EXECUTIVE SUMMARY

HOW TO FIND THE VALUE OF CIRCULAR IMPACT IN BUSINESS

Circular Impact Measurement
and Financial Reporting

COALITION CIRCULAR ACCOUNTING

CIRCLE ECONOMY

NBA Koninklijke Nederlandse Beroepsorganisatie van Accountants

INVEST-NL

EXECUTIVE SUMMARY

Financial reports are considered essential for assessing the economic health, profitability and future potential of a company. Company management, financiers and investors largely rely on global standards for accounting and reporting (such as IFRS) to steer on for future goal setting. These financial statements and calculated ratios (solvency, liquidity and return on equity) help management and investors in decision making processes. However, the assumptions behind financial statements do not fully reflect the short- and long term constraints and impacts of non-financial impacts, such as resource depletion and climate change. As such, vital value creation by the organisation is often overlooked.

This white paper by the Coalition Circular Accounting (CCA) is based on the actual impact case involving **Meerlanden**, a material and energy recovery company, and knowledge partner **Impact Institute**. The goal of this impact assessment is to understand the actual positive and negative impacts, enable clear reporting and communication about these impacts and to take these impacts into consideration for strategic and financial decision making.

STARTING WITH CIRCULAR IMPACT MEASUREMENT AND REPORTING

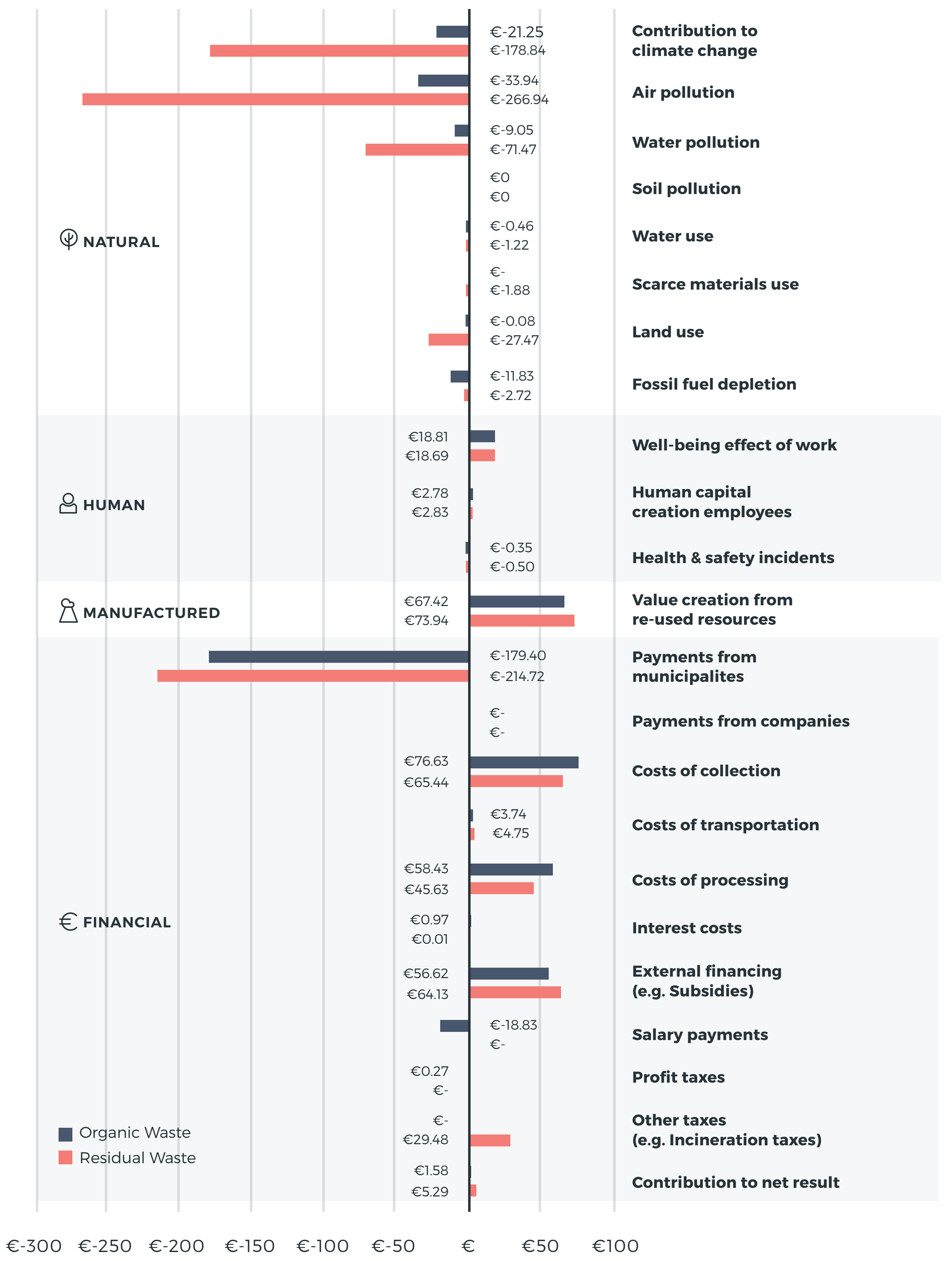
Impact measurement methodologies are developed to meaningfully integrate (circular) impact data into decision making. Since this is an emerging field, there are many methodologies available and choices to make. Hence there is an urgent need for harmonisation, to enable benchmarking and create an equal level playing-field.

The Impact Institute has created an Integrated Profit & Loss (IP&L) methodology that enables a holistic assessment of an organisation's impact. Negative and positive impacts of different dimensions are disclosed separately to prevent an inappropriate netting effect.This methodology has been used to measure the impact of Meerlanden collecting and processing organic waste into new resources (see Figure). It becomes clear that organic waste recycling has a substantially lower negative impact than residual waste incineration. The destruction of resources through incineration means that the value of the material is lost entirely. As a consequence more virgin materials have to be sourced, which could have been prevented by recycling.

MAKING THE STEP TO IMPACT WEIGHTED ACCOUNTING

Including circular impact in financial reporting provides a more complete picture of the value of a company's performance. Then, it is in the role of accountants to provide assurance over the impact data and to prevent greenwashing. The latter is important nowadays especially due to the increasing demand for sustainability reporting from stakeholders in combination with external scrutiny. Accountants should continue to make sure that not only positive impacts are outlined in corporate reporting. Ideally speaking a balanced and structured overview of the positive and negative impacts is provided, which can ultimately be the basis for governance and financial decision making processes.

Figure Four: Integrated Profit & Loss showing the four capitals and monetised 23 impacts of Meerlanden's organic waste resource stream per tonne in 2020. Figure is adapted from the Impact Institute.



FROM IMPACT DATA TO IMPACT INTEGRATED RISK MANAGEMENT

It is the role of financiers to ask companies to provide impact information and link this data to the firm's risk assessment. By doing so, financial institutions will gain insight in where the risk lies, increase awareness, and ask firms different, more impact orientated questions. The lack of standards and frameworks is a challenge for investors. However, the rise of (compulsory) classifications such as the EU taxonomy shows the need to be prepared and get started with assessing impact.

A crucial next step is the integration of impact data into risk assessments. Recently, financial institutions have started integrating impact information into the core of their risk assessment. Ultimately, it should become a matter of routine that both companies and financiers integrate impact information in all strategic decision making processes.

WHAT GETS MEASURED, GETS MANAGED

The current financial accounting conventions and standards are not able to reflect the added environmental, climate and societal value of circular businesses. The impact case proved that environmental and social impacts considerably affect a business' *licence-to-operate* and prospects for the future.

Accounting is both measuring and managing and taking responsibility for your activities and actions. Only when the impact is visible to management and investors, they will become aware of the negative impact resulting from their behavior, adjust accordingly and show the value of steering on impact.

The full white paper can be found here

KEY TAKEAWAYS

1. **THERE IS AN URGENT NEED FOR STANDARDISATION**
To create comparability between different impact measurements to create an equal level playing field.

2. **THE MOST IMPORTANT STEP IS GETTING STARTED**
Start measuring and monitoring in order to practice generating and using data. If done well, it generates additional insight for improving processes and conditions for overall increased value and can be considered an investment that yields sufficient return.

3. **ONLY WHAT GETS MEASURED CAN BE MANAGED**
Circular impact should explicitly inform management and financial decision making.

4. **INTEGRATION OF NON-FINANCIAL INFORMATION IS KEY**
Financial reporting should integrate social and environmental aspects into its decision making, thereby assessing the value of a company's overall performance across different indicators (economic, environmental and social).

5. **CIRCULAR IMPACT AS A COMMUNICATION TOOL**
Circular impact should be evident and visible to convince clients, investors, financiers and other stakeholders of the added value of measuring and reporting on circular impact.

COALITION CIRCULAR ACCOUNTING

The Royal Netherlands Institute of Chartered Accountants (NBA) and Circle Economy founded the Coalition Circular Accounting (CCA) to identify and overcome accounting related challenges in order to accelerate the transition to the circular economy.

The Coalition Circular Accounting is a group of experts and scientists in the fields of finance, accounting and law. Members are NBA, Invest-NL, ABN-AMRO, Rabobank, Allen & Overy, Sustainable Finance Lab, Impact Economy Foundation and scientists associated with Nyenrode Business University, Avans University of Applied Sciences and Circle Economy.

CCA PROJECTS

This is the fourth in a series of four cases with focus on different Circle Economy and accounting challenges:

1. Road-as-a-Service: Pursuing the financial reality of the circular road
2. The Circular Facade: Building a sustainable financial reality with Facades-as-a-Service
3. Valorising Residual Resources: Mitigating food waste—how cooperatives can boost the circular economy
4. How to Find the Value of Circular Impact in Business: Circular impact measurement and financial reporting

The trajectory will conclude with a *final overview paper, planned for 2021*

COLOPHON

We are very thankful for the valuable contribution of all members of the Coalition Circular Accounting and their organisations. Their expertise, motivation and collaborative spirit resulted in a tangible and transferable outcome, accessible to all.

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