ACCA

Improving natural capital reporting and finding the tools to help

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

This paper highlights some of the ways companies can report on their natural capital impacts and dependencies.

It provides examples of the natural capital reporting tools, guidelines and standards available to companies, and makes recommendations to companies looking to report.

FOR FURTHER INFORMATION

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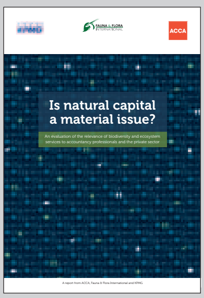
1. Introduction

Companies are increasingly looking to improve the management of their impacts and dependencies on natural capital and disclose these to their stakeholders, largely owing to a growing awareness of the links between the earth's natural systems and corporate value.

Such disclosures relate to a company's environmental footprint, focusing on how the organisation's operations, inputs (eg energy, materials, water) and outputs (eg waste, emissions, effluents, products) affect the natural world. Corporate reporting on matters such as climate change is relatively well established, but that on matters such as corporate impacts on biodiversity is still nascent. This is expected to change in the future.

Reporting on natural capital can be split into two main categories – narrative reporting on strategy and management, and performance reporting. The former provides stakeholders with a qualitative understanding of an organisation's relationship to natural capital and the processes used to manage the various risks and opportunities associated with the organisation's activities. Performance reporting provides stakeholders with quantitative information, in the form of key performance indicators (KPIs), that can be used to track performance over time. Reporting on natural capital performance can be a challenge, as indicators generally reflect organisation-wide performance while corporate impacts and dependencies on natural capital are often site-specific in nature.

This is the second in a series of papers that expands upon natural capital research conducted by ACCA, Fauna and Flora International, and KPMG. This paper highlights some of the key ways in which companies can report on natural capital. It provides some examples of the natural capital reporting tools, guidelines and standards available to companies, before setting out recommendations to companies looking to report.



IS NATURAL CAPITAL A MATERIAL ISSUE?
ACCA, Fauna and Flora International, and KPMG (2012)

The report, *Is Natural Capital a Material Issue?*, investigates the concept of materiality, how it is used to identify issues for management and disclosure, and the extent to which it currently reflects the significance of natural capital as a business issue. The research involved a survey of 40 companies, operating in four high impact sectors (forestry, agriculture and food, construction, and utilities). The survey investigated the quality and scope of corporate reporting on natural capital. It also involved a survey of over 200 ACCA members, to gather views and opinions from the accounting community on the subject. The report makes a number of recommendations to CFOs and accountants on how they can better consider natural capital in their materiality and risk management decisions.

Is Natural Capital a Material Issue? (ACCA, Fauna and Flora International, and KPMG, 2012) is available online as http://www.accaglobal.com/content/dam/acca/global/PDF-technical/environmental-publications/natural-capital.pdf

2. Reporting on natural capital: examples from a corporate disclosure survey

In 2012, 40 companies were surveyed that operate in four sectors (forestry, agriculture and food, construction, and utilities) and have a high impact on natural capital.

The top 10 companies by market capitalisation in each sector were selected and their public disclosures (annual reports, sustainability reports, integrated reports, and websites) were reviewed to identify the varying levels of disclosure and reporting on natural capital. The specific areas of focus were:

- governance
- corporate policies
- environmental management systems
- risk assessment
- materiality assessment, and
- key performance indicators.

The first five areas of focus can be classified as narrative reporting on strategy and management while the final area, key performance indicators, relates to performance reporting.

GOVERNANCE

Having a director or senior staff member responsible for the sustainability programmes of a company demonstrates commitment and accountability. By disclosing publicly who is responsible for such programmes, companies can show that they are both taking the issue seriously and being transparent about where responsibility lies within company management.

In the sample companies, it was fairly common to have a director or executive officer responsible for overseeing environmental programmes, but much less common to have someone responsible for specific matters related to natural capital.

EXAMPLE

Plum Creek, timber company
www.plumcreek.com

Plum Creek has a number of directors and corporate officers with expertise and responsibility for the natural capital impacts and dependencies of the company. Lawrence Selzer, president and CEO of The Conservation Fund,[1] sits on the company's board of directors and James Kilberg, senior vice president, real estate, energy and natural resources, is an executive officer at Plum Creek. One of his responsibilities involves overseeing the company's conservation activities.

1. The Conservation Fund is an American environmental non-profit with a dual charter to pursue environmental preservation and economic development.

CORPORATE POLICIES

Disclosing sustainability policies is an effective means for companies to communicate their position on the subject, and policies that are agreed at board level serve as a way of focusing and aligning sustainability initiatives.

Of the 40 companies surveyed, 38 had general sustainability or environmental policies while only 12 had policies focusing specifically on natural capital.

Working with an organisation or working group that deals with natural capital issues and referencing this within company policy are effective ways of demonstrating commitment to good stewardship and of ensuring that the company operates to internationally recognised standards.

EXAMPLE

Bunge, agribusiness
www.bunge.com

Bunge promotes the responsible use of natural resources in accordance with both its environmental and sustainability policies. The company also has a specific policy on the purchase of palm oil, which is that:

'Bunge only purchases palm oil for its own use from suppliers that are RSPO [Roundtable on Sustainable Palm Oil] members and which have achieved RSPO certification or are committed to achieving RSPO certification and are working actively toward that aim.'

ENVIRONMENTAL MANAGEMENT SYSTEMS

Implementing an environmental management system (EMS) helps companies reduce their environmental impacts, comply with applicable laws and regulations and continually improve their environmental performance. By operating under internationally recognised standards, such as ISO 14001, and communicating this to stakeholders, companies are able to demonstrate their commitment to improving their environmental performance.

Among the companies reviewed, 35 operated some form of EMS, with the majority operating under the ISO 14001 standard. Although these standards do not specifically refer to natural capital, they do provide companies with the tools to address their impacts on natural capital. Within the forestry sector, two of the companies reviewed were operating under the Sustainable Forestry Initiative (SFI) certification standards. The SFI forestry management standard includes objectives for forest productivity, the protection and maintenance of water resources and the conservation of biological diversity.

RISK ASSESSMENTS

Companies that are clear about the key risks facing their operations and the plans that they have in place to mitigate those risks can demonstrate to their stakeholders how prepared they are for uncertainty. This is of particular importance to investors (be they current or prospective investors), who will be able to assess how well a company is managed by seeing the comprehensiveness of its risk assessment.

Sustainability and current trends in natural capital present a number of risks to companies operating in the four high-impact sectors reviewed. Therefore, it was encouraging to see that 29 of the companies disclosed some form of ESG-related risk and 25 disclosed some form of natural-capital-related risk.

EXAMPLE

Exelon, energy company
www.exeloncorp.com

Within the Exelon SEC 10k submission, the effect of extreme weather events was emphasised as a key risk to operations and cash flows.

MATERIALITY ASSESSMENTS

There is an increasing drive for companies to report only on material topics, and to make the materiality-assessment process stakeholder inclusive. This is to ensure that company reports are not cluttered by excessive information, instead focusing on the topics that matter most. By consulting with stakeholders and disclosing that they have done so (including information on the assessment methodology) companies are able to demonstrate that they have conducted a robust process in identifying matters to be included within their report.

Although it is becoming increasingly common for companies to perform a materiality assessment, only 19 companies included within the sample had done so and disclosed to this effect. Of these, matters related to natural capital featured in the assessments of 7.

EXAMPLE

BRF Brasil, agribusiness
www.brf-br.com

BRF Brasil's materiality assessment flagged up effluents, emissions and waste management, the environmental protection of surrounding areas and rational and efficient use of water, materials and energy as material issues.

KEY PERFORMANCE INDICATORS

The disclosure of key performance indicators (KPIs) is arguably the most effective means for companies to communicate their sustainability performance and their impacts on natural capital. Through the disclosure of KPIs, companies are able to set targets and track their progress in meeting those targets over time. The use of standards and reporting frameworks was very common among the companies under review, with 32 of them reporting under the Global Reporting Initiative (GRI). Using standards helps increase the level of comparability between, and trust in, the data presented.

KPIs tend to communicate corporate performance on a specific matter, taking into account the company's total activities. Companies need to take care when using KPIs to communicate corporate impacts on natural capital, owing to the site-specific nature of these tools. For example, water use will have varying degrees of significance depending on the intensity of water stress at the sites where the company operates. A potential way of addressing this issue is the use of both site-specific and corporate-level indicators. Expanding on the water example, a corporate-level indicator could communicate the absolute amount of water being used, while site-level indicators could show the number and location of sites operating in water-stressed areas or where the water sources were significantly affected by withdrawal of water.

EXAMPLE

Larsen & Toubro, construction company
www.larsentoubro.com

Larsen & Toubro has set itself the target of developing over 10.2 million square feet of certified green building space and discloses in detail its water consumption, including where the water was sourced.

3. Tools and resources for companies

There are a number of tools and resources available for companies to start to report on their impacts and dependencies on natural capital. Five of these are outlined in more detail.

THE GLOBAL REPORTING INITIATIVE

The Global Reporting Initiative (GRI) is a non-profit organisation that has developed the most commonly used sustainability reporting framework. In May 2013, GRI launched the fourth generation (G4) of its standards.

Companies using the G4 standards are required to perform a stakeholder-inclusive materiality assessment, and report to this effect. If this assessment highlights any topics or 'Aspects' relating to natural capital, the company concerned is required to disclose its management approach to the particular Aspect. For example, if biodiversity is a material Aspect, the company would need to disclose why this is so, and what particular corporate impacts make biodiversity a material issue. It would also need to disclose how the organisation manages its impacts on biodiversity and how this management approach is evaluated. As explained in the introduction to this paper these disclosures constitute narrative reporting on strategy and management.

GRI also identifies a large number of KPIs related to environmental Aspects. Once a company has reported on its management approach to a particular Aspect it can select the relevant Indicators to provide specific data on performance and impacts. Expanding on the biodiversity example, the G4 guidelines has four specific biodiversity Indicators (EN11–14) including operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

In addition to its reporting framework, GRI has produced specific guidance detailing approaches for reporting on ecosystem services.

www.globalreporting.org

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

The World Business Council for Sustainable development (WBCSD) details a number of ecosystem services and biodiversity tools for supporting business decision making in their *Eco4Biz* report. The project was initiated following the recognition that companies are not adequately measuring, managing and reporting on their impacts on natural capital. By measuring and assessing the services provided by nature to the corporate sector, WBCSD believes that businesses will be better able to identify potential risks and opportunities.

Eco4Biz provides a structured overview of the existing tools and approaches, categorising tools according to two variables – scale and output. As regards scale, tools can be focused at the global, landscape (including individual site or portfolio of sites) or product level. As regards output, tools could result in a map, a quantitative value or a score showing priority areas. In addition, WBCSD has identified whether each tool included within the report focuses more closely on biodiversity or ecosystem services assessment. By structuring the project in such a manner, corporate managers will be able to identify and select a tool that would best serve their needs.

A total of 24 different tools, as well as a number of sector-specific, issue-specific and regional-specific tools are covered.

www.wbcsd.org

CDP

CDP is an international not-for-profit organization that works with investors, companies, and governments to drive environmental action that will deliver a sustainable economy, prevent dangerous climate change and protect natural resources. It provides an environmental disclosure system and, by working with investors and corporations, motivates thousands of companies to disclose their impacts on the environment and natural resources. The information generated by CDP's disclosure system enables investors, companies and governments to see the business case for reducing impacts on the environment and natural resources.

CDP has five programmes: climate change, water, forests, supply chain and cities. The scope of CDP's work has expanded beyond carbon and energy to cover the majority of the earth's natural capital by value. CDP's water program drives corporate water stewardship and better management of global water supplies, while the forests program guides companies and investors to understand and address their exposure to forest-risk commodities. These risks arise from their use of high-impact agricultural products such as palm oil, soy and cattle products. The supply chain program aims to support multinational purchasers to build more sustainable value chains and the cities program enables city governments around the world to exchange information and build climate resilience to protect their citizens and local economies.

All of CDP's programmes provide support and assistance to companies looking to better manage their impacts and dependencies on natural capital.

www.cdproject.net

THE TEEB FOR BUSINESS COALITION

The TEEB for Business Coalition was established in Nov 2012 as a global, multi stakeholder platform to build the business case and support the uptake of natural capital valuation, management and disclosure in business decision making. Its mission is to achieve a shift in corporate behaviour to conserve and enhance rather than deplete our natural capital. Key aims are to build the natural capital business case and to support the development and testing of a harmonised framework and methodologies for valuing natural capital that can be applied in business.

The coalition has published research projects that quantify the social cost of the environmental damage caused by high-impact sectors around the world and set out case studies that demonstrate the key drivers for, and barriers to, natural capital management.

The TEEB for Business Coalition represents an important resource for companies that want to factor natural capital into corporate decision making. The reports produced by the coalition will help raise awareness within the corporate sector of the various challenges and issues surrounding natural capital accounting, which will ultimately contribute to the development and dissemination of relevant accounting methodologies.

www.teebforbusiness.org

THE NATURAL CAPITAL DECLARATION

The Natural Capital Declaration (NCD) is a commitment made by CEOs from the finance sector to work towards integrating measures of natural capital into financial products and services. The declaration has been signed by 41 finance institutions from around the world, and is supported by a further 27 stakeholders, including NGOs, accounting bodies and governments.

The initiative was launched at the Rio+20 Earth Summit in 2012 following the recognition that natural capital has proved to be material for financial institutions on a growing number of occasions.

The NCD is currently developing methodologies to implement the declaration, and has a number of working groups that are exploring how to integrate measures of natural capital into financial products, and to find better ways of accounting for natural capital and reporting and disclosing natural capital impacts, among other things. Companies looking to address and disclose their natural capital impacts will benefit from the recommendations of the NCD, and should try to work in a collaborative manner with such initiatives.

www.naturalcapitaldeclaration.org

4. Recommendations

The following recommendations are made to help companies disclose more complete and credible information to improve their reporting on natural capital.

1. PROVIDE CONTEXT-BASED REPORTING

It is vital to provide stakeholders with sufficient narrative context to enable them to understand key corporate impacts and dependencies on natural capital. Without sufficient qualitative information, quantitative KPIs and other elements of the report will lack the necessary context to be meaningful to stakeholders.

2. PUBLISH CLEAR POLICIES

It is important to develop organisation-wide and site-specific policies with regards to natural capital. From these, associated group- and site-based KPIs can be developed, along with any relevant case studies.

3. BETTER ASSESSMENT OF RISKS AND OPPORTUNITIES

By analysing impacts and dependencies on natural capital, any corporate risks stemming from these are more likely to be identified and thus managed and mitigated effectively. From the analysis, new opportunities can also be discovered. Such risk and opportunity assessment processes ultimately lead to better corporate decision making.

4. USE STANDARDS, TOOLS AND GUIDELINES

There are a number of standards, tools and guidelines available to companies for use in reporting on their natural-capital-related impacts. Reporters should use these resources and disclose that they have done so where appropriate, as they will be able to benefit from the collective experience and support mechanisms of the organisations that have developed the resources, as well as increasing the comparability of their disclosures.

5. COLLABORATE WITH NATURAL-CAPITAL INITIATIVES

There are a number of working groups and initiatives aiming to develop and disseminate accounting methodologies that recognise the value of natural capital. Companies that are looking to report on their natural capital impacts should collaborate with such initiatives so that their experiences and learning points are factored into the wider pool of knowledge.

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