



# Impact Tools: IMPACT App and Impact Dashboard

## WHITEPAPER

### Introduction

Always on the leading edge of innovation, Interactive Brokers is excited to introduce the standalone IMPACT app and the TWS Impact Dashboard (referred to as “Impact tools”), both designed to help you evaluate and invest in companies whose business principles align with your personal values. Both are free to our clients, and set a new standard for tools that support socially responsible and impact investing. Interactive Brokers offers clients the ability to trade stocks, options, ETFs, mutual funds and corporate bonds in 135 markets in 33 countries. Impact scores are calculated for most global stocks, corporate bonds using the issuer’s Impact scores, and ETFs and mutual funds based on their stock compositions.

The Socially Responsible Investing (SRI) data behind the Impact tools comes from top-tier, third-party providers Refinitiv and Truvalue Labs, who collect unstructured data and compute scores within common frameworks, including ESG<sup>1</sup> and SASB<sup>2</sup> among others. Offering reliability, broad global coverage, and transparency, these providers calculate scores using thousands of company and non-company resources, including annual reports, regulatory filings, trade blogs, industry publications and social media.

IBKR’s proprietary dashboard technology overlays the SRI data, your value preferences and your portfolio holdings to provide you with a single Portfolio Impact Score letter grade.

Note that, while this White Paper focuses much of its discussion on the TWS Impact Dashboard, the technology, data, and calculations are applicable to both the Impact Dashboard and the IMPACT app.

### How it Works

Personalize your responsible investing experience by selecting the values you want companies to support and the practices you want companies to avoid. Once you have clarified what’s important to you, IMPACT grades your portfolio (A, B, or C) to illustrate how well positions align with your impact values.

<sup>1</sup> Source: Refinitiv ESG Data, <https://www.refinitiv.com/en/financial-data/company-data/esg-data>

<sup>2</sup> Source: SASB, <https://www.sasb.org/>



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It also “flags” companies that engage in the practices you find objectionable. Armed with this knowledge, you can choose whether or not you want to adjust your holdings to improve your Portfolio Impact Grade.

We also offer tools that can help you find assets offered by companies whose values may be better aligned with yours:

- In TWS, add the **Impact Effect** column to your Watchlists and other tools to see leaf icons. The leaf color can help you identify potential investments by illustrating how well that company’s values align with your Impact Values:
  - Dark Green Leaf: High
  - Light Green Leaf: Medium
  - Yellow Leaf: Low

IMPACT app: These icons are shown in the IMPACT app Watchlist and Portfolio, to the left of the symbol.

- In TWS, add the **Impact Flag** column to your Watchlist to see which companies are flagged for engaging in practices you tagged as unacceptable.

IMPACT app: Flags display in the IMPACT app Watchlist and Portfolio to the left of the symbol.

- The **Impact** tab in TWS Fundamentals Explorer lets you see the effects of buying or selling a product, and shows you how well a company’s values align with your stated Impact values.



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### Define your Principles

Start by choosing from a list of 13 Impact Values. You can tag a value as “Important” or “Very Important.” Make your selections carefully, as they are used in the Portfolio Impact Score calculation and selecting too many will weaken their individual effect. We believe these values represent the top 13 most significant universal principles in business conduct.



Sustainable  
Product Lifecycle



Mindful Business  
Models



Clean Air



Pure Water



Ocean Life



Land Health



Ethical  
Leadership



Consumer  
Safety



Company  
Transparency



LGBTQ  
Inclusion



Gender  
Equality



Racial Equality



Fair Labor &  
Thriving  
Communities

Find out more about each principle in [Appendix A](#).



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### Identify Practices to Flag

Next choose the practice you want the system to flag. Flagged companies are not included in the portfolio score calculation, so you can select as many as you want. The small number in the red circle next to a practice tells you how many companies in your portfolio engage in that practice.



Greenhouse Emissions



Political Spending and Lobbying



Weapons and Gun Manufacturers



Business Ethics Controversies



Energy Intensive



Tobacco, Alcohol and Gambling



Hazardous Waste



Animal Testing



Fossil Fuels



High Water Usage

Find out more about each practice in [Appendix B](#).

### See your Portfolio Score

Once you have selected the values you support and the practices you oppose, the tool analyzes and grades your portfolio. The doughnut chart shows your overall Portfolio Impact Score. Hold your mouse over slices around the outside to see the weight of companies in the High (Dark Green), Medium (Light Green), and Low (Yellow) alignment levels.

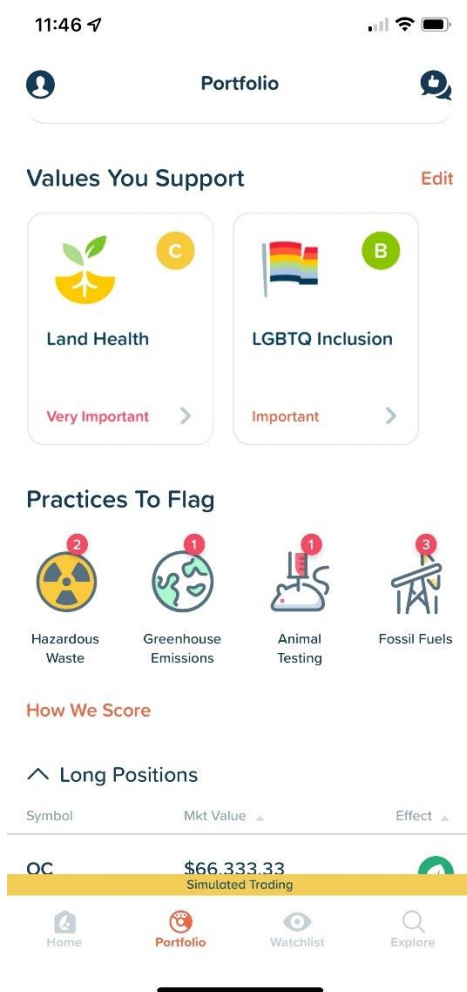
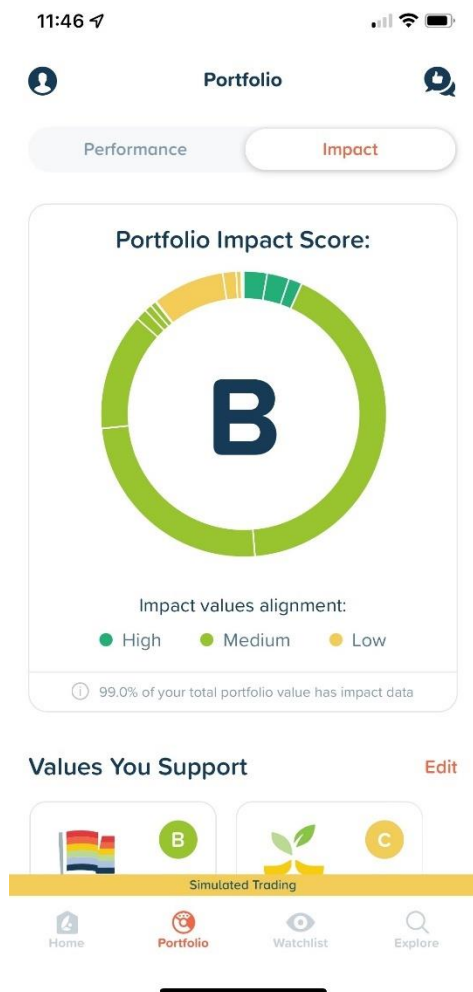
Directly under the doughnut chart we show you what percent of your portfolio has impact data. To see this in the IMPACT app, tap the Impact button in your Portfolio. The calculation is weighted based on the dollar value of each position that has an Impact score to provide an overall score for the portfolio. For example, if you have a \$1000 portfolio with 10 positions, and only 2 of the 10 have impact data but those two are worth \$900, we show that 90% of your holdings have impact data and the overall Impact score of the portfolio.



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### Values You Support



To the right of the doughnut chart (below in IMPACT app) we show the **Values You Support** and their individual letter grade. In the image above on the right, you can see that LGBTQ Inclusion is tagged as **Important**, and received a grade of “B.” This means that value is relatively well-supported among companies in your portfolio. Land Health, tagged as **Very Important**, has a grade of “C.” The **Very Important** tag carries more weight in the calculation. This explains why, even if the same number of companies support LGBTQ Inclusion as support Land Health, Land Health may only receive a “C.”



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See the image below, where we modified the importance level, and got a different grade as a result. We changed Land Health from “Very Important” to “Important,” and its grade changed from “C” to “B.”

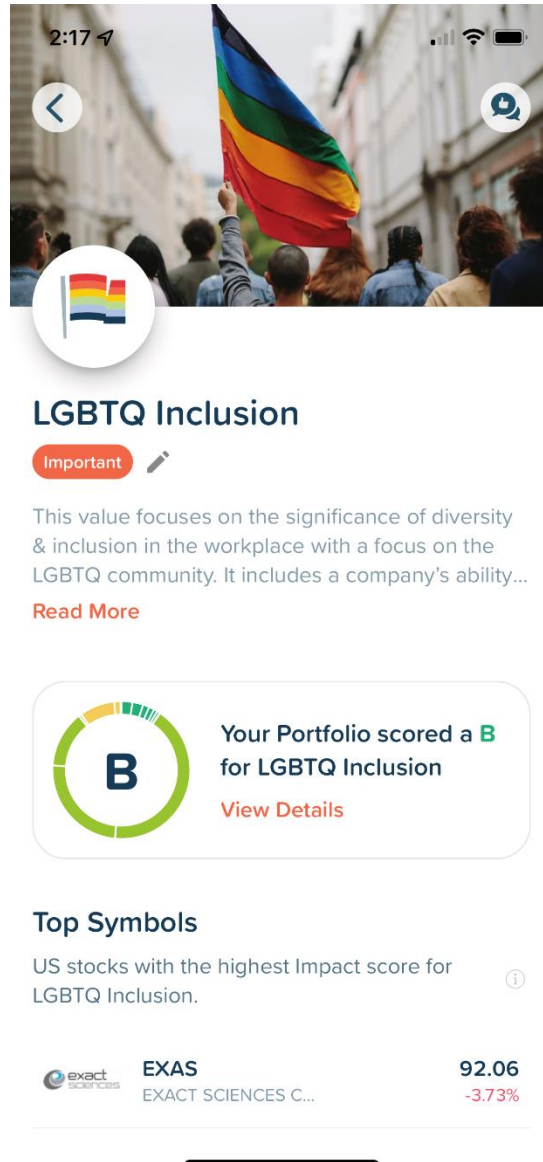




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Select a value to see its impact score. In the image below we selected “LGBTQ Inclusion.”



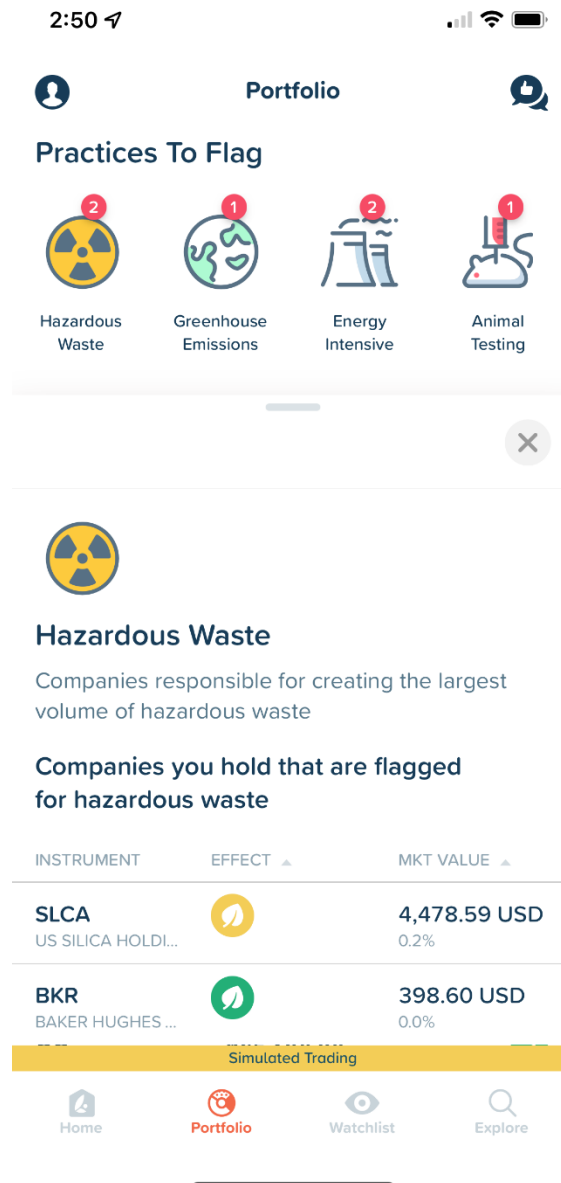


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### Practices to Flag

Below the **Values You Support** we list the **Practices to Flag**. The small number in the top right corner of a practice shows how many companies in your portfolio engage in these practices. Select one to see the companies that have been flagged. In the image below we've selected Hazardous Waste from among the flagged practices.





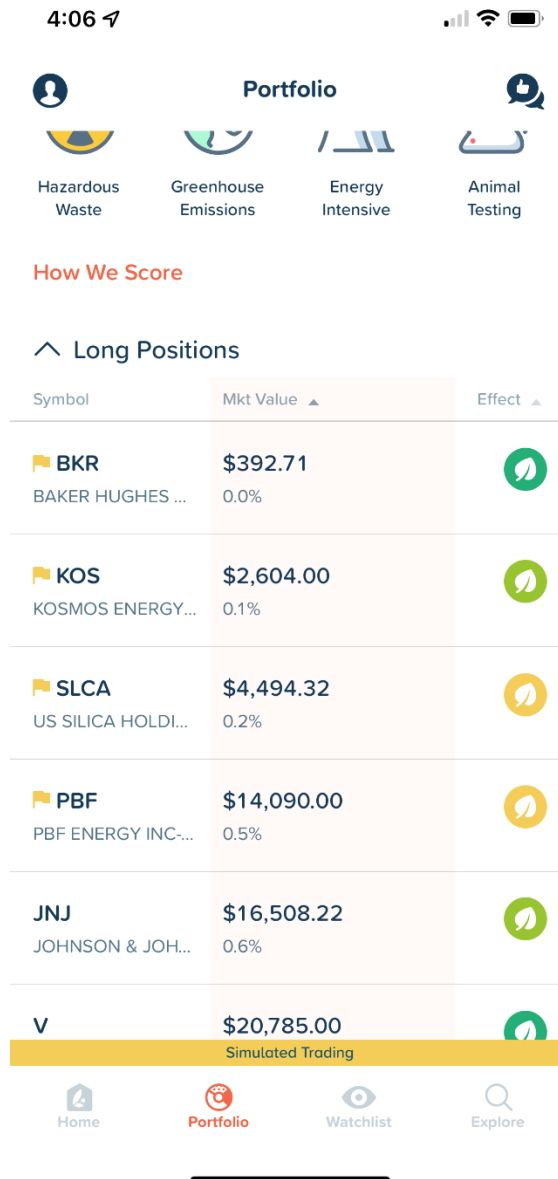


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All of your positions are listed below the chart and values. The colored leaf icons in the Effect column show the level of alignment each position has with your Impact values:

- High = Dark Green Leaf
- Medium = Light Green Leaf
- Low = Yellow Leaf



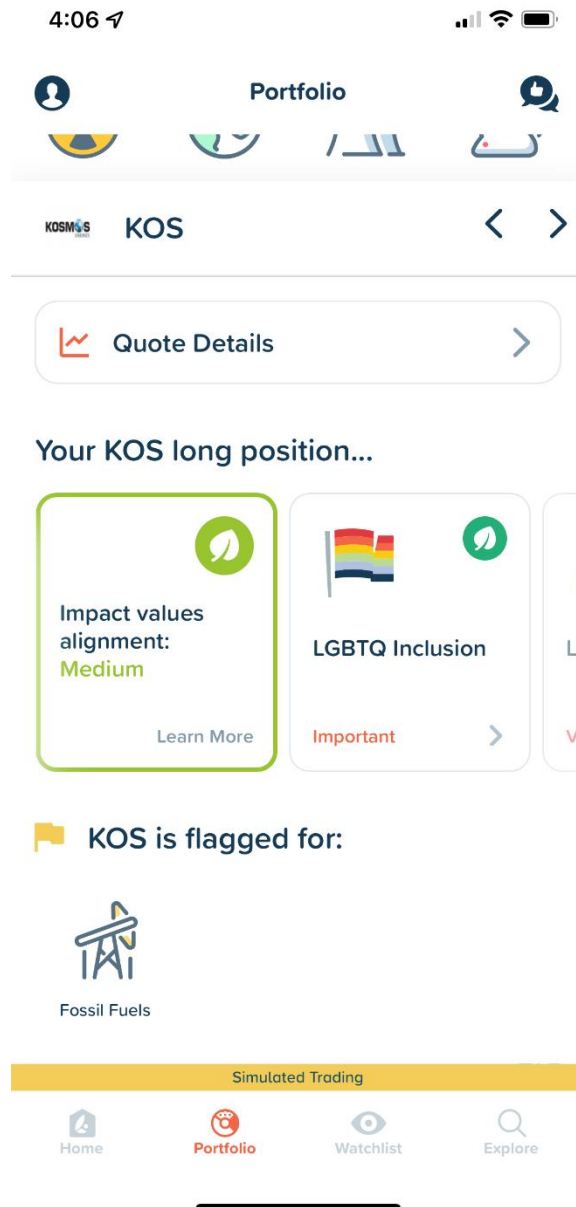


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Dive deeper by selecting a position. We'll show you how well the company you selected aligns with your Impact values.

NOTE: If a company's alignment level is Low, we will try to find alternative stocks for companies that may align better with your Impact values.





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By allowing you to decide what values and practices are important to you, the Impact Dashboard can help you trade your way to the world you want.

### Scoring Methodology

Results from the Impact Dashboard are tailored based on the SRI values you selected. We derive the Portfolio Impact Score and Impact Effect score based on the underlying ESG metric that aligns to a specific Impact Value, such as Ocean Life.

The process starts with defining a target benchmark. You do this when you set your preferences. A company's ESG performance is measured against this benchmark to determine if it is exceeding your expectations (High), just meeting your expectations (Medium), or performing far below your expectations (Low) or. We call these levels of alignment the company's **Impact Effect**. Each company's Impact Effect and portfolio weight are factored to derive the Portfolio Impact Score.



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### Impact Effect

At the security level, Impact Dashboard calculates the Impact Effect, which essentially indicates whether a company's alignment to your Impact Values is High (dark green leaf), Medium (light green leaf) or Low (yellow leaf).

The Impact Effect is based on the level of importance you selected for each of your values along with the score of the security.

Impact scores are calculated for most global stocks, corporate bonds using the issuer's Impact scores, and ETFs and mutual funds based on their stock compositions.

See an example of Impact Effect on a set of securities in a portfolio in the image to the right.

**Portfolio**

Long Positions

Symbol	Mkt Value ▲	Effect ▲
<b>BKR</b> BAKER HUGHES ...	\$393.02 0.0%	High (Dark Green Leaf)
<b>KOS</b> KOSMOS ENERGY...	\$2,604.00 0.1%	High (Dark Green Leaf)
<b>SLCA</b> US SILICA HOLDI...	\$4,494.32 0.2%	Medium (Light Green Leaf)
<b>PBF</b> PBF ENERGY INC...	\$14,090.00 0.5%	Medium (Light Green Leaf)
<b>JNJ</b> JOHNSON & JOH...	\$16,506.00 0.6%	High (Dark Green Leaf)
<b>V</b> VISA INC-CLASS A...	\$20,819.00 0.8%	High (Dark Green Leaf)
<b>VZ</b> VERIZON COMMU...	\$31,764.00 1.2%	High (Dark Green Leaf)

Short Positions

Effect scores are reversed for short positions. [Learn More](#)

Symbol	Mkt Value ▲	Effect ▲
<b>F</b> FORD MOTOR CO	-\$1,863.00 0.1%	High (Dark Green Leaf)

The SRI and ESG worlds are still evolving as companies report on these metrics for the first time, so occasionally we won't have data for a company. In that case, the Impact Dashboard will exclude that instrument from the analysis.



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**ESG Scores from Refinitiv:** As of this publication date (November 3, 2021), the universe of companies for which ESG data is maintained and ESG scores are calculated consists of >10,000 companies globally. To find the most up-to-date volume of global data, see [Global Coverage at Refinitive ESG Scores](#).

**ESG Data from FactSet TruValue Labs:** As of this publication date (November 3, 2021) the universe of publicly traded companies worldwide, including constituents of major indices such as the S&P 500, Russell 3000, MSCI All Country World Index and others for which ESG data is maintained and ESG scores are calculated consists of over 8,000 companies. To find the most up-to-date volume of global data, see [FactSet ESG Data](#).

### Missing Data

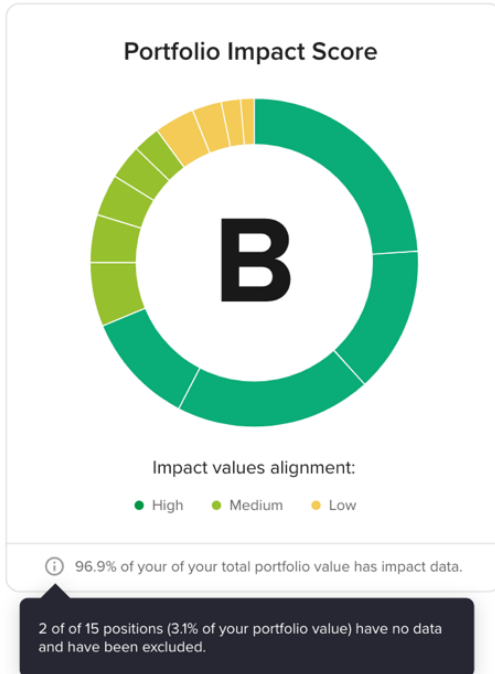
Data vendors do not always have relevant scores for the specific Impact Goals that users tag as Important or Very Important to them. In cases where there are insufficient vendor scores for a specific company for the relevant Impact Goals, Impact will not calculate an Impact score (and will not display the High, Medium, or Low leaf icons). In addition, IBKR will not include ESG scores for non-listed US stocks (aka Penny Stocks).



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### Portfolio Score



In the image above, you can see that 96.9% of this portfolio has impact data. Since 2 of 15 positions are excluded for not having data, we can tell that 13 of 15 positions make up that 96.9% of your total portfolio value by weight. The remaining 2 positions comprise only 3.1% of your total portfolio value by weight. The Portfolio Impact Score is the weighted average (weighted by dollar value) of your Impact Effect score for each position in your portfolio for which we have an Impact score. If this weighted score is greater than the benchmark score derived from your preferences, the portfolio receives an “A” grade. If the weighted score is lower, the portfolio receives a score of B or C, depending how far the score is below the preference benchmark.



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## Appendix A

### Impact Values



Sustainable  
Product  
Lifecycle

This value considers the design, quality and safety of products and services, focusing on the entire supply chain and the materials used in manufacturing products. It examines how companies consider the demand of customers for sustainable products including recycling, product testing and environmental effects. The value also comprises the value companies and suppliers place on labor practices and human rights.



Mindful  
Business  
Models

Mindful Business Models captures the ability of companies to incorporate ESG elements into long-term planning. It includes transition to low carbon and climate friendly economies and to serve underrepresented populations. Considerations include the handling of a company's assets and their impact on the environment and society. Management's willingness to abide by the legal and regulatory requirements while respecting the views of investors, customers and society at large is also an important part of the value.



Clean Air

Management of air quality by companies is key for this value. It includes emissions from factories, plants, offices, machines, and methods of transport used to manufacture and deliver products and services. Specifically, these emissions are oxides of nitrogen, sulfur, and heavy metals in addition to greenhouse gases (GHG) such as carbon dioxide. Another component of this value is how companies manage the sustainability of their energy specially when it is derived from third party sources.



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Pure Water

The Pure Water value centers around how companies manage their water use and consumption when making products, specifically on avoiding contamination and toxic waste. Being mindful of the communities where companies operate is also significant, including the members access to clean water.



Ocean Life

The way companies oversee their water use when making products is an important factor for this principle. Yet the primary consideration is the value and respect placed on the ocean and its marine life. Of note is the strength of companies' waste management and recycling initiatives. Crucial are also controls and systems that companies have in place to avoid significant disasters that can impact ocean life.



Land Health

Land Health considers the environmental concerns of harmful land waste when creating products. Specifically, how companies manage solid waste derived from agriculture and other land processes. It includes its safe treatment, storage and disposal while observing local and universal regulations. Lastly, this value also considers how companies handle the impact from the extraction of natural resources such as deforestation, biodiversity damage and habitat loss.



Ethical Leadership

Ethical Leadership is driven by how management handles its company's behavior towards customers, suppliers, peers, and society. It comprises monopolistic and anti-competitive behavior such a collusion, price fixing, fraud, corruption, and bribery. Management's ability to interact with regulators, resolve conflict between corporate and societal interests, and to act responsibly in times of crises are also important factors for this value.





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#### Consumer Safety

The safety of consumers involves different layers that companies must take into consideration. These include the use and protection of personal information, transparency and accurate marketing, the safe use of products and services, and broad access to universal needs such as healthcare & food. Failing to address these factors may lead to misuse of personal data, product recalls from harmful practices, deceptive labeling, and predatory selling, to name a few.



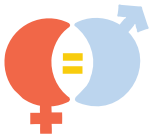
#### Company Transparency

Emphasizes the importance of a transparency but most importantly, the disclosure of policies and strategies aimed to always protect the consumer's wellbeing. This includes openness in the making of products such as ingredients, nutritional value, use of chemicals or antibiotics and the ability to prevent any harmful imitations. It also considers the cyber security of all personal information from data breaches and misappropriation by third parties or hackers.



#### LGBTQ Inclusion

This value focuses on the significance of diversity & inclusion in the workplace with a focus on the LGBTQ community. It includes a company's ability to incorporate plans that ensure the recruiting, retention and safety of LGBTQ employees and their families. This can be done through workplace policies, hiring practices, employee resource groups, executive sponsorships, benefits, and training programs.



#### Gender Equality

This value points to the importance of diversity and inclusion in the workplace. Specifically, Gender Equality centers on a company's ability to achieve gender parity by encouraging equal pay, active recruiting, and promotion of women. This can also include an embracing culture with tailored benefit packages and mentorship programs.



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#### Racial Equality

Racial Equality forms part of a company's diversity & inclusion considerations, along with LGBTQ Inclusion and Gender Equality. Racial equality will occur when companies practice equal hiring and offer employment opportunities to persons of all races regardless of skin color, background, and ethnicity in an environment that is free from discrimination.



#### Fair Labor & Thriving Communities

Fair Labor & Thriving Communities considers the relationship between companies and the societies in where they operate. It accounts how management interacts and gives back to local communities. This includes companies' contact with indigenous populations and how they value their rights and respect their land. The value also accounts for the health and safety of employees including universally accepted labor standards and laws.



## Appendix B

### Practices to Avoid



#### Animal Testing

Companies selling personal and household products and services that are tested on animals.



#### Business Ethics Controversies

Companies associated with the highest number of ethical, political, and corruption-related controversies, as reported in the media.



#### Corporate Political Spending and Lobbying

Companies that donate the most in support of political parties/candidates and spend the most on lobbying, relative to size.



#### Energy Intensive

Companies with the highest total energy usage.



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#### Fossil Fuels

Companies that operate in the coal industry and/or are among the largest oil producers.



#### Greenhouse Emissions

Companies with the highest reported direct and indirect CO2 emissions.



#### Hazardous Waste

Companies responsible for creating the largest volume of hazardous waste.



#### High Water Usage

Companies with the highest level of water withdrawals.



#### Tobacco, Alcohol and Gambling

Companies that derive revenue from the sale of tobacco and alcohol or from gambling activities.



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### Weapons and Gun Manufacturers

Companies that derive revenue from the sale of military equipment and weapons.

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