or obligations as a separate impact asset or impact liability, or as part of the same unit of account as the existing rights and obligations; and

(c) if a contract modification both eliminates existing rights or obligations and adds new rights or obligations, it is necessary to consider both the separate and the combined effect of those modifications. In some such cases, the contract has been modified to such an extent that, in substance, the modification replaces the old impact asset or impact liability with a new impact asset or impact liability. In cases of such extensive modification, the entity may need to derecognise the original impact asset or impact liability and recognise the new impact asset or impact liability.

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Measurement in the CFFR refers to measurement using a common unit where that unit is money. This is generally referred to as valuation in sustainability and impact accounting and follows the measurement of impacts which are then valued. For consistency with the CFFR, the term measurement is used here to refer to impact valuation. In this sense, the measurement of impacts is central to enhancing comparability and assessing performance. The measurement base in CFFR would be Fair Value. This term is not used in impact valuation and is used in the interim CFSR to maintain comparability with the CFFR.

At present there are numerous methodologies used to identify and measure (and value) impacts. The work of the Capital Coalition set out in the Natural Capital Protocol and the Social and Human Capital Protocol will be important starting points for consideration how to measure impacts. The concept of fair value in the CFFR permits management estimation of the amount that would be paid in a market. Impact valuation estimates the amount that would be paid instead of a change to well-being and so the measurement base of Fair Value is retained in the CFSR. The main difference is around the level of certainty required for recognition which, based on current practice in impact valuation, is lower in the CFSR. The CFFR covers the issues in selecting a measurement base which may still be relevant in considering an approach to impact valuation and have been retained.

CHAPTER 6—MEASUREMENT

Introduction

6.1 Elements recognised in ~~financial~~ Natural, Social and Human Capital statements are quantified in monetary terms. This requires;

a) the selection of a measurement basis for quantifying in monetary terms;

b) measurement of the change in well-being; and

c) understanding of Natural, Social and Human Capital context and thresholds and allocations.

Selection of a measurement basis for quantifying in monetary terms

~~6.1~~ 6.2 A measurement basis is an identified feature—for example, ~~historical cost~~, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an impact asset or impact liability creates a measure for that impact asset or impact liability and for related ~~income~~ positive and ~~expenses~~ negative impacts.

~~6.2~~ 6.3 Consideration of the qualitative characteristics of useful ~~financial~~ Natural, Social and Human Capital information and of the cost constraint is likely to result in the selection of different measurement bases for different impact assets, impact liabilities, ~~income~~ positive and ~~expenses~~ negative impacts.

~~6.3~~ 6.4 A Standard may need to describe how to implement the measurement basis selected in that Standard. That description could include:

(a) specifying techniques that may or must be used to estimate a measure applying a particular measurement basis;

(b) specifying a simplified measurement approach that is likely to provide information similar to that provided by a preferred measurement basis; or

(c) explaining how to modify a measurement basis~~, for example, by excluding from the fulfilment value of a liability the effect of the possibility that the entity may fail to fulfil that liability (own credit risk).~~

Measurement of the changes in well-being

6.5 Measurement of a change in wellbeing requires:

(a) Identification of the people who experience the change in well-being

(b) Identification of the aspect of wellbeing that is relevant to them

(c) Identification of aspects of well-being that are relevant to the Natural, Social and Human Capital context

(d) Determining the units of account, or groupings shared experience and relevance

(e) Determining the amount of change

(f) Confirming causality between the use of Natural, Social and Human Capital resources or of economic resources (the transaction)

Understanding of Natural, Social and Human Capital context and thresholds and allocations

6.6 Measurement using a common unit allows users to assess the Natural, Social and Human Capital performance of the entity and management's stewardship of the social, environmental, and economic resources across Natural, Social and Human Capitals. A common unit implies that resources can be substituted. This is not always the case and where resources are used that cannot be substituted, especially where their use exceed planetary thresholds, the measurement base must take this into account.

6.7 The assessment of performance would reflect managers decisions and the tradeoffs they have made in a particular sustainability context accounting for thresholds and performance in determining whether an impact was positive or negative as well as the relative importance of the positive or negative impacts.

Measurement bases

~~Historical cost~~

~~6.4~~ ~~Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them. Unlike current value, historical cost does not reflect changes in values, except to the extent that those changes relate to impairment of an asset or a liability becoming onerous (see paragraphs 6.7(c) and 6.8(b)).~~

~~6.5~~ ~~The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.~~

~~6.6~~ ~~When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms (see paragraph 6.80), it may not be possible to identify a cost, or the cost may not provide relevant information about the asset or liability. In some such cases, a current value of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost.~~

~~6.7~~ ~~The historical cost of an asset is updated over time to depict, if applicable:~~

~~(a)~~ ~~the consumption of part or all of the economic resource that constitutes the asset (depreciation or amortisation);~~

~~(b)~~ ~~payments received that extinguish part or all of the asset;~~

~~(c)~~ ~~the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and (d) accrual of interest to reflect any financing component of the asset.~~

~~6.8~~ ~~The historical cost of a liability is updated over time to depict, if applicable:~~

~~a)~~ ~~fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods;~~

~~(b)~~ ~~the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if~~

~~the historical cost is no longer sufficient to depict the obligation to fulfil the liability; and~~

~~(c)~~ ~~accrual of interest to reflect any financing component of the liability.~~

~~6.9~~ ~~One way to apply a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost. The amortised cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.~~

Current value

~~6.10~~ 6.8 Current value measures provide monetary information about impact assets, impact liabilities and related ~~income~~ positive and ~~expenses~~ negative impacts, using information updated to reflect conditions at the measurement date. Because of the updating, current values of impact assets and impact liabilities reflect changes, since the previous measurement date, in estimates of ~~cash flows~~ benefits and dis-benefits and other factors reflected in those current values (see paragraphs 6.12). ~~Unlike historical cost, the current value of an asset or liability is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or liability.~~

~~6.11~~6.9 The current value measurement base ~~include~~ is fair value:

~~(a)~~ ~~fair value (see paragraphs 6.12–6.16);~~

~~(b)~~ ~~value in use for assets and fulfilment value for liabilities (see paragraphs 6.17–6.20); and~~

~~(c)~~ ~~current cost (see paragraphs 6.21–6.22).~~

A summary of measurement approaches to Fair Value is set out Appendix A.

Fair value

~~6.12~~6.10 Fair value is the price that would be received or paid by the person experiencing the impact on a natural, social or human capital to equate with the change in wellbeing that had been gained or lost ~~in an orderly transaction between market participants at the measurement date.~~ It is a value of the Natural, Social and Human Capital resource that would have to be transferred to equate with the change in well-being.

~~6.10~~6.11 Fair value reflects the perspective of ~~market participants—participants in a market to which the entity has access~~ those experiencing the change in well-being. The impact asset or impact liability is measured using the same assumptions that ~~market participants~~ those experiencing a change in well-being would use when pricing the impact asset or impact liability if ~~those market participants~~ they act in their ~~economic~~ best interest.

~~6.14~~6.12 In some cases, fair value can be determined directly by observing prices ~~in an active market~~, for example in legal judgements. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques ~~(see paragraphs 6.91–6.95)~~, reflecting all the following factors:

(a) estimates of future cash flows that equate to the change in well-being.

~~(b)~~ ~~possible variations in the estimated amount or timing of future cash flows for the asset or liability being measured, caused by the uncertainty inherent in the cash flows.~~

~~(c)~~(b) the time value of money.

~~(d)~~ ~~the price for bearing the uncertainty inherent in the cash flows (a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain.~~

~~(e)~~ ~~other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.~~

~~6.15~~ ~~The factors mentioned in paragraphs 6.14(b) and 6.14(d) include the possibility that a counterparty may fail to fulfil its liability to the entity (credit risk), or that the entity may fail to fulfil its liability (own credit risk).~~

~~6.16~~ 6.13 Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the impact asset or impact liability, fair value is not increased by the transaction costs incurred when acquiring the impact asset and is not decreased by the transaction costs incurred when the impact liability is incurred or taken on. ~~In addition, fair value does not reflect the transaction costs that would be incurred on the ultimate disposal of the asset or on transferring or settling the liability.~~

~~Value in use and fulfilment value~~

~~6.17~~ ~~Value in use is the present value of the cash flows, or other economic benefits, that an entity expects to derive from the use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash, or other economic resources, that an entity expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other economic resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the entity expects to be obliged to transfer to other parties to enable it to fulfil the liability.~~

~~6.18~~ ~~Because value in use and fulfilment value are based on future cash flows, they do not include transaction costs incurred on acquiring an asset or taking on a liability. However, value in use and fulfilment value include the present value of any transaction costs an entity expects to incur on the ultimate disposal of the asset or on fulfilling the liability.~~

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~~6.19~~ ~~Value in use and fulfilment value reflect entity-specific assumptions rather than assumptions by market participants. In practice, there may sometimes be little difference between the assumptions that market participants would use and those that an entity itself uses.~~

~~6.20~~ ~~Value in use and fulfilment value cannot be observed directly and are determined using cash-flow-based measurement techniques (see paragraphs 6.91–6.95). Value in use and fulfilment value reflect the same factors described for fair value in paragraph 6.14, but from an entity-specific perspective rather than from a market-participant perspective.~~

~~Current Cost~~

~~6.21~~ ~~The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date. Current cost, like historical cost, is an entry value: it reflects prices in the market in which the entity would acquire the asset or would incur the liability. Hence, it is different from fair value, value in use and fulfilment value, which are exit values. However, unlike historical cost, current cost reflects conditions at the measurement date.~~

~~6.22~~ ~~In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity.~~

Information provided by particular ~~measurement bases~~ approach to Fair Value

~~6.23~~ 6.14 When selecting an approach ~~measurement basis~~, it is important to consider the nature of the information that the measurement basis will produce in both the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance. ~~Table 6.1 summarises that information and paragraphs 6.24 –6.42 provide additional discussion~~. Appendix A sets out possible approaches.

~~Historical cost~~

~~6.24~~ ~~Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements, because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.~~

~~6.25~~ ~~Normally, if an entity acquired an asset in a recent transaction on market terms, the entity expects that the asset will provide sufficient economic~~

~~benefits that the entity will at least recover the cost of the asset. Similarly, if a liability was incurred or taken on as a result of a recent transaction on market terms, the entity expects that the value of the obligation to transfer economic resources to fulfil the liability will normally be no more than the value of the consideration received minus transaction costs. Hence, measuring an asset or liability at historical cost in such cases provides relevant information about both the asset or liability and the price of the transaction that gave rise to that asset or liability.~~

~~6.26~~ ~~Because historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the economic resources needed to fulfil the liability is no more than the carrying amount of the liability~~

~~6.27~~ ~~If an asset other than a financial asset is measured at historical cost, consumption or sale of the asset, or of part of the asset, gives rise to an expense measured at the historical cost of the asset, or of part of the asset, consumed or sold.~~

~~6.28~~ ~~The expense arising from the sale of an asset is recognised at the same time as the consideration for that sale is recognised as income. The difference between the income and the expense is the margin resulting from the sale. Expenses arising from consumption of an asset can be compared to related income to provide information about margins.~~

~~6.29~~ ~~Similarly, if a liability other than a financial liability was incurred or taken on in exchange for consideration and is measured at historical cost, the fulfilment of all or part of the liability gives rise to income measured at the value of the consideration received for the part fulfilled. The difference between that income and the expenses incurred in fulfilling the liability is the margin resulting from the fulfilment.~~

~~6.30~~ ~~Information about the cost of assets sold or consumed, including goods and services consumed immediately (see paragraph 4.8), and about the consideration received, may have predictive value. That information can be used as an input in predicting future margins from the future sale of goods (including goods not currently held by the entity) and services and hence to assess the entity's prospects for future net cash inflows. To assess an entity's prospects for future cash flows, users of financial statements often focus on the entity's prospects for generating future margins over many periods, not just on its prospects for generating margins from goods already held. Income and expenses measured at historical cost may also have confirmatory value because they may provide feedback to users of financial statements about their previous predictions of cash flows or of margins. Information about the cost of assets sold or consumed economic resources.~~

~~6.31~~ ~~For similar reasons, information about interest earned on assets, and interest incurred on liabilities, measured at amortised cost may have predictive and confirmatory value.~~

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~~Current Value~~

~~Fair Value~~

~~6.32~~ 6.15 Information provided by measuring impact assets and impact liabilities at fair value may have predictive value because fair value reflects current expectations ~~about the amount, timing and uncertainty of future cash flows.~~ of people experiencing changes in well-being. This basis is therefore relevant to impact assets and liabilities that arise from the use of social, environmental, or economic resources. These expectations are priced in a manner that reflects the current risk preferences ~~of market participants~~ those experiencing changes in well-being. That information may also have confirmatory value by providing feedback about previous expectations.

~~6.33~~ 6.16 ~~Income~~ Positive and ~~expenses~~ negative impacts reflecting ~~market participants'~~ current expectations of those experiencing changes in well-being may have some predictive value, because such ~~income~~ positive and ~~expenses~~ negative impacts can be used as an input in predicting future ~~income~~ positive and ~~expenses~~ negative impacts. Such ~~income~~ positive and ~~expenses~~ negative impacts may also help in an assessment of how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's ~~economic~~ Natural, Social and Human Capital resources.

~~6.34~~ 6.17 A change in the fair value of an impact asset or impact liability can result from various factors identified in paragraph 6.13. When those factors have different characteristics, identifying separately ~~income~~ positive and ~~expenses~~ negative impacts that result from those factors can provide useful information to users of ~~financial~~ Natural, Social and Human Capital statements (see paragraph 7.13(b)).

~~6.35~~ ~~If an entity acquired an asset in one market and determines fair value using prices in a different market (the market in which the entity would sell the asset), any difference between the prices in those two markets is recognised as income when that fair value is first determined.~~

~~6.36~~ ~~Sale of an asset or transfer of a liability would normally be for consideration of an amount similar to its fair value, if the transaction were to occur in the market that was the source for the prices used when measuring that fair value. In those cases, if the asset or liability is measured at fair value, the net income or net expenses arising at the time of the sale or transfer would usually be small, unless the effect of transaction costs is significant.~~

~~Value in use and fulfilment value~~

~~6.37~~ ~~Value in use provides information about the present value of the estimated cash flows from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows.~~

~~6.38~~ ~~Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence, fulfilment value~~

~~may have predictive value, particularly if the liability will be fulfilled, rather than transferred or settled by negotiation.~~

~~6.39~~ ~~Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value.~~

~~**Current Costs**~~

~~6.40~~ ~~Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received for incurring or taking on an equivalent liability.~~

~~6.41~~ ~~Like historical cost, current cost provides information about the cost of an asset consumed or about income from the fulfilment of liabilities. That information can be used to derive current margins and can be used as an input in predicting future margins. Unlike historical cost, current cost reflects prices prevailing at the time of consumption or fulfilment. When price changes are significant, margins based on current cost may be more useful for predicting future margins than margins based on historical cost.~~

~~6.42~~ ~~To report the current cost of consumption (or current income from fulfilment), it is necessary to split the change in the carrying amount in the reporting period into the current cost of consumption (or current income from fulfilment), and the effect of changes in prices. The effect of a change in prices is sometimes referred to as a 'holding gain' or a 'holding loss'.~~

~~Table 6.1—Summary of information provided by particular measurement bases~~

Factors to consider when selecting an approach

~~6.43~~ 6.18 In selecting an approach for Fair Value for an impact asset or impact liability and for the related ~~income~~ positive and ~~expenses~~ negative impacts, it is necessary to consider the nature of the information that the ~~measurement basis~~ approach will produce in both the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance (see paragraph 6.14), as well as other factors (see paragraphs 6.19-6.46).

~~6.44~~ 6.19 In most cases, no single factor will determine which ~~measurement basis~~ approach should be selected. The relative importance of each factor will depend on facts and circumstances.

~~6.45~~ 6.20 The information provided by a ~~measurement basis~~ approach must be useful to users of ~~financial~~ Natural, Social and Human Capital statements. To achieve this, the information must be relevant and it must faithfully represent what it purports to represent. In addition, the information provided should be, as far as possible, comparable, verifiable, timely and understandable.

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~~6.46~~ 6.21 As explained in paragraph 2.21, the most efficient and effective process for applying the fundamental qualitative characteristics would usually be to identify the most relevant information about a ~~economic~~ social and environmental phenomenon. If that information is not available or cannot be provided in a way that faithfully represents the ~~economic~~ social and environmental phenomenon, the next most relevant type of information is considered. Paragraphs 6.23–6.39 provide further discussion of the role played by the qualitative characteristics in the selection of a measurement basis.

~~6.47~~ 6.22 The discussion in paragraphs 6.23 -6.39 following focus on the factors to be considered in selecting a measurement basis for recognised impact assets and recognised impact liabilities. Some of that discussion may also apply in selecting a measurement basis for information provided in the notes, for recognised or unrecognised items.

~~6.48~~ 6.23 Paragraphs 6.40–6.41 discuss additional factors to consider in selecting a ~~measurement basis~~ approach on initial recognition. If the initial ~~measurement basis~~ approach is inconsistent with the subsequent ~~measurement basis~~ approach, ~~income~~ positive and ~~expenses~~ negative impacts might be recognised at the time of the first subsequent measurement solely because of the change in ~~measurement basis~~ approach. ~~Recognising such income and expenses might appear to depict a transaction or other event when, in fact, no such transaction or event has occurred.~~ Hence, the choice of ~~measurement basis~~ approach for an impact asset or impact liability, and for the related ~~income~~ positive and ~~expenses~~ negative impacts, is determined by considering both initial measurement and subsequent measurement.

Relevance

~~6.49~~ 6.24 The relevance of information provided by a ~~measurement basis~~ approach for an impact asset or impact liability and for the related ~~income~~ positive and ~~expenses~~ negative impacts is affected by:

~~(a)~~ the characteristics of the impact asset or impact liability; and

~~(b)~~ ~~how that asset or liability contributes to future cash flows (see paragraphs 6.54–6.57).~~

Characteristics of the impact asset or impact liability

~~6.50~~ ~~The relevance of information provided by a measurement basis depends partly on the characteristics of the asset or liability, in particular, on the variability of cash flows and on whether the value of the asset or liability is sensitive to market factors or other risks.~~

~~6.51~~ ~~If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.~~

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~~6.52~~ ~~Furthermore, if historical cost is used, changes in value are reported not when that value changes, but when an event such as disposal, impairment or fulfilment occurs. This could be incorrectly interpreted as implying that all the income and expenses recognised at the time of that event arose then, rather than over the periods during which the asset or liability was held. Moreover, because measurement at historical cost does not provide timely information about changes in value, income and expenses reported on that basis may lack predictive value and confirmatory value by not depicting the full effect of the entity's exposure to risk arising from holding the asset or liability during the reporting period.~~

~~6.53~~ 6.25 Changes in the fair value of an impact asset or impact liability reflect changes in expectations of ~~market participants~~ those experiencing changes in well-being and changes in their risk preferences. Depending on the characteristics of the impact asset or impact liability being measured and on the nature of the entity's business activities, information reflecting those changes may not always provide predictive value or confirmatory value to users of ~~financial~~ Natural, Social and Human Capital statements. ~~This may be the case when the entity's business activities do not involve selling the asset or transferring the liability, for example, if the entity holds assets solely for use or solely for collecting contractual cash flows or if the entity is to fulfil liabilities itself.~~

~~Contribution to future cash flows~~

~~6.54~~ ~~As noted in paragraph 1.14, some economic resources produce cash flows directly; in other cases, economic resources are used in combination to produce cash flows indirectly. How economic resources are used, and hence how assets and liabilities produce cash flows, depends in part on the nature of the business activities conducted by the entity.~~

~~6.55~~ ~~When a business activity of an entity involves the use of several economic resources that produce cash flows indirectly, by being used in combination to produce and market goods or services to customers, historical cost or current cost is likely to provide relevant information about that activity. For example, property, plant and equipment is typically used in combination with an entity's other economic resources. Similarly, inventory typically cannot be sold to a customer, except by making extensive use of the entity's other economic resources (for example, in production and marketing activities). Paragraphs 6.24 –6.31 and 6.40 – 6.42 explain how measuring such assets at historical cost or current cost can provide relevant information that can be used to derive margins achieved during the period~~

~~6.56~~ ~~For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without significant business disruption), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows.~~

~~6.57~~ ~~When a business activity of an entity involves managing financial assets and financial liabilities with the objective of collecting contractual cash~~

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~~flows, amortised cost may provide relevant information that can be used to derive the margin between the interest earned on the assets and the interest incurred on the liabilities. However, in assessing whether amortised cost will provide useful information, it is also necessary to consider the characteristics of the financial asset or financial liability. Amortised cost is unlikely to provide relevant information about cash flows that depend on factors other than principal and interest.~~

Faithful representation

~~6.58~~ 6.26 When impact assets and impact liabilities are related in some way, using different measurement bases for those impact assets and impact liabilities can create a measurement inconsistency (accounting mismatch). If ~~financial~~ Natural, Social and Human Capital statements contain measurement inconsistencies, those ~~financial~~ Natural, Social and Human Capital statements may not faithfully represent some aspects of the entity's ~~financial~~ Natural, Social and Human Capital position and ~~financial~~ Natural, Social and Human Capital performance. Consequently, in some circumstances, using the same measurement basis for related impact assets and impact liabilities may provide users of ~~financial~~ Natural, Social and Human Capital statements with information that is more useful than the information that would result from using different measurement bases. ~~This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.~~

~~6.59~~ 6.27 As noted in paragraphs 2.13 and 2.18, although a perfectly faithful representation is free from error, this does not mean that measures must be perfectly accurate in all respects.

~~6.60~~ 6.28 When a measure cannot be determined directly by observing prices in an active market and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of an entity's ~~financial~~ Natural, Social and Human Capital position and ~~financial~~ Natural, Social and Human Capital performance. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation (see paragraph 2.22). In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.

~~6.61~~ 6.29 Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:

(a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of ~~economic~~ social and environmental benefits that will result from an impact asset or impact liability. Where the changes in well-being occur in the

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reporting period this will lower than where some or all the changes in well-being occur in future reporting periods.

(b) existence uncertainty arises when it is uncertain whether an impact asset or a impact liability exists. Paragraphs 5.12–5.14 discuss how existence uncertainty may affect decisions about whether an entity recognises an impact asset or impact liability when it is uncertain whether that impact asset or impact liability exists.

~~6.62~~ 6.30 The presence of outcome uncertainty or existence uncertainty may sometimes contribute to measurement uncertainty. However, outcome uncertainty or existence uncertainty does not necessarily result in measurement uncertainty. For example, if the fair value of an impact asset can be determined directly by observing prices in an active market, no measurement uncertainty is associated with the measurement of that fair value, even if it is uncertain how much cash the impact asset will ultimately produce and hence there is outcome uncertainty.

Enhancing qualitative characteristics and the cost constraint

~~6.63~~ 6.31 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint, have implications for the selection of a measurement basis. The following paragraphs discuss those implications. ~~Paragraphs 6.69 –6.76 discuss further implications specific to particular measurement bases~~. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

~~6.64~~ 6.32 Just as cost constrains other ~~financial~~ Natural, Social and Human Capital reporting decisions, it also constrains the selection of a measurement basis. Hence, in selecting a measurement basis, it is important to consider whether the benefits of the information provided to users of ~~financial~~ Natural, Social and Human Capital statements by that measurement basis are likely to justify the costs of providing and using that information.

~~6.65~~ 6.33 Consistently using the same measurement bases for the same items, either from period to period within a reporting entity or in a single period across entities, can help make ~~financial~~ Natural, Social and Human Capital statements more comparable.

~~6.66~~ 6.34 A change in measurement basis can make ~~financial~~ Natural, Social and Human Capital statements less understandable. However, a change may be justified if other factors outweigh the reduction in understandability, for example, if the change results in more relevant information. If a change is made, users of ~~financial~~ Natural, Social and Human Capital statements may need explanatory information to enable them to understand the effect of that change.

~~6.67~~ 6.35 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of ~~financial~~ Natural, Social and Human Capital statements, the resulting information becomes more complex and, hence, less understandable and the totals or subtotals in the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance become less informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

~~6.68~~ 6.36 be independently corroborated either directly, for example, by observing prices, or indirectly, for example, by checking inputs to a model. If a measure cannot be verified, users of ~~financial~~ Natural, Social and Human Capital statements may need explanatory information to enable them to understand how the measure was determined. In some such cases, it may be necessary to specify the use of a different measurement basis.

~~Historical cost~~

~~6.69~~ ~~In many situations, it is simpler, and hence less costly, to measure historical cost than it is to measure a current value. In addition, measures determined applying a historical cost measurement basis are generally well understood and, in many cases, verifiable.~~

~~6.70~~ ~~However, estimating consumption and identifying and measuring impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or liability can sometimes be as difficult to measure or verify as a current value.~~

~~6.71~~ ~~Using a historical cost measurement basis, identical assets acquired, or liabilities incurred, at different times can be reported in the financial statements at different amounts. This can reduce comparability, both from period to period for a reporting entity and in a single period across entities.~~

~~Current~~ Fair value

~~6.72~~ 6.37 Because fair value is determined from the perspective of ~~market participants~~ those experiencing a change in well-being, not from an entity-specific perspective, and is independent of when the impact asset was acquired or the impact liability was incurred, identical impact assets or impact liabilities measured at fair value will, in principle, be measured at the same amount by entities that have access to the same ~~markets~~ people experiencing the same change in well-being. This can enhance comparability both from period to period for a reporting entity and in a single period across entities. In contrast, because value in use and fulfilment value reflect an entity-specific perspective, those measures could differ for identical impact assets or impact liabilities in different entities. Those differences may reduce comparability, particularly if the impact assets or impact liabilities contribute to cash flows ~~in a similar manner.~~

~~6.73~~ 6.38 If the fair value of an impact asset or impact liability can be determined directly by observing prices in an active market, the process of fair value measurement is low-cost, simple and easy to understand; and the fair value can be verified through direct observation.

~~6.74~~ 6.39 Valuation techniques, sometimes including the use of cash-flow-based measurement techniques, may be needed to estimate fair value when it cannot be observed directly in an active market and are generally needed when determining value in use and fulfilment value. Depending on the techniques used:

(a) estimating inputs to the valuation and applying the valuation technique may be costly and complex.

(b) the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process itself. Consequently, the measures of identical impact assets or impact liabilities may differ. That would reduce comparability.

~~6.75~~ ~~In many cases, value in use cannot be determined meaningfully for an individual asset used in combination with other assets. Instead, the value in use is determined for a group of assets and the result may then need to be allocated to individual assets. This process can be subjective and arbitrary. In addition, estimates of value in use for an asset may inadvertently reflect the effect of synergies with other assets in the group. Hence, determining the value in use of an asset used in combination with other assets can be a costly process and its complexity and subjectivity reduces verifiability. For these reasons, value in use may not be a practical measurement basis for regular remeasurements of such assets. However, it may be useful for occasional remeasurements of assets, for example, when it is used in an impairment test to determine whether historical cost is fully recoverable.~~

~~6.76~~ ~~Using a current cost measurement basis, identical assets acquired or liabilities incurred at different times are reported in the financial statements at the same amount. This can enhance comparability, both from period to period for a reporting entity and in a single period across entities. However, determining current cost can be complex, subjective and costly. For example, as noted in paragraph 6.22, it may be necessary to estimate the current cost of an asset by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the entity. In addition, because of changes in technology and changes in business practices, many assets would not be replaced with identical assets. Thus, a further subjective adjustment to the current price of a new asset would be required in order to estimate the current cost of an asset equivalent to the existing asset. Also, splitting changes in current cost carrying amounts between the current cost of consumption and the effect of changes in prices (see paragraph 6.42) may be complex and require arbitrary assumptions. Because of these difficulties, current cost measures may lack verifiability and understandability.~~

Factors specific to initial measurement

~~6.77~~ 6.41 Paragraphs 6.18–6.39 discuss factors to consider when selecting a ~~measurement basis~~ approach, whether for initial recognition or subsequent measurement.

~~6.78~~ 6.42 At initial recognition, the cost of an impact asset acquired, or of a impact liability incurred, as a result of an event that is a transaction on market terms is normally similar to its fair value at that date, unless transaction

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costs are significant. Nevertheless, even if those two amounts are similar, it is necessary to describe what measurement basis is used at initial recognition. If a current value will be used subsequently, it is also normally appropriate at initial recognition. Using the same measurement basis for initial recognition and subsequent measurement avoids recognising income or expenses at the time of the first subsequent measurement solely because of a change in measurement basis.

~~6.79~~ ~~When an entity acquires an asset, or incurs a liability, in exchange for transferring another asset or liability as a result of a transaction on market terms, the initial measure of the asset acquired, or the liability incurred, determines whether any income or expenses arise from the transaction. When an asset or liability is measured at cost, no income or expenses arise at initial recognition, unless income or expenses arise from the derecognition of the transferred asset or liability, or unless the asset is impaired or the liability is onerous.~~

~~6.80~~ ~~Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms. For example:~~

~~(a)~~ ~~the transaction price may be affected by relationships between the parties, or by financial distress or other duress of one of the parties;~~

~~(b)~~ ~~an asset may be granted to the entity free of charge by a government or donated to the entity by another party;~~

~~(c)~~ ~~a liability may be imposed by legislation or regulation; or~~

~~(d)~~ ~~a liability to pay compensation or a penalty may arise from an act of wrongdoing.~~

~~6.81~~ ~~In such cases, measuring the asset acquired, or the liability incurred, at its historical cost may not provide a faithful representation of the entity's assets and liabilities and of any income or expenses arising from the transaction or other event. Hence, it may be appropriate to measure the asset acquired, or the liability incurred, at deemed cost, as described in paragraph 6.6. Any difference between that deemed cost and any consideration given or received would be recognised as income or expenses at initial recognition.~~

~~6.82~~ ~~When assets are acquired, or liabilities incurred, as a result of an event that is not a transaction on market terms, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognise other assets, other liabilities, contributions from holders of equity claims or distributions to holders of equity claims to faithfully represent the substance of the effect of the transaction or other event on the entity's financial position (see paragraphs 4.59 –4.62) and any related effect on the entity's financial performance.~~

More than one ~~measurement basis~~ approach

~~6.83~~ 6.43 Sometimes, consideration of the factors described in paragraphs 6.40–6.41 may lead to the conclusion that more than one measurement basis is needed for an impact asset or impact liability and for related ~~income~~ positive and ~~expenses~~ negative impacts in order to provide relevant information that faithfully represents both the entity's ~~financial~~ Natural, Social and Human Capital position and its ~~financial~~ Natural, Social and Human Capital performance.

~~6.84~~ 6.44 In most cases, the most understandable way to provide that information is:

(a) to use a single measurement basis both for the impact asset or impact liability in the statement of ~~financial~~ Natural, Social and Human Capital position and for related ~~income~~ positive and ~~expenses~~ negative impacts in the statement(s) of ~~financial~~ Natural, Social and Human Capital performance; and

(b) to provide in the notes additional information applying a different measurement basis.

~~6.85~~ 6.45 However, in some cases, that information is more relevant, or results in a more faithful representation of both the entity's ~~financial~~ Natural, Social and Human Capital position and its ~~financial~~ Natural, Social and Human Capital performance, through the use of a different ~~measurement basis~~ approach for the related ~~income~~ positive and ~~expenses~~ negative impacts in the statement of impact profit or loss[15] (see paragraph 7.16). In selecting ~~those measurement bases~~ an approach it is necessary to consider the factors discussed ~~in paragraphs 6.43–6.76~~ above.

~~6.86~~ 6.46 In such cases, the total positive or total negative impacts arising in the period from the change in the current value of the impact asset or impact liability is separated and classified (see paragraphs 7.13–7.17) so that:

(a) the statement of impact profit or loss includes the ~~income and expenses~~ impacts measured applying the ~~measurement basis~~ approach selected for that statement; and

(b) other comprehensive income includes all the ~~remaining income and expenses~~ impacts. As a result, the accumulated other comprehensive income related to that impact asset or impact liability equals the difference between:

(i) the carrying amount of the impact asset or impact liability in the statement of the ~~financial~~ Natural, Social and Human Capital position; and

(ii) the carrying amount that would have been determined applying the measurement basis selected for the statement of impact profit or loss.

[15] The *Conceptual Framework* does not specify whether the statement(s) of ~~financial~~ Natural, Social and Human Capital performance comprise(s) a single statement or two statements. The *Conceptual Framework* uses the term 'statement of profit or loss' to refer both to a separate statement and to a separate section within a single statement of ~~financial~~ Social, Human and Capital performance.

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Measurement of social equity

~~6.87~~ 6.47 The total carrying amount of social equity (total social equity) is not measured directly. It equals the total of the carrying amounts of all recognised impact assets less the total of the carrying amounts of all recognised impact liabilities.

~~6.88~~ 6.48 Because general purpose ~~financial~~ Natural, Social and Human Capital statements are not designed to show an entity's value, the total carrying amount of social equity will not generally equal~~:~~

~~(a)~~ the aggregate value of social equity claims on the entity~~;~~

~~(b) the amount that could be raised by selling the entity as a whole on a going concern basis; or~~

~~(c) the amount that could be raised by selling all of the entity's assets and settling all of its liabilities.~~

~~6.89~~ 6.49 Although total social equity is not measured directly, it may be appropriate to measure directly the carrying amount of some individual classes of social equity ~~(see paragraph 4.65)~~ and some components of social equity ~~(see paragraph 4.66)~~. Nevertheless, because total social equity is measured as a residual, at least one class of social equity cannot be measured directly. Similarly, at least one component of social equity cannot be measured directly.

~~6.90~~ 6.50 The total carrying amount of an individual class of social equity or component of social equity is normally positive, but can be negative in some circumstances. Similarly, total social equity is generally positive, but it can be negative, depending on which impact assets and impact liabilities are recognised and on how they are measured.

Cash-flow-based measurement techniques

~~6.91~~ 6.51 Sometimes, a measure cannot be observed directly. In some such cases, one way to estimate the measure is by using cash-flow-based measurement techniques. Such techniques are not measurement bases. They are techniques used in applying a measurement basis. Hence, when using such a technique, it is necessary to identify which measurement basis is used and the extent to which the technique reflects the factors applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable factors are those described in paragraph 6.14.

~~6.92~~ ~~Cash-flow-based measurement techniques can be used in applying a modified measurement basis, for example, fulfilment value modified to exclude the effect of the possibility that the entity may fail to fulfil a liability (own credit risk). Modifying measurement bases may sometimes result in information that is more relevant to the users of financial statements or that may be less costly to produce or to understand. However, modified measurement bases may also be more difficult for users of financial statements to understand.~~

~~6.93~~ 6.52 Outcome uncertainty ~~(see paragraph 6.61(a))~~ arises from uncertainties about the amount or timing of future ~~cash flows~~ impacts. Those uncertainties are important characteristics of impact assets and impact liabilities. When measuring an impact asset or impact liability by reference to estimates of uncertain future ~~cash flows~~ impacts, one factor to consider is possible variations in the estimated amount or timing of those ~~cash flows~~ impacts ~~(see paragraph 6.14(b)~~. Those variations are considered in selecting a single amount from within the range of possible ~~cash flows~~ impacts. The amount selected is itself sometimes the amount of a possible outcome, but this is not always the case. The amount that provides the most relevant information is usually one from within the central part of the range (a central estimate). Different central estimates provide different information. For example:

(a) the expected value (the probability-weighted average, also known as the statistical mean) reflects the entire range of outcomes and gives more weight to the outcomes that are more likely. The expected value is not intended to predict the ultimate inflow or outflow of cash or other ~~economic~~ social and environmental benefits arising from that impact asset or impact liability.

(b) the maximum amount that is more likely than not to occur (similar to the statistical median) indicates that the probability of a subsequent loss is no more than 50% and that the probability of a subsequent gain is no more than 50%.

(b) the most likely outcome (the statistical mode) is the single most likely ultimate inflow or outflow of benefits or disbenefits arising from an impact asset or impact liability.

~~6.94~~ 6.53 A central estimate depends on estimates of future ~~cash flows~~ impacts and possible variations in their amounts or timing. It does not capture the price for bearing the uncertainty that the ultimate outcome may differ from that central estimate ~~(that is, the factor described in paragraph 6.14(d))~~.

~~6.95~~ 6.54 No central estimate gives complete information about the range of possible outcomes. Hence users may need information about the range of possible outcomes.

Fair value language in interim

Presentation will need to consider how the information is presented to cover three capitals in an interim report and all the capitals in a future integrated report. This will also need to consider how any offsetting is reported, for example net zero on carbon. The needs of users will be important here in clarifying the level of granularity required and whether net or gross presentation is needed.

CHAPTER 7—PRESENTATION AND DISCLOSURE

Presentation and disclosure as communication tools

7.1 A reporting entity communicates information about its impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts by presenting and disclosing information in its ~~financial~~ Natural, Social and Human Capital statements.

7.2 Effective communication of information in ~~financial~~ Natural, Social and Human Capital statements makes that information more relevant and contributes to a faithful representation of an entity's impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts. It also enhances the understandability and comparability of information in ~~financial~~ Natural, Social and Human Capital statements. Effective communication of information in ~~financial~~ Natural, Social and Human Capital statements requires:

(a) focusing on presentation and disclosure objectives and principles rather than focusing on rules;

(b) classifying information in a manner that groups similar items and separates dissimilar items;

(c) providing information on all the capitals; and

~~(c)~~(d) aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.

7.3 Just as cost constrains other ~~financial~~ Natural, Social and Human Capital reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of ~~financial~~ Natural, Social and Human Capital statements by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

Presentation and disclosure objectives and principles

7.4 To facilitate effective communication of information in ~~financial~~ Natural, Social and Human Capital statements, when developing presentation and disclosure requirements in Standards a balance is needed between:

(a) giving entities the flexibility to provide relevant information that faithfully represents the entity's impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts for all capitals; and

(b) requiring information that is comparable, both from period to period for a reporting entity and in a single reporting period across entities.

7.5 Including presentation and disclosure objectives in Standards supports effective communication in ~~financial~~ Natural, Social and Human Capital statements because such objectives help entities to identify useful information and to decide how to communicate that information in the most effective manner.

7.6 Effective communication in ~~financial~~ Natural, Social and Human Capital statements is also supported by considering the following principles:

(a) entity-specific information is more useful than standardised descriptions, sometimes referred to as 'boilerplate'; and

(b) duplication of information in different parts of the ~~financial~~ Natural, Social and Human Capital statements is usually unnecessary and can make Natural, Social and Human Capital statements less understandable.

Classification

7.7 Classification is the sorting of impact assets, impact liabilities, social equity, ~~income~~ positive and ~~expenses~~ negative impacts on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include—but are not limited to—the particular capital, nature of the item, its role (or function) within the business activities conducted by the entity, and how it is measured.

7.8 Classifying dissimilar impact assets, impact liabilities, social equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent.

Classification of impact assets and impact liabilities

7.9 Classification is applied to the unit of account selected for an impact asset or impact liability ~~(see paragraphs 4.48 –4.55)~~. However, it may sometimes be appropriate to separate an impact asset or impact liability into components that have different characteristics and to classify those components separately. That would be appropriate when classifying those components separately would enhance the usefulness of the resulting ~~financial~~ Natural, Social and Human Capital information. For example, it could be appropriate to separate an impact asset or impact liability into current and non-current components and to classify those components separately.

Offsetting

7.10 Offsetting occurs when an entity recognises and measures both an impact asset and impact liability as separate units of account, but groups them into a single net amount in the statement of ~~financial~~ Natural, Social and Human Capital position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

7.11 Offsetting impact assets and impact liabilities differs from treating a set of rights and obligations as a single unit of account (see paragraphs 4.36–4.42).

Classification of social equity

7.12 To provide useful information, it may be necessary to classify social equity claims separately if those social equity claims have different characteristics ~~(see paragraph 4.65)~~.

~~7.13~~ ~~Similarly, to provide useful information, it may be necessary to classify components of equity separately if some of those components are subject to particular legal, regulatory or other requirements. For example, in some jurisdictions, an entity is permitted to make distributions to holders of equity claims only if the entity has sufficient reserves specified as distributable (see paragraph 4.66). Separate presentation or disclosure of those reserves may provide useful information.~~

Classification of ~~income~~ positive and ~~expenses~~ negative impacts

~~7.14~~ 7.13 Classification is applied to:

~~(a)~~ ~~income~~ positive and ~~expenses~~ negative impacts resulting from the unit of account selected for an impact asset or impact liability; or

(b) components of such ~~income~~ positive and ~~expenses~~ negative impacts if those components have different characteristics and are identified separately. For example, a change in the current value of an impact asset can include the effects of value changes ~~and the accrual of interest (see Table 6.1)~~. It would be appropriate to classify those components separately if doing so would enhance the usefulness of the resulting ~~financial~~ Natural, Social and Human Capital information.

Impact profit or loss and other comprehensive income

~~7.15~~ 7.14 ~~Income~~ positive and ~~expenses~~ negative impacts are classified and included either:

(a) in the statement of impact profit or loss[16]; or

(b) outside the statement of impact profit or loss, in other comprehensive income.

~~7.16~~ 7.15 The statement of profit or loss is the primary source of information about an entity's ~~financial~~ Natural, Social and Human Capital performance for the reporting period. That statement contains a total for profit or loss that provides a highly summarised depiction of the entity's ~~financial~~ Natural, Social and Human Capital performance for the period. Many users of ~~financial~~ Natural, Social and Human Capital statements incorporate that total in their analysis either as a starting point for that analysis or as the main indicator of the entity's ~~financial~~ Natural, Social and Human Capital performance for the period. Nevertheless, understanding an entity's ~~financial~~ Natural, Social and Human Capital performance for the period requires an analysis of all recognised ~~income~~ positive and ~~expenses~~ negative impacts — including ~~income~~ positive and ~~expenses~~ negative impacts included in other comprehensive income—as well as an analysis of other information included in the ~~financial~~ Natural, Social and Human Capital statements.

~~7.17~~ 7.16 Because the statement of profit or loss is the primary source of information about an entity's ~~financial~~ Natural, Social and Human Capital performance for the period, all ~~income~~ positive and ~~expenses~~ negative impacts are, in principle, included in that statement. However, in developing Standards, the Board may decide in exceptional circumstances that income or expenses arising from a change in the current value of an impact asset or impact liability are to be included in other comprehensive income when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's ~~financial~~ Natural, Social and Human Capital performance for that period.

~~7.18~~ ~~Income and expenses that arise on a historical cost measurement basis (see Table 6.1) are included in the statement of profit or loss. That is also the case when income and expenses of that type are separately identified as a component of a change in the current value of an asset or liability. For example, if a financial asset is measured at current value and if interest income is identified separately from other changes in value, that interest income is included in the statement of profit or loss.~~

~~7.19~~ 7.17 In principle, ~~income~~ positive and ~~expenses~~ negative impacts included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of profit or loss in a future period when doing so results in the statement of profit or loss providing

[16] The *Conceptual Framework* does not specify whether the statement(s) of ~~financial~~ Natural, Social and Human Capital performance comprise(s) a single statement or two statements. The *Conceptual Framework* uses the term 'statement of profit or loss' to refer to a separate statement and to a separate section within a single statement of ~~financial~~ Natural, Social and Human Capital performance. Likewise, it uses the term 'total for profit or loss' to refer both to a total for a separate statement and to a subtotal for a section within a single statement of ~~financial~~ Natural, Social and Human Capital performance.

more relevant information, or providing a more faithful representation of the entity's ~~financial~~ Natural, Social and Human Capital performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that ~~income~~ positive and ~~expenses~~ negative impacts included in other comprehensive income are not to be subsequently reclassified.

Aggregation

~~7.20~~ 7.18 Aggregation is the adding together of impact assets, impact liabilities, social equity, positive and negative impacts that have shared characteristics and are included in the same classification.

~~7.21~~ 7.19 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

~~7.22~~ 7.20 Different levels of aggregation may be needed in different parts of the ~~financial~~ Natural, Social and Human Capital statements. For example, typically, the statement of ~~financial~~ Natural, Social and Human Capital position and the statement(s) of ~~financial~~ Natural, Social and Human Capital performance provide summarised information and more detailed information by capital is provided in the notes.

7.21 Separate information should be provided for each of the capitals.

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The measurement of impacts will need to include an assessment of changes to underlying non-financial capitals – whether they are degraded, maintained or enhanced. Decisions will often result in trade-offs between capitals which may not be considered in legislation, and which could exceed planetary boundaries or social norms. Any trade-offs being made should be transparent.

CHAPTER 8—CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE

Concepts of capital

8.1 A ~~financial~~ Natural, Social and Human Capital concept of capitals is adopted by most entities in preparing their ~~financial~~ Natural, Social and Human Capital statements. This means recognising that the success of organisations around the world is dependent on the value they receive from capitals and that this is reflected in the purpose of Natural, Social and Human Capital reporting (see paragraph 1.2). Flourishing communities, strong and resilient social institutions, thriving natural ecosystems and a stable climate underpin societal prosperity. A capitals approach enables users to understand how meeting their objectives is directly or indirectly underpinned by natural capital, social capital and human capital, empowering them to make decisions that offer the greatest value across all capitals. Under a financial Natural, Social and Human Capital approach, such as invested money or invested purchasing power, capital is synonymous with the net impact assets or social equity of the entity based on, for example, units of output per day.

8.2 The selection of the appropriate concept of capitals by an entity should be based on the needs of the users of its ~~financial~~ Natural, Social and Human Capital statements. Thus, a ~~financial~~ Natural, Social and Human Capital concept of capitals should be adopted if the users of ~~financial~~ Natural, Social and Human Capital statements are primarily concerned with the maintenance of ~~nominal invested~~ capitals ~~or the purchasing power of invested capital~~. If, however, the main concern of users is with the operating capability of the entity, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining ~~profit~~ net impact, even though there may be some measurement difficulties in making the concept operational.

Concepts of Natural, Social and Human capital maintenance and the determination of ~~profit~~ net impact

8.3 The concepts of capital in paragraph 8.1 give rise to the following concepts of capital maintenance:

~~(a)~~ ~~*Financial capital maintenance*. Under this concept a profit is earned only if the financial (or money) amount of the net assets at the end~~

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~~of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.~~

~~(b)~~ ~~Physical capital maintenance. Under this concept a profit is earned only if the physical productive capacity (or operating capability) of the entity (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.~~

(a) *Natural capital maintenance.* Under this concept there is only a net impact if the stock of renewable and non-renewable natural resources at the end of the period, that combine to yield a flow of benefits to people, exceeds the stock at the beginning of the period

(b) *Social capital maintenance.* Under this concept a contribution to social equity is made only if the stock of networks together with shared norms, values and understanding that facilitate cooperation within and among groups is higher at the end of the period than at the start.

(c) *Human capital maintenance* Under this concept there is only a net impact if the stock of knowledge, skills, competencies and attributes embodied in individuals that contribute to improved performance and wellbeing is higher at the end of the period than at the start.

8.4 Taken together as Natural, Social and Human Capital maintenance, a contribution to social equity is made only if the net impact assets at the end of the period exceeds the net impact assets at the beginning of the period, accounting for all capital maintenance across all capitals separately and after excluding any distributions to, and contributions from, social equity during the period. Natural, Social and Human Capital maintenance can be measured in nominal monetary units.

~~8.4~~ 8.5 The concept of capitals maintenance is concerned with how an entity defines the capitals that it seeks to maintain. It provides the linkage between the concepts of capitals and the concepts of ~~profit~~ net impacts because it provides the point of reference by which ~~profit~~ net impacts are measured; it is a prerequisite for distinguishing between an entity's return on capitals and its return of capitals; only inflows of impact assets in excess of amounts needed to maintain capitals may be regarded as ~~profit~~ net impact and therefore as a return on capitals. Hence, ~~profit~~ net impact is the residual amount that remains after ~~expenses~~ negative impacts (including capitals maintenance adjustments, where appropriate) have been deducted from ~~income~~ positive impacts. If ~~expenses~~ negative impacts exceed ~~income~~ positive impacts the residual amount is a loss.

~~8.5~~ ~~The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of~~

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~~measurement. Selection of the basis under this concept is dependent on the type of financial capital that the entity is seeking to maintain.~~

~~8.6~~ ~~The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the entity. In general terms, an entity has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is profit.~~

~~8.7~~ ~~Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, profit represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, profits. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, profit represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as profit. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.~~

~~8.8~~ ~~Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, profit represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the entity are viewed as changes in the measurement of the physical productive capacity of the entity; hence, they are treated as capital maintenance adjustments that are part of equity and not as profit.~~

~~8.9~~ 8.6 The selection of the measurement base of Fair Value, the approach to fair value measurement and concept of capital maintenance will determine the accounting model used in the preparation of the ~~financial~~ Natural, Social and Human Capital statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability. This *Conceptual Framework* is applicable to a range of accounting models and provides guidance on preparing and presenting the ~~financial~~ Natural, Social and Human Capital statements constructed under the chosen model. At the present time, it is not the intention of the Board to prescribe a particular model other than in exceptional circumstances, such as for those entities reporting in the currency of a hyperinflationary economy. This intention will, however, be reviewed in the light of world developments.

Capital maintenance adjustments

~~8.10~~ 8.7 The revaluation or restatement of impact assets and impact liabilities gives rise to increases or decreases in social equity. While these increases or decreases meet the definition of ~~income~~ positive and ~~expenses~~ negative impacts, they are not included in the income statement under certain concepts of capitals maintenance. Instead these items are included in social equity as capital maintenance adjustments or revaluation reserves.

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Appendix B - Examples of Measurement Bases

The examples, taken from the Natural Capital Protocol Annex B, are set out as examples of

- Fair Value
- Value in Use
- Current cost

Monetary Valuation

For monetary valuation a choice must be made between the use of a secondary (or indirect) valuation approach, or a primary approach using context-specific data. If adequate data do not exist and/or you do not have time or resources to conduct primary research, the most cost-effective approach is to use "value transfer". Note that value transfer is generally not as reliable as primary valuation, because of its reliance on data from other contexts. In some cases, value transfer can provide useful information to help design and/or validate the results of primary valuation.

Market and financial prices can be used when available. This approach is commonly used in assessments regarding impacts to your business and your business dependencies.

Where market prices are used, it should be borne in mind that they represent an indicator of value to those buying and selling the good or service in question. Thus they may not represent the full value to society arising from changes in natural capital. Market prices can also be used in assessments that address your impacts on society, where they may be used as a proxy for societal value. For example, even where water markets exist, water prices are often set administratively and may be lower than their true social value. This may be because water is deliberately or inadvertently subsidized.

The same applies to other ecosystem services and/or abiotic services. For example, anglers may pay a permit fee for the right to fish in particular waters, but that price may be much lower than the angler would be willing to pay. However, there is often no market for goods and services provided by natural capital (e.g., regulating ecosystem services), and hence no directly observable prices.

For consumptive uses of natural capital, various market-price- or market-cost-based approaches can be used. See Canadian Council of Ministers of the Environment (2010) and United Nations Statistics Division (2007) for further details. A few examples include:

- **Derived demand function:** The total value of a natural capital input to a household or business is determined based on an "inverse demand function", which relies on statistical regression analysis of observed quantities purchased at different prices. This requires good data on use, which are not often available for natural capital.

- **Opportunity costs:** The value forgone as a result of implementing an action (i.e., the cost of the opportunity lost) is sometimes used as proxy value. For example, the value of creating a set-aside on agricultural land can be considered to be at least the value of agricultural production forgone (net of subsidies).

- **Mitigation costs/aversive behavior:** The price paid to mitigate environmental impacts may provide a minimum proxy of the value of those impacts to those who have undertaken the mitigation. For example, the costs of water treatment may be used as a proxy for the value of water pollution damages. Note that a hypothetical cost to mitigate environmental damage is not necessarily an indication of value—this is only the case if an individual or organization is actually prepared to undertake the expenditure in question, or obliged to do so by legislation. In the latter case, the value of the environmental damage is implicitly assessed by the legislation as being at least as large as the costs of mitigation.

- **Cost of illness:** The cost of pollution may be inferred based on the cost of illness that results when people's health is affected. Relevant costs include medical expenditures as well as losses due to reduced labor productivity.

If a business is mainly interested in the financial implications of changes in natural capital, whether for revenue generation or cost control, then using market prices to assess natural capital impacts may be appropriate.

The production function approach, also referred to as the "change in production" or "effect on production" method, relates changes in the output of a marketed good or service to a relevant and measurable change in the quality or quantity of ecosystem services. For example, one can estimate the reduction in agricultural or business output resulting from a reduced quantity or quality of a particular good or service derived from natural capital. The cause-effect relationship can be technically difficult to determine, however, and complex formulae and calculations may be required to determine the results with accuracy.

Key steps:

1. Identify the relevant good or service to be valued, where there is a well-established link between the quantity or quality of output and the provision of benefits to business and/or society.

2. Identify the production process for which the ecosystem service and/or abiotic service is an input (e.g., crop yields or mining output).

3. Estimate the production function. Collect data on the quantity and unit cost of production inputs and outputs, or refer to previous similar assessments and use similar assumptions and adjust as necessary for differences in the context.

4. Create before and after scenarios, reflecting change in the natural good or service. Measure or estimate current conditions and model or estimate future conditions.

5. Estimate net revenues before the change in ecosystem input.

6. Estimate net revenues after the change in ecosystem input.

7. Calculate the change in net revenues.

Note:

It may be worth trying to identify changes in the quantity or quality of ecosystem services and/or abiotic services (or other changes in natural capital) that are large enough to result in measurable price changes, as opposed to modest changes that can be easily absorbed by the market.

Rules of thumb from similar studies, or expert opinion, can be used to estimate changes in output (e.g., assume an increase in crop output of 10% when 10% more water is applied). Transferring evidence in this way should follow standard value-transfer guidelines.

Fair value approaches

Stated preference approaches

Stated preference approaches involve questionnaire surveys to ask a representative sample of a particular population what their preferences are for a particular good or service. These techniques are commonly used to ascertain consumers' "willingness to pay" (WTP) for a marginal impreovement in the quantity or quality of natural capital, or their "willingness to accept" (WTA) compensation for a marginal loss.

There are two main types of stated preference surveys:

- **Contingent valuation** (CV) surveys typically involve asking consumers to directly state their WTP or WTA for something (often alternative options that provide different levels of non-marketed benefit).
- **Choice experiment** (CE) (or choice modeling) surveys ask respondents to choose a preferred option from a set of alternatives, as described by a set of some five or six different attributes (parameters), one of which is a price they would have to pay. Through econometric modeling, it is possible to elicit the monetary values of different levels of each attribute.

Key advantages of these approaches include their flexibility in valuing any specific environmental, social, or economic asset or impact. Indeed, they are the only primary valuation method capable of determining non-use (or "existence") values. In addition, they allow for primary data collection and valuation addressing a specific issue, which can be designed to ensure that results are representative of the individuals affected by the impact.

Disadvantages of stated preference methods include the fact that comprehensive and robust surveys can be time consuming and expensive. This is partly due to the need to overcome various potential sources of bias in hypothetical scenarios, which otherwise result in poor or meaningless results. For example, respondents may express a strategically high or low willingness to pay, or they may be unfamiliar with what they are being asked to value, potentially resulting in inaccurate responses. It is also important to recognize that results are based on what respondents say they would do, rather than their actual behavior.

Nevertheless, experience in the design and use of stated preference methods is growing rapidly, enhancing their reliability and reducing costs. In addition, the use of internet-based survey methods is increasingly accepted, bringing costs down further.

Key steps for a CE or CV:

1. Undertake initial research to explore the scope of what is to be valued. This can involve review of existing relevant valuation evidence, and its use, through value transfer, to gain better understanding of the values involved.

2. Choose a survey method (e.g., face-to-face, mail, or telephone) and valuation technique (CV or CE).

3. Choose target population to sample (such as all people who may be affected by the impact (e.g., people visiting a site) or total households in an area or country) and sampling strategy (e.g., random or stratified).

4. Design and format of questionnaire (e.g., open ended WTP, payment ladder) and payment vehicle (e.g., bills, tax, donation, car park charges).

5. Test the questionnaire using focus groups, especially if the topic is new, and pilot tests to check the wording and understanding of the questionnaire.

6. Conduct the main survey using a large enough sample to ensure statistically significant results.

7. Complete econometric analysis including work to identify outliers (e.g., extreme high bids) and protest bids (e.g., unwillingness to accept the scenarios presented).

8. Test validity and reliability.

9. Aggregate and report.

Note:

- Make sure an experienced and appropriately trained expert is involved in designing the stated preference survey and analyzing the results. Although they appear simple, it is easy to design a questionnaire that yields meaningless results. Poor analysis and dealing incorrectly with biased responses can also limit the usefulness of results.

- Ensure the survey sample is representative of the target population, such that the survey results can be adjusted to give a representative aggregate value.

- Make sure the selected sample size is appropriate and justified. It is recommended that around 250 questionnaires be completed (assuming a target population of up to 1 million people and a 95% confidence interval). However, sample sizes of around 100 may yield useful results, with appropriate caveats.

- Make sure that adequate efforts are made to overcome the majority of biases associated with this approach, such as hypothetical, information, strategic, starting point, and payment vehicle bias.

- When designing the survey, consider the use of simple but effective visual information to help explain what is being valued.

- Check that the payment scenarios are realistic and politically acceptable. Check that the assumptions used are conservative and clearly set out.

Value in use

Revealed preference approaches

Hedonic pricing is a useful revealed preference approach to value how natural capital affects the price of marketed commodities. For example, market price differentials for residential properties situated near or far from picturesque locations can provide a partial measure of the amenity value of those locations. Statistical analysis is used to disentangle the various factors that influence the price of a marketed commodity. Those factors may include the number of bedrooms, lot size, views of landscape, or the distance from important environmental features, such as rivers or parks.

Key steps:

1. Collate data (e.g., dataset of property prices and/or primary surveys including environmental characteristics that are the focus of the valuation).
2. Undertake regression analysis of property prices against a range of explanatory variables (including the environmental good or service).
3. Derive an overall implicit price function.
4. Estimate a demand curve for the characteristic of interest.
5. Estimate the change in total value due to a marginal change in the environmental good or service (by integrating the demand curve).

Note:

This approach can be data and time intensive to conduct properly.

- A more simplistic approach is to ask local property agents to provide approximations of the percentage price premium for particular environmental attributes.
- Approximations made by transferring evidence from other sites can be low-cost and may be sufficient for your needs. For example, existing studies may suggest that proximity to a green space increases the value of property by a certain percentage. Use of such evidence should follow value-transfer guidelines.

Travel cost method (TCM) is another revealed preference approach that can be used to determine the recreational or amenity values of the natural environment, such as a visit to a park, an angling trip, or other non-consumptive uses. TCM is based on the idea that the value of a recreational visit to individuals is at least as large as the costs (time and other expenses) incurred in undertaking those visits. A suitably designed questionnaire survey can capture visitor information, enabling individual, average, and aggregate recreational values to be inferred from a demand curve (i.e., frequency of visits as a function of the costs of visiting). Either an individual or zonal TCM can be conducted. The former is more common and is explained here. Various issues such as general accessibility to the site and the potential for joint visits to nearby attractions should be considered before deciding on the suitability of this approach.

Key steps:

1. Design questionnaire (data to be collected include place of residence, demographics, attitudinal information, purpose, frequency, and length and costs of

visit to site).

2. Administer questionnaire to site visitors (ensuring adequate sample size and representative mix of visitors).
3. Analyze data and estimate a demand function that is representative of all visitors to the site (using econometric techniques to determine the demand relationship based on relevant factors such as frequency of visits, costs to get to the site, etc.).
4. Estimate average recreational value (based on "integrating" the area under the demand curve to estimate an average value of enjoyment per individual).
5. Determine total recreational value by multiplying the average individual value by the number of visitors (over a particular period).

Note:

- Think carefully before commissioning a travel cost study. Although based on people's actions, there may be many reasons why people visit particular sites. The frequency of visits, time spent, and expenditure incurred does not always reflect people's full value for a site.
- Travel cost surveys can be combined with stated preference surveys. Comparing two sets of valuations can test and enhance the reliability of the results.
- Crude approximations can be applied, for example by multiplying estimates of visitor costs (e.g., travel costs and time) by the number of visitors. If estimates of visitors' costs are transferred from other sites, then value-transfer guidelines should be followed.

Current cost

Cost-based approaches

The **replacement cost approach** is a cost-based approach commonly used in monetary valuations. In particular, it can be used to value regulating ecosystem services that a business impacts or relies upon. It is also commonly used to justify investment in natural capital. In the first case, the value of natural capital that provides regulating services such as water purification and flood control services can be assumed to be equivalent to the cost of replacing those services, in the event of the natural capital being lost, with built infrastructure that provides the same level of service.

These types of assessments should factor in the long-term maintenance and operating costs of artificial infrastructures, as well as the loss (or gain) of other ecosystem service and/or abiotic service values provided by the equivalent natural resources. The resulting valuations are based on the assumption that people would actually pay to undertake the investment to replace the ecosystem services and/or abiotic services that are lost. This will be obvious where the natural capital in question is important to meet legal mandates (e.g., drinking water standards). In other circumstances it may not be a sound assumption, in which case other valuation approaches can be applied to value the reduced level of ecosystem services and/or abiotic services (e.g., production function approach where the ecosystem services contributes to a market good or service, or revealed or stated preference valuation techniques where it is not). Replacement costs may be estimated, observed, or modeled.

Key steps:

1. Identify the ecosystem service(s) and/or abiotic service(s) to be valued.
2. Assess the scale and extent of use of the ecosystem service(s) and/or abiotic service(s).
3. Determine the nature of man-made goods, services, or infrastructure needed to replace the ecosystem service and/or abiotic service at the current scale of use.
4. Estimate, observe, or model the cost of the artificial replacement (include capital, operating, maintenance, and decommissioning costs).
5. Identify and account for other ecosystem services and/or abiotic services affected.

Note:

- Replacement cost valuations should consider the wider bundle of services provided by an ecosystem (e.g., wetland habitats provide many provisioning, regulating, and cultural ecosystem services).
- The quality or level of replacement service should reflect that provided by the original ecosystem. For example, if a wetland only provides a partial water filtration function, its value is not equivalent to a high specification filter plant, but one that filters water to the same level as the wetland.
- The “least full-life cost” man-made solution is the relevant value; ensure that maintenance costs are included for the relevant period of time in the proposed artificial solution. If natural capital can provide the ecosystem service(s) and/or abiotic service(s) in perpetuity then the results may be sensitive to timescales and discount rates.

Damage costs avoided is particularly useful for valuation of regulating services and climate change impacts. This method tends to be based on estimating the predicted values of damages in situations with and without the regulating service or impacts in question. The difference in damage values equates to the value of the service provided. The way values are predicted depends on the ecosystem service and/or abiotic service in question, but “consumptive valuation” techniques are one option (e.g., cost of illness due to increased air pollution).

The approach can be complex if accurate values are required. For example, determining flood related values involves calculating and comparing “annual average damages” associated with different flood return periods (e.g. 1-in-2 year, 1-in-50 year, 1-in-100 year events). The necessary data may not be available or may be difficult to model. This is particularly true of climate change, although in this case one can use the outputs of established models in the literature (notably based on the work of the IPCC).

Insurance companies are beginning to investigate the damage costs of extreme natural events, and are starting to link this to the degradation of natural capital and climate change.

Key steps:

1. Identify the ecosystem service (usually a regulatory service) and/or abiotic service to be valued.
2. Estimate the likely cost of damages in a situation *without* the service provided (or without the project impact on the service). This is a function of the probability and value of possible outcomes.
3. Using the same valuation technique, estimate the likely cost *with* the service provided (or 'with' the project impact on the ecosystem service).
4. Determine the difference in value between the 'with' and 'without' scenarios.

Note:

If primary valuation evidence is transferred from other studies, follow value-transfer guidelines.

Confirmatory and triangulation approaches

Value Transfer

Value (or benefits) transfer has evolved as an alternative, low-cost approach to primary monetary valuation techniques. It involves transferring value estimates from existing economic valuation studies (the "study site") to the site where a decision is being taken.