System of Environmental Economic Accounting

State of play of corporate NCA and reporting

Scoping workshop on SEEA and Business Accounting 16-17th October 2019, New York

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Overview

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Context

- **Business financial accounts** and **national accounts** have been harmonized and aligned in order for business accounts to feed into the statistical production process of the System of National Accounts.
- With more and more businesses beginning to undertake **sustainability accounting** and **reporting**, there is now an **opportunity to align business sustainability accounts, as they pertain to the environment and ecosystems, with the SEEA**.
- At this moment there is **no globally accepted uniform / standardized way for business accounting on natural capital**. On the contrary, there is 'total freedom' and as a consequence company performance on NC is hard to assess by stakeholders, including the investors.
- As a result, there is a **growing tendency towards harmonization of corporate NC accounting approaches and towards impact reporting**. SEEA accounts produced by national statistical offices, in particular ecosystem accounts, could provide valuable information and context to businesses with regards to their impacts and dependencies on natural capital.
- The **objective** of this presentation is to **provide an overview of the current state of play of corporate NCA and reporting**.

The NCA VES project

The ongoing SEEA project "**Natural Capital Accounting and Valuation of Ecosystem Services**" includes a workstream on business accounting. This workstream aims to:

- *contribute to the alignment of natural capital accounting between the public and private sectors;*
- *explore how to harness synergies between the public and private sectors in the collection and use of statistics and data for natural capital accounting;*
- *provide a technical methodological contribution at the level of methods or of indicators that promotes alignment.*

To reach these objectives, there is a **need to bring together the public and private sectors** to look at the intersection of business accounting and the SEEA, particularly with regards to ecosystems and ecosystem degradation and restoration. Supported by a research project:

- Literature review of current practices in business NC accounting and reporting
- Interviews with 10 to 12 companies
- Scoping workshop
- Roadmap

Scope of research

- Focus on **ecosystem degradation and restoration**
  - refers to changes in the ecosystem assets, such as improvements in condition (‘*restoration*’) or reductions in stock due to extraction, ‘*degradation*’ or natural loss.
  - the focus on degradation and restoration assumes that we will focus on the state of ecosystems where businesses have impacts or dependencies on.
- In particular:
  - water and biodiversity including ecosystem services
  - business risks and opportunities of respectively non-action and action by businesses.
  - this also includes climate change risks related to degradation of ecosystems as well as opportunities related to ecosystem restoration.
- Water and biodiversity are typical landscape scale elements that often go beyond the direct land footprint of companies and therefore are interesting to make the bridge to (sub)national level information (e.g. river basins, ecosystems). The same applies to climate change adaptation.

Business accounting and reporting on natural capital – some basic concepts

- **Natural Capital Assessment**: the process of identifying, measuring and valuing relevant ("material") natural capital impacts and/ or dependencies, using appropriate methods. Natural capital assessment is the method most typically used in the private sector. The majority of assessments will use natural capital information to answer a specific question or inform a decision. A key step in the process is to identify an objective prior to undertaking the assessment (a so-called business application) - the aim is not about collecting a set of indicators.
- **Natural capital accounting**: the process of compiling consistent, comparable and regularly produced data using an accounting approach on natural capital and the flow of services generated in physical and monetary terms. The majority of applications are done at a national level and by the public sector. Natural capital accounts are a possible output from a natural capital assessment.
- NCA by businesses is part of CSR

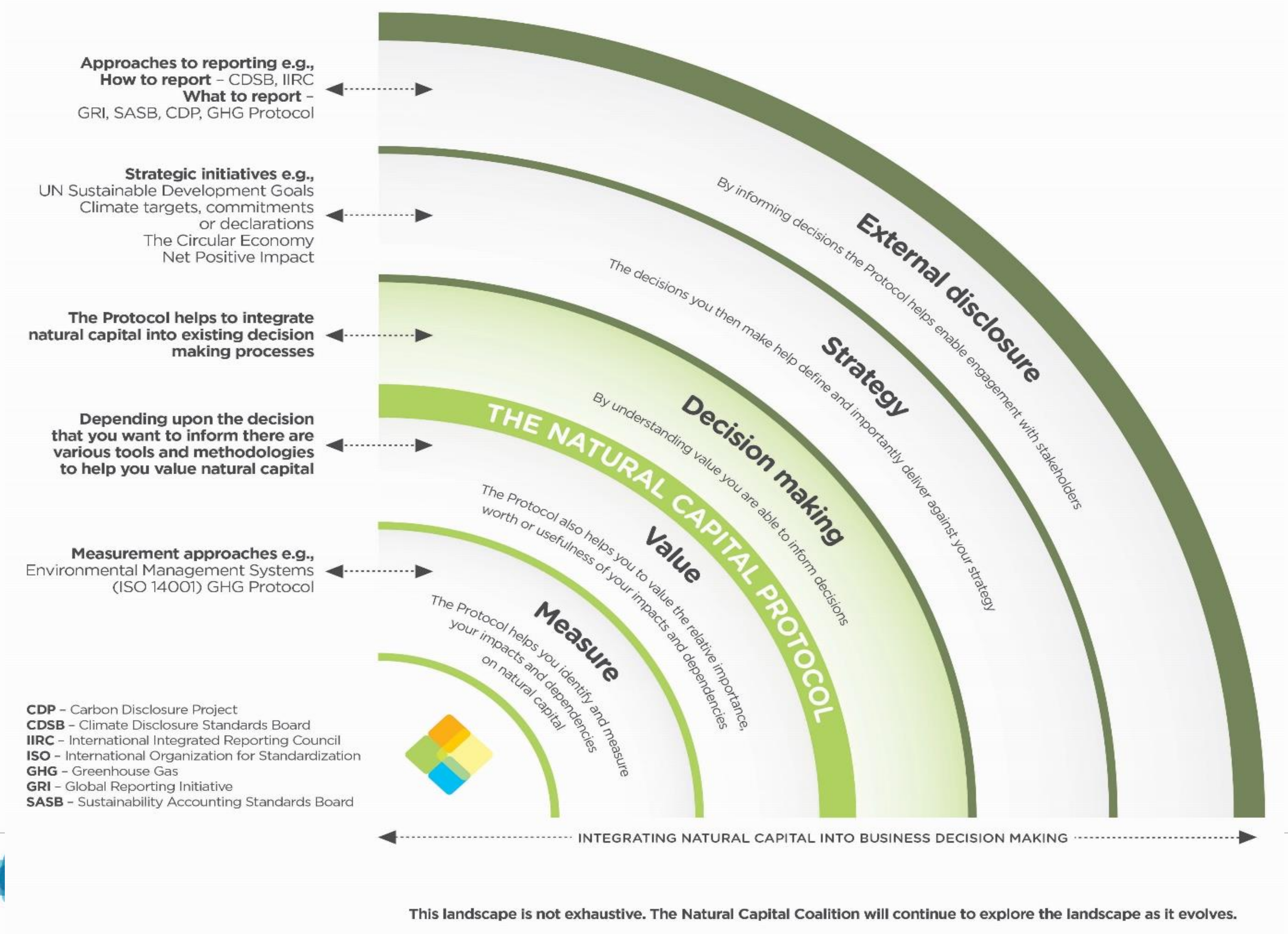
Terms and definitions

- A quick comparison of SEEA Glossary and Natural Capital Protocol revealed that:
  - Both have a definition for 'ecosystem' but natural capital is only defined in NCP
  - Degradation, depletion, extraction is well defined in SEEA, not in NCP
  - Restoration isn't defined at all
  - NC dependencies and impacts are only defined in NCP, same for impact drivers (although concept is used in SEEA)
  - Measurement, valuation are only defined in NCP
  - Ecosystem asset, extent, condition are all typical terminology for SEEA, although only asset is defined in glossary; condition is similar to 'state' in NCP

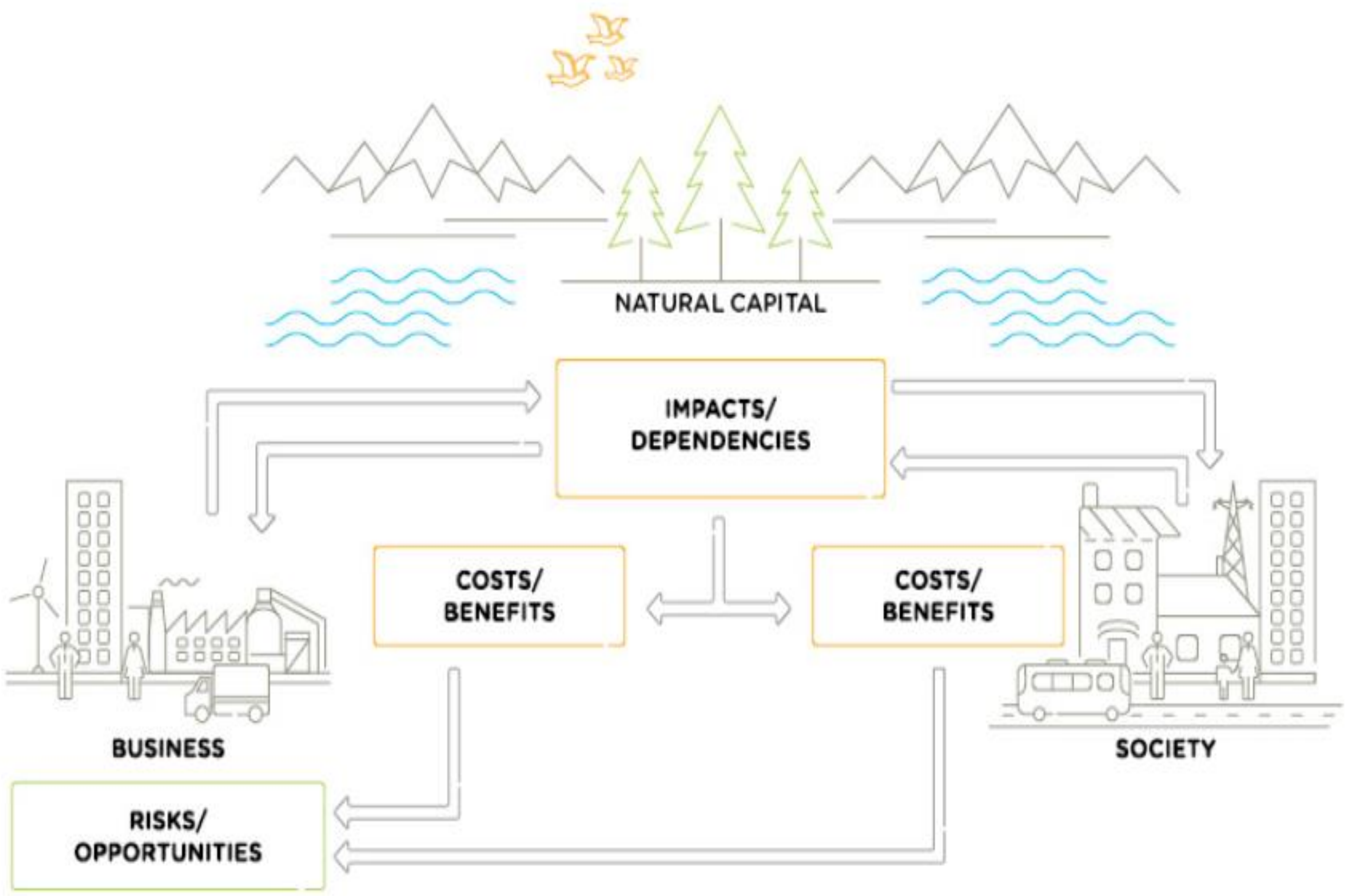
Business accounting and reporting on natural capital – a quick overview

- Voluntary framework for natural capital assessment: Natural Capital Protocol
- Voluntary target-based approaches for natural capital accounting and reporting: Planetary Boundaries and SDGs
- Voluntary standards on natural capital reporting: GRI, CDP and IIRC
- Voluntary standards on monetization of natural capital impacts and dependencies: ISO 14007 and ISO 14008
- Voluntary accounting and reporting approaches based on integrated reporting thinking: E P&L
- Voluntary thematic accounting approaches: water assessment, biodiversity assessment
- Regulatory frameworks for non-financial reporting: the EU Non-Financial Reporting Directive

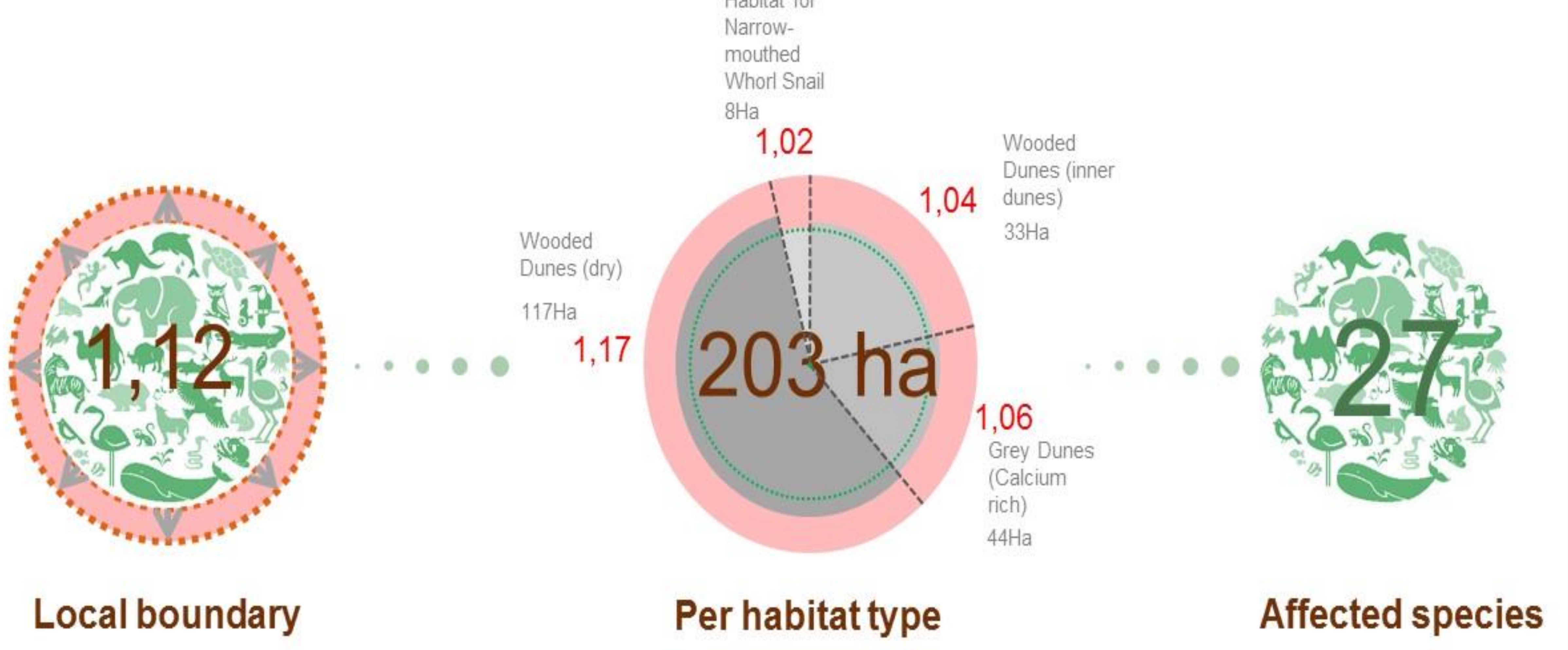
Landscape of NCA approaches

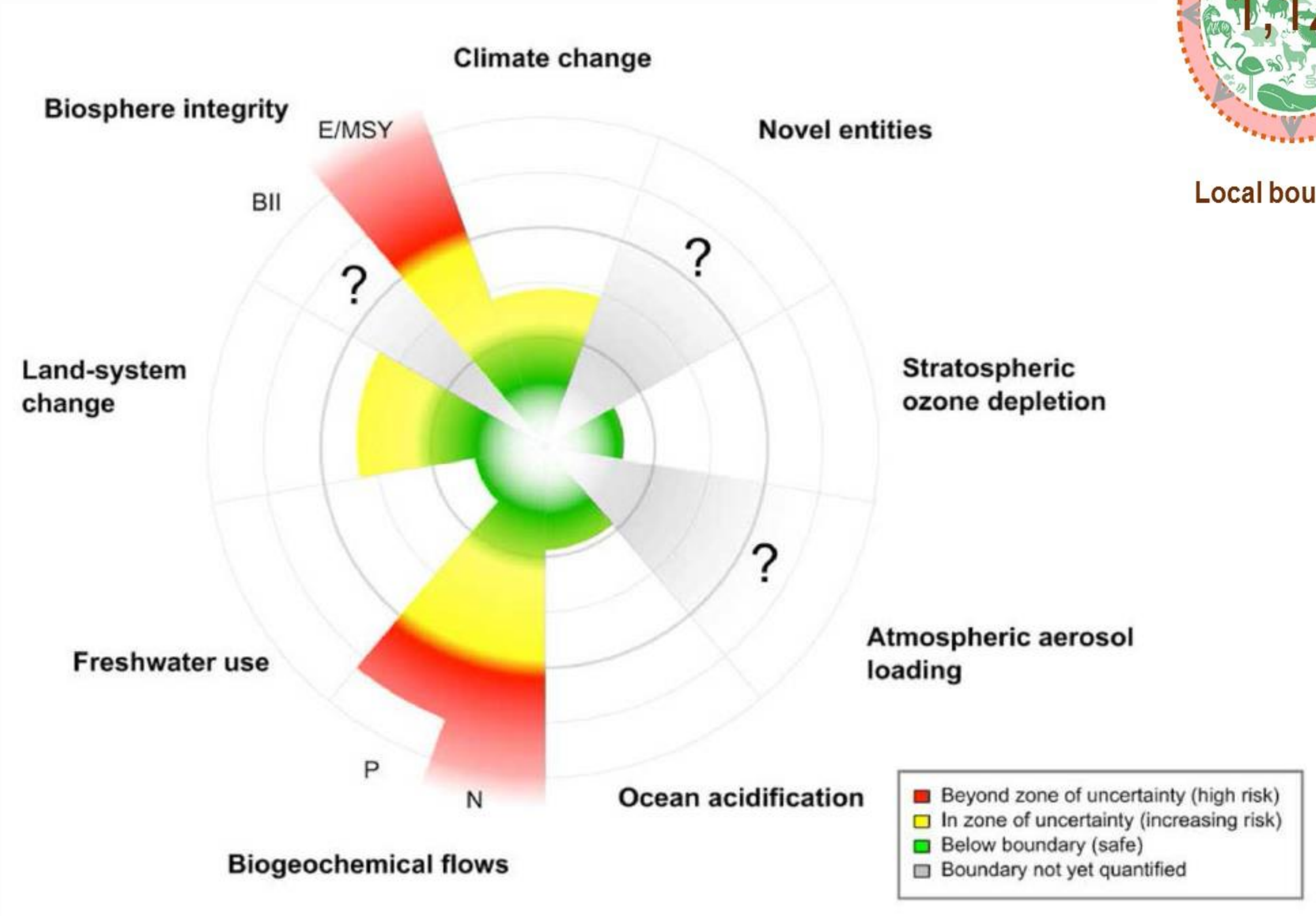


The Natural Capital Protocol



Decision making framework that enables organizations to identify, measure and value their direct and indirect impacts and dependencies on natural capital





Planetary Boundaries

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Voluntary standards on natural capital reporting: GRI, CDP and IIRC

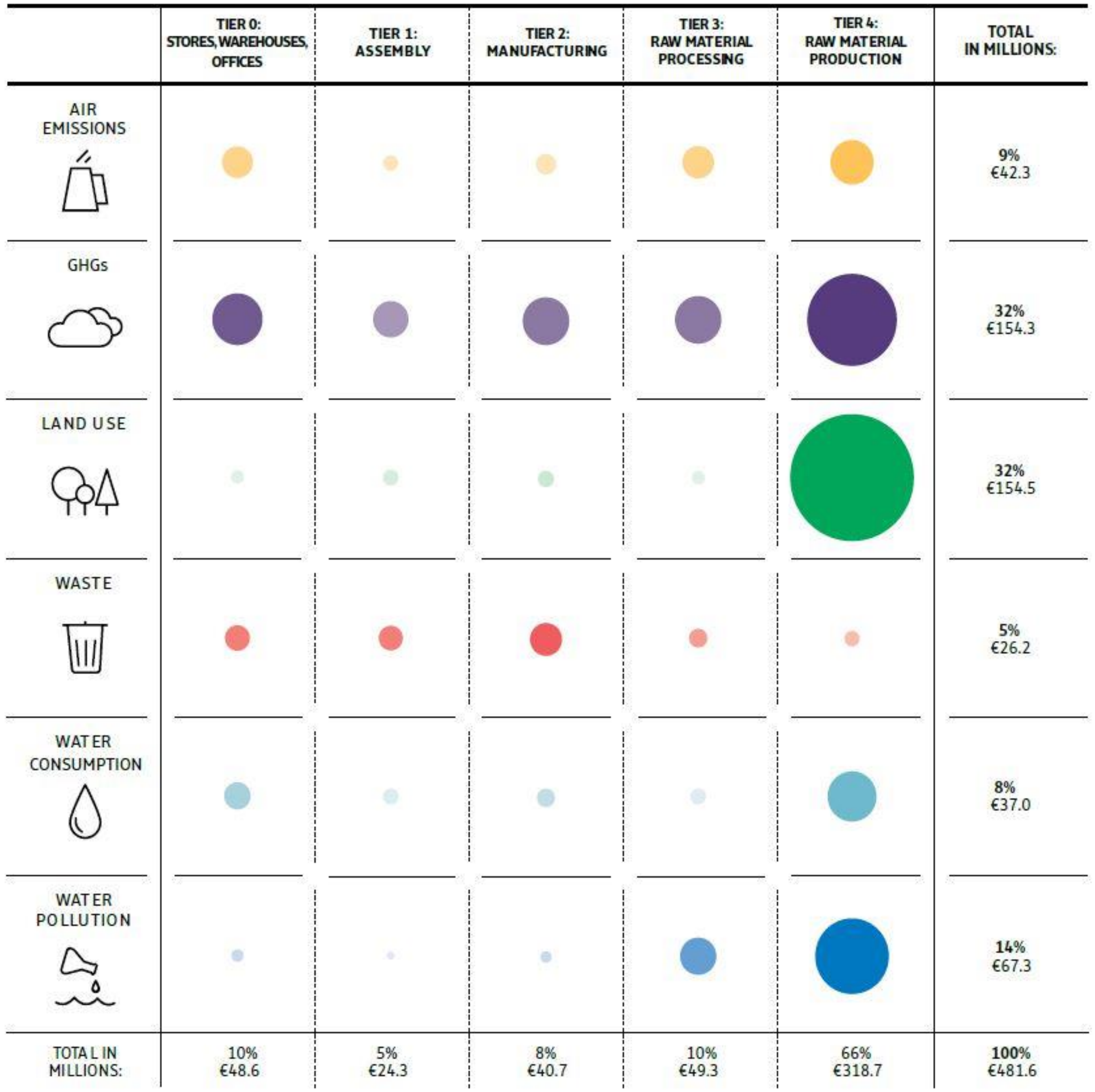
- The GRI Standards are widely used. GRI has published specific standards on water and biodiversity.
- Also CDP, formerly the Carbon Disclosure Project, is a commonly used reporting framework. CDP runs the global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts. Focus areas are climate change, water and forests. As an example, CDP Water provides guidance for disclosing company water performance. Sector tailored questionnaires on water security are provided .
- The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The IIRC mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.

Voluntary standards on monetization of natural capital impacts and dependencies: ISO 14007 and ISO 14008

- **The ISO 14007 standard on** 'Environmental management: Determining environmental costs and benefits' which **is expected to be published this year, offers** organizations guidance on determining and communicating the environmental costs and benefits associated with their environmental aspects, impacts and dependencies on natural resources and ecosystem services. This standard will provide direction with regard to identifying and setting the boundaries of their environmental costs and benefits to be considered and also to selecting the type of data to use in order for them to effectively start the process of determining costs and benefits.
- **The ISO 14008 standard on '**Monetary valuation of environmental impacts and related environmental aspects' is available since March 2019. This standard provides organizations a common framework including established methods as well as common terms within the field of monetary valuations.

Environmental Profit & Loss

An Environmental Profit and Loss account (E P&L) is a company's monetary valuation and analysis of its environmental impacts including its business operations and its supply chain from cradle-to-gate. An E P&L internalizes externalities and monetizes the cost of business to nature by accounting for the ecosystem services a business depends on to operate in addition to the cost of direct and indirect negative impacts on the environment.



Voluntary thematic assessment and/or accounting approaches

- Most of them are assessment approaches
- Water:
  - Examples: Global Water Tool, Local Water Tool, Aqueduct, Water Risk Filter, …
  - Mainly risk identification
  - Supporting disclosure according to GRI, CDP, …
- Biodiversity:
  - several biodiversity measurement tools developed for business and FI;
  - some of them based on common underpinning models such as GLOBIO and RECiPe
  - Attempts ongoing to converge/identify common ground (EU Business & Biodiversity Platform, UNEP-WCMC's 'Aligning Biodiversity Measures for Business initiative)
  - One accounting method: Biological Diversity Protocol

Regulatory frameworks for non-financial reporting: the EU Non-Financial Reporting Directive

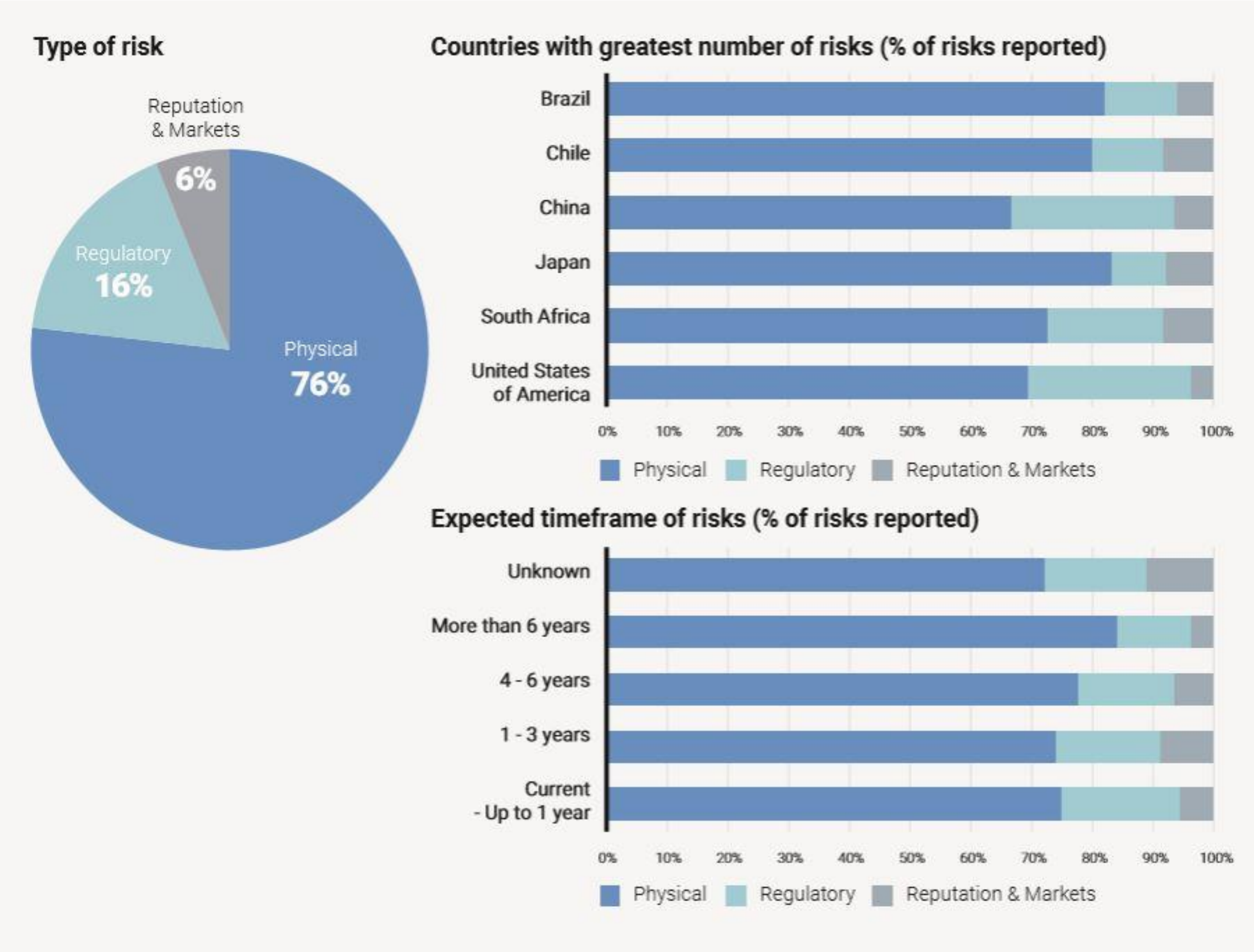
- The EU NFRD (Non Financial Reporting Directive) is operational since 2018 and requires large companies to disclose certain information on the way they operate and manage social and environmental challenges.
- The Directive only applies to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including listed companies, banks, insurance companies.
- The Directive gives companies significant flexibility to disclose relevant information in the way they consider most useful and this lack of standardization has resulted in poor outcomes during the first year (2018 reporting year). The general information that most companies provide does not allow readers to understand their impacts and by extension their development, performance and position, as required by the Directive.
- The Commission is working on an adapted version of the Directive.

Global trends in corporate non-financial reporting

- increased demand from governments, investors and wider society (e.g. NGOs) to disclose information about business non-financial performance, as part of corporate CSR reporting
- Voluntary guidelines are rapidly transitioning into **mandatory reporting** requirements in many parts of the world
- Reporting integration is the new normal and **"non-financial" is the new financial.** Environmental and social issues such as climate change, water scarcity and human rights will increasingly be seen as financial rather than non-financial issues. Transparency about the financial risks and opportunities and the likely effects on the business's value creation will be key
- The future of corporate responsibility reporting is all about **communicating impact, not statistics**. Context is important. Financial stakeholders need to know what impacts a business is having on society and the environment, and how this could impact the business performance in the future.
- growing **tendency towards harmonization and standardization** of non-financial accounting and reporting approaches

Actual level of business accounting and reporting on ecosystems - WATER

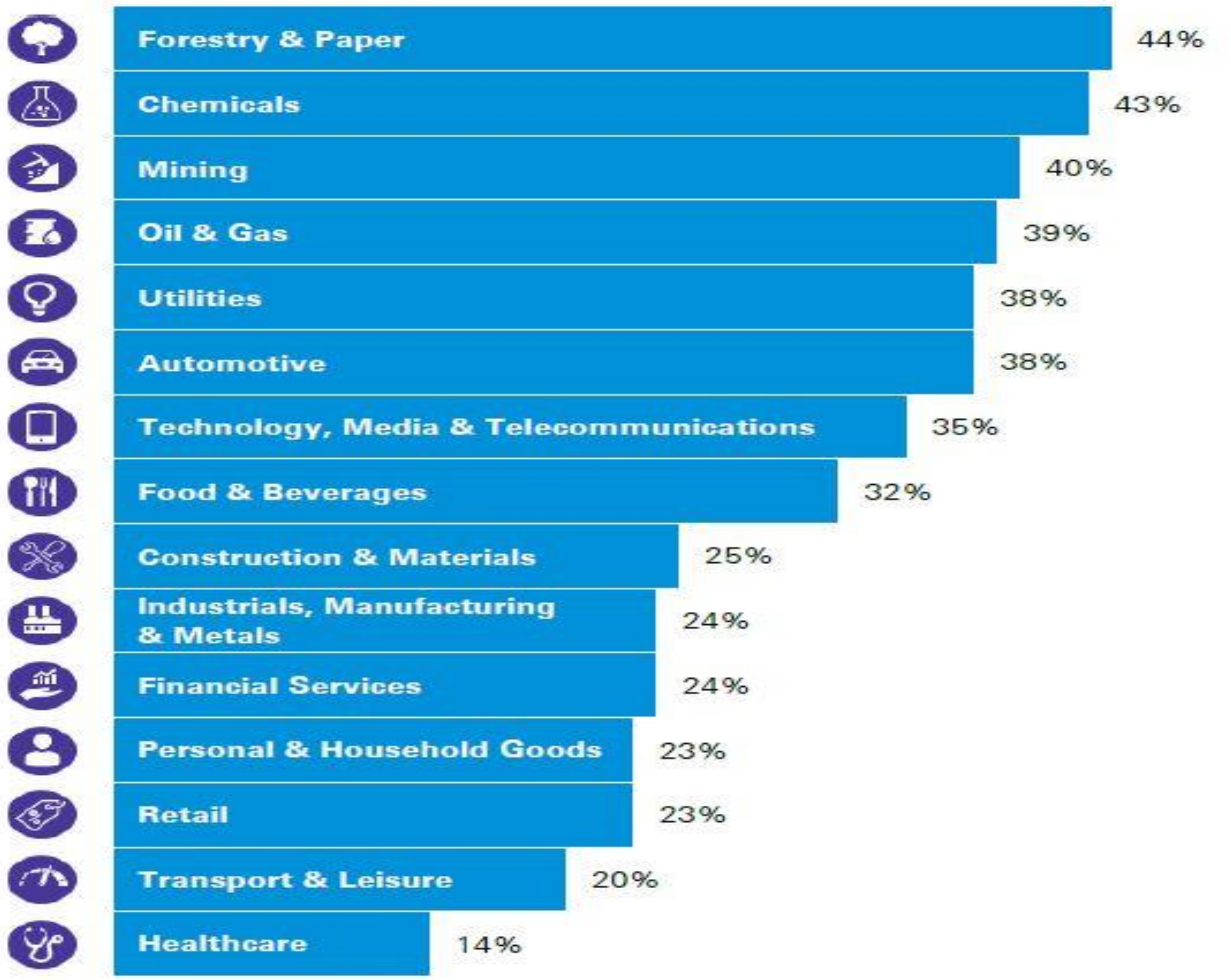
- Many issues with disclosed information e.g. lack of consistent assessment approaches, lack of site-specific information, lack of clear targets, lack of information on supply chain
- Withdrawals are still increasing!! (CDP, 2018)



Actual level of business accounting and reporting on ecosystems - CLIMATE

KPMG 2017 Survey of CSR Reporting

- Of those companies that do acknowledge climate change as a financial risk in their financial reporting, a relatively high proportion of both the N100 (63 percent) and G250 (76 percent) provide some narrative description of the potential impacts. Very few, however, are currently quantifying the potential impact of those risks in financial terms or modeling it using scenario analysis or other methodologies as the Task Force on Climate-related Financial Disclosures (TCFD) recommends.



Base: 4,900 N100 companies
Source: KPMG Survey of Corporate Responsibility Reporting 2017

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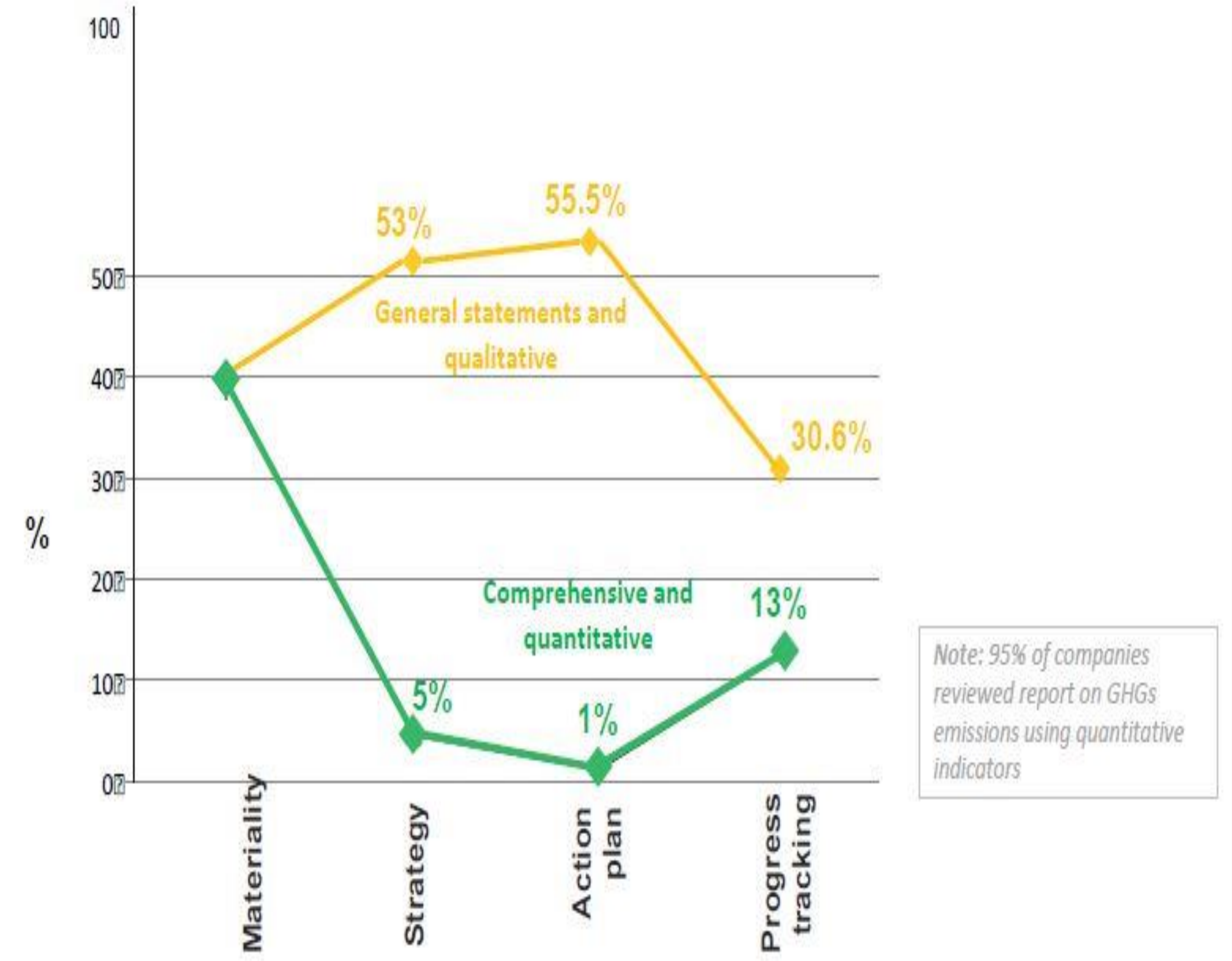
Actual level of business accounting and reporting on ecosystems - BIODIVERSITY

- Huge gap between business biodiversity commitments at strategic level and concrete action plans
- Partly due to perceived lack of materiality, but also because of a lack of indicators to enable that reporting
- SDG 14 and 15 are the least well reported of the SDGs by companies, in part



Business Accounting

On 25th June 2019, the UNCEEA Committee:

•Agreed that it should play a role in aligning business accounting and reporting with the SEEA, with the way forward being developed as part of the roadmap being prepared during the first business accounting workshop under the E.U.-funded NCAVES project;

•Emphasized the importance of moving towards standardized business accounts aligned with the SEEA, which would result in better quality data to feed into the accounts;

•Underscored the need for the statistical community to better understand the data needs of businesses in terms of decision making, accounting and reporting on the environment;

THANK YOU

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