



The Impact Term Sheet

User Guide



November 2022

This FAQ is designed to help you navigate the Impact Term Sheet, and decide whether it's the right tool for your deal.

What is the Impact Term Sheet?	<p>The Impact Term Sheet is an open-source legal template for direct equity investments issued by a company to investors in exchange for growth funding. If you're not sure what this means, go to the section "Is the Impact Term Sheet right for my deal?".</p> <p>It was developed by the Legal Innovation for Sustainable Investments Foundation (the LISI Foundation) and its team of expert co-creators.</p>
What is the 'Triple A methodology'?	<p>Triple A stands for Approachable, Accessible and Appealing. It guides our approach in developing all our resources.</p> <p>We founded LISI to make the law more approachable, accessible and appealing for all investment stakeholders. The Triple A Methodology explains how we put our mission into practice.</p> <p>We want the Impact Term Sheet to be a clear, no-nonsense legal instrument directly contributing to fairer deals and long-term impact. The Triple A methodology is a set of concepts and metrics that helps us track our progress as we carry out our mission.</p> <p>While we've set the core definitions of each "A" in the Triple A, and our first set of metrics, we aim to continue our user testing and development of the Triple A methodology.</p> <p>The Triple A methodology is available on the LISI website.</p> <p>Interested in getting involved? Please write to us at info@lisi-law.eu.</p>
Why an Impact Term Sheet?	<p>The Impact Term Sheet is a concrete example of kinds of changes needed to support the financing models of the new economy.</p> <p>The Impact Term Sheet aims to anchor impact, safeguard mission and set the basis for beneficial relationships between investors and investees, as well as founders, employees, customers, suppliers, communities, and nature.</p> <p>We provide best practices for the five most important building blocks of an investment deal: exits, governance, incentives, stakeholders, and reporting.</p> <p>Through our Impact Term Sheet, the LISI Foundation wants to encourage more co-creation and dialogue between legal and investment professionals about what matters in investment deals.</p>
Why should you use it?	<p>To support open-source investment resources and expert knowledge backing financing of the transition to a more sustainable society.</p> <p>To stand for better investment practices that support the growth of companies through more responsible business practices.</p> <p>Depending on whether you're an investor, investee or advisor, we've put together an overview of the main reasons why we think the Impact Term Sheet is a great tool to save you time while helping you achieve more impactful deals.</p> <p>Investors</p> <ul style="list-style-type: none"> Helps you prove the impact you're making through one of the most powerful tools you have: your



	<p>signed agreements</p> <ul style="list-style-type: none"> Integrates impact KPIs, measurements and reporting Defines contractual mechanisms to help you decide on incentives and sanctions and how to choose between them Tackles mission drift Helps you organise the discussions around impact and deal terms with co-investors Provides a framework for alignment of impact and commercial agendas across deal stakeholders <p>Companies</p> <ul style="list-style-type: none"> Defines a framework for discussions to help you find investors who are the right fit for your business Ensures that mission and purpose remain the central focus of your business over the long-term Gives you the tools to tackle shareholder opportunism Sets up a balanced deal where profitability and growth is achieved while ensuring that the mission is safeguarded, without putting any of them “first” Built around the steps you need to take to understand the wider ecosystem of your business and who it will affect Builds in rewards for the company when impact KPIs are achieved <p>Counsels and Advisors</p> <ul style="list-style-type: none"> A tool to help your clients' commercial teams negotiate a deal with sustainability built in, which you can then embed through the necessary transaction documents Provides research-backed insight and guidelines on the latest negotiation trends in impact investment Show how your work aligns with transitioning to a more sustainable society A concrete tool to shape the practices of your organisation for sustainability transitions
Is the Impact Term Sheet right for my deal?	<p>When using it, keep a few things in mind:</p> <ul style="list-style-type: none"> It's meant to support a balanced deal: It's not designed to be either investor or company friendly, but to create a fair and balanced framework of discussions with a common goal: alignment of interest across parties, and important stakeholders. It's not meant for a specific jurisdiction: It's designed to create a fair and balanced framework, rather than align with any specific regulatory regime. With suitable legal advice and adjustment, the Impact Term Sheet is designed for use across the globe. Do keep in mind that our co-creator-authors are experienced practitioners, with a majority being located in the following places: the Netherlands, the UK, Switzerland. Our co-creator reviewers hail from a variety of continents and jurisdictions. It's for direct equity investments, where shares are issued by the company to investors, resulting in a dilution of the participation of existing shareholders. <p>While elements of the Impact Term Sheet work well for sale of shares by existing shareholders or mixed transactions involving both sale and issuance of shares, it wasn't developed with this goal in mind.</p> <p>Keep in mind that the main difference between direct equity and sale of shares is where the money goes to. When the company issues the shares, the money goes to the company. When the shareholders sell their shares, the money goes to the shareholders.</p>
Who was the Impact Term Sheet made for?	<p>The Impact Term Sheet is not specifically made for first-timers. Parties should have a certain level of expertise in raising and providing capital. Have a look at our user archetypes below, Madeline and Michael!</p>

	<p>Meet our investor, Madeline:</p> <ul style="list-style-type: none"> • Investor from (Northern) Europe • Either a general investor who wants to switch to sustainable investment or an impact investor • Organisation: has the backing of the organisation to shift to impact investment • Goal: generate both impact and financial returns through investments • Does both domestic and cross border investments
	<p>Meet our entrepreneur, Michael:</p> <ul style="list-style-type: none"> • The CEO, CFO, founder, GC or other person responsible for investments • Mission-driven company (mission linked to one or more SDGs) or in transition • HQ in (Northern) Europe, operations overseas • Company has been trading for a couple of years and this is the 1st or 2nd equity fundraising round of the company • Primary goal: profitability and growth while ensuring the mission is safeguarded and supported
<p>How was the Impact Term Sheet developed?</p>	<p>We started with a survey. The Impact Term Sheet is based on a survey regarding key clauses and questions in impact investment deals that was answered by more than 100 professionals across the whole investment value chain.</p> <p>We released a Beta Version in June 2022. The Beta version integrated the survey results and our own expertise and research. Since we had amassed a large database of ideas and feedback, we prioritised five building blocks for anchoring impact: exits, incentives, stakeholders, governance and reporting.</p> <p>We then carried out more consultations about the Beta Version with partners and experts. Our co-creator reviewers conducted an in-depth read to check that everything made sense and was practicable in the real world.</p> <p>We released the Adoption Version 1.0 in November 2022.</p>
<p>How should I use it?</p>	<p>You can use the Impact Term Sheet in multiple ways:</p> <ul style="list-style-type: none"> • Use the Impact Term Sheet as a whole (with any necessary adjustments to suit your particular deal) • Use the structure of the Impact Term Sheet to shape discussions and negotiations • Use specific concepts or clauses, even if the remainder of the Impact Term Sheet is not suitable for your deal, or you (or your investment partner) are not quite ready for this level of impact yet. <p>The Impact Term Sheet is licensed for use under the CC BY-NC 4.0</p>
<p>Is the Impact Term Sheet meant to replace my legal advisor?</p>	<p>This is a tricky question. We've put a lot of care into preparing the Impact Term Sheet. We want to increase access for all investment stakeholders to high quality templates, and reduce asymmetry when it comes to information around a deal. In other words, we want to see more balanced and equitable negotiation positions in an investment deal, irrespective of the size of the wallet.</p> <p>But we also have to be realistic. We cannot know all the ins and outs of each investment deal. There's simply not sufficient data available, when deals are done behind closed doors and parties keep deal terms to themselves.</p> <p>The Impact Term Sheet is our first step in changing this status quo.</p> <p>We hope you will use the Impact Term Sheet to carry out the right conversation with your advisors. And if you're an advisor to the deal, we hope you'll use this to have the right conversations with your clients about the aspects of a deal that are not discussed enough at the negotiation table.</p>



	<p>So remember: the Impact Term Sheet is not designed to be a binding legal document, and you should take legal advice when making any agreement. Whether a document is binding or not may also depend on the jurisdiction(s) you are working in.</p>
<p>What's next after the Impact Term Sheet?</p>	<p>We're on a mission to change the investment profession from within. The Impact Term Sheet is just the beginning. We're developing our 2-year co-creation roadmap for more open-source investment instruments.</p> <p>This includes a commitment to maintaining the Impact Term Sheet. Our ambition is for it to become a living document, with ever-evolving wisdom. We'll do that through:</p> <ul style="list-style-type: none"> • Feedback from user testing • More research on specific topics <p>Stay in touch with these and more developments by signing up to our newsletter on the LISI website.</p>
<p>Can you help me with my next deal?</p>	<p>We plan to scale up our user testing capabilities, and while we cannot advise you (we're not a law firm) – we could together determine whether your particular case suits our user testing roadmap.</p> <p>As part of this trajectory, we can establish both a way of working and outcomes that are of mutual interest to both of us, and provide real value to your deal.</p> <p>In the LISI open-source community, knowledge is openly shared for co-creation and dialogue, including the knowledge we get from our use cases. It will be used as valuable feedback to create better work for the entire community.</p> <p>Use case data we share will be anonymised and we will only disclose the name of your company if agreed.</p>
<p>What other resources does LISI recommend to use in conjunction with the Impact Term Sheet?</p>	<p>There are many great resources out there that can help you negotiate better, more impactful deals. Have a look at the following recommendations, which we used as inspiration for our own Impact Term Sheet:</p> <ul style="list-style-type: none"> • For more on building contracts based on fair and balanced relationships: We recommend having a look at the Vested resources and the Vested relational contracting model developed by Kate Vitasek at the University of Tennessee. • For more on term sheets and financing options for entrepreneurs: Go to Adventure Finance if you're looking to understand the different types of funding options available to your business beyond the traditional venture capital structures and what do you need to ask yourself before you know what type of deal you want. Aunnie's work is based on decades of academic research and years of practice. Aunnie is an angel investor, author and academic. • For more co-created templates developed by leading industry experts: oneNDA has been a great inspiration for us through the work they're doing to advance standardisation in the legal field. If you're looking to sign a non-disclosure agreement for your next M&A deal, have a look at the M&A NDA template that they developed together with an amazing community of experts. • For more contracting resources for net zero targets: The Chancery Lane Clauses - our colleagues at the Chancery Lane Project have developed a great database of clauses to align contracts with net zero commitments. We've referenced some of their work in the Impact Term Sheet guiding notes, make sure to check their resources on green financing for more inspiration. • For more on inclusive investment structures: The amazing work done by our colleagues at the Pre-Distribution Initiative on creating more inclusive investment structures to address systemic risks, like inequality. • For more on establishing KPIs and the latest impact investment trends: stay up to date with the Global Impact Investment Network (GIIN) research and resources. • For Dutch speakers: we found that one of the best free monthly newsletters with an overview of legal and policy developments in impact investment is maintained by Eumedion. Try it out here.
<p>I have more questions!</p>	<p>We're happy to answer any questions, please get in touch at info@lisi-law.eu. We read every email!</p>