

COLLABORATION STATEMENT BETWEEN THE IMPACT-WEIGHTED ACCOUNTS INITIATIVE AT HARVARD BUSINESS SCHOOL AND RETHINKING CAPITAL

July 2021

The Impact-Weighted Accounts Initiative at Harvard Business School (IWAI) and Rethinking Capital share the mission to drive the creation of financial statements that reflect a company's financial, social, and environmental performance. And the ambition to create accounting statements that transparently capture external impacts in a way that drives investor and managerial decision making.

Rethinking Capital is a think tank of experts in intangible assets, dedicated to establishing the rules to govern the new intangible economy. Its work applies normative logic to new rules for economics, accounting and governance. Within normative accounting for intangibles assets, the ambition is to restore the primacy of the balance sheet for management decision-making and to apply existing accounting standards (GAAP, double-entry bookkeeping and International Accounting Standards) to recognise the current value of all intangible assets and liabilities.

The 2020 collaboration between the IWAI, Rethinking Capital and a community of technical accounting experts created a decision-making framework to apply normative accounting to net-zero decision-making together with a decision logic designed to apply to any social norm.

This decision-making framework is designed to overcome the illogical effect of accounting practice which treats all net-zero investments and other investments into conforming with social norms as the penalty of costs on the income statement whilst rewarding doing nothing. Normative accounting instead treats those costs as investments in the social license, an intangible asset with indefinite life.

This approach is explained in this paper [Constrained by Accounting](#), published in March 2021.

This paper has attracted interest from a diverse range of stakeholders and has led to the design of a Proof of Concept program to be run in September and October 2021 with at least two communities.

The Proof of Concept design will apply the combination of the IWAI's impact metrics and normative accounting for intangibles to three capital allocation decisions, net-zero, circular economy and well-being.



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