

The Social Stock Exchange: An Example of an Impact Authentication Process

Pradeep Jethi The Social Stock Exchange (www.socialstockexchange.com)

The Social Stock Exchange is a membership platform which authenticates organisations which have publicly traded securities (equities or debt) as being high social or environmental impact. Its objective is to identify a universe of investment opportunities from which impact investors can choose.

The Social Stock Exchange Impact Report is a key component of the admissions process and is prepared by an independent social impact specialist. It covers five key themes:

- 1. The social or environmental purpose of the company and the impact it will deliver*
- 2. Who benefits as a result of the company's social impact*
- 3. How a company's products, services, and operations deliver that social impact*
- 4. How a company involves and consults with all its stakeholders*
- 5. What evidence a company has of its social impact and how that is collected, measured and reported*

We know that social impact investors – someone who invests for social outcomes alongside financial returns – are increasingly looking for good investments and plan to commit \$200-650bn over the next decade. We know that there are a huge number of potential investment opportunities out there – the fact that there are 1700 clean tech companies currently listed around the world shows the potential of the market.

Historically, measuring impact has been a major stumbling block in the social investment process. If you are an impact investor looking to invest, the single biggest hurdle to that money finding its way to organisations is the absence of a way to measure the social impact. A company merely claiming impact is insufficient; the impact investor needs a degree of rigour and proof - and a process that surrounds this.

The Social Stock Exchange's (SSX) admissions process and mandatory reporting requirements provide one way that investors are able to make informed decisions about companies against stated objectives and verifiable, published evidence.

Through a robust process that includes the assessment of a company's eligibility for admission by an independent Admissions Panel and the mandatory publication of an Impact Report, we hope we have created a credible platform for capital markets investors to assess a company's social and environmental credentials, whilst also taking key financial performance criteria into account. How do we ensure that happens?

The SSX's methodology is to have a stringent Admissions Process that follows four stages:



Pradeep Jethi

1. The first is that an applicant company submits a basic application form that is put to the SSX's Admissions Panel for first stage of (non-binding) approval. This includes a statement about the social issue or problem that the company's product or service addresses.
2. If the company passes that test, the second step is the production of an Impact Report. The Impact Report is prepared under the supervision of an expert organisation, which has a background in the methodology of impact measurement and reporting. Example organisations include PWC, Deloitte, CAN Impact, Investing for Good, the SROI Network and many others. This expert organisation works with the applicant company to develop and assess the social or environmental metrics relevant to the company's business area or sector. The expert takes on the role of developing the key reporting requirements, assessment, and verification.
3. The Impact Report requires 6 key areas to be addressed;
 - a. CEO commitment to social/environmental value
 - b. The context in which the impact is delivered
 - c. The beneficiaries
 - d. How business activities are key to the delivery of the impact
 - e. Assessment of stakeholders
 - f. Evidence/Outcomes (key performance indicators)
4. The completed Impact Report is put to the SSE's Admissions Panel to judge the company's suitability for admission – and the admission is made on the basis that clear evidence of delivery of social or environmental impact is being made as a direct result of the company's product, service or business process. The investor, in turn, receives the benefit of due process, expertise, rigour, and independence: he or she can put trust in the expert's diligence.

The SSX's Admissions Panel is made up of experts from social investing and impact reporting and measurement. It is chaired by a member of the SSX who does not have a voting capacity. Furthermore, the Panel reviews the company's social or environmental metrics which the company must re-state on an annual basis – this ensures that companies are not

just jumping through a hoop in a one-off and that they are upholding the values and impacts as long as they are members of the SSX. There is a suspension and striking-off mechanism for companies who exhibit mission drift, or any other failure to maintain the delivery of social or environmental impact. Again, the investor benefits from a rigorous mechanism that they can review on an on-going basis alongside a company's financial performance.

In addition to providing objectivity, verification, and year-on-year updates for investors the process of producing an Impact Report can have additional benefit for companies that undergo the rigour of a thorough reporting process.

Halosource plc, one of the SSX's first admissions and makers of water purification products, had never really done anything like this before. The senior management team was initially wary of completing a Report to a demanding month-long timescale. But leadership came from CEO Martin Coles who pushed the initiative through and gave one or two senior executives the mandate to produce the report with the help of one of the SSX's expert organisation, because he believed that the metrics would help inform better business practice and product roll-out.

As Mr Coles revealed, the emphasis on outcomes was something that he felt his business needed to start thinking about: "We were always able to place a value on the number of lives saved through the number of our filters sold, but the impact reporting process gave us a new appreciation as to the outcomes of a saved life in, say, an Indian village, in terms of that person or persons ability to continue on into schooling, work, and economic output in regions where these are real long-term developmental issues."

On the other hand Places for People, a social housing organisation, found the Impact Report preparation process a very straightforward one and were able to complete the work within a week. Their Head of Sustainability, said: "Places for People is a social housing organisation and we have a long history of capturing and reporting data on our social impact. However, we had never utilised this type of reporting framework before and the emphasis on outcomes for our beneficiaries was really instructive for our business."

The SSX's Impact Report offers common headings so that investors can scan for impact across businesses and sectors. The use of the network of expert organisations that undertake the measurement reporting and assessment helps to ensure commonality, and we hope this will drive a degree of standardisation

across the impact investing world and provide a common or public good for investors who invest for a social or environmental 'dividend'. Indeed, we are one of the few organisations in the social finance arena who mandates social impact reporting as an absolute condition of entry before being considered a social impact business.

The International Integrated Reporting Council (IIRC) recently published (Dec 2013) its framework on how to embed non-financial indicators into a mainstream annual report for companies over a certain size. We might see a scenario in the not too distant future in which impact reporting is part of the everyday, part of the mainstream, and which offers a more rounded account of a company's activities.