



Financial Sector Primer

Engage with the Natural Capital Lab to identify the opportunities to account for natural capital

JOHN PURKIS – DIRECTOR OF THE NATURAL CAPITAL LAB

GENEVA CLAESSION – CORPORATE WORKSTREAM LEAD, THE NATURAL CAPITAL LAB

April 11, 2017

This primer presents Canadian companies in the financial services sector with an opportunity and assistance from the Natural Capital Lab (NCL) to pilot the 'Natural Capital Protocol'. The Natural Capital Protocol is a framework designed to help generate trusted, credible, and actionable information for business managers to inform decisions.

Why is this important? Natural capital underpins economic prosperity and yet it is often excluded from risk management and decision-making. Every business impacts and depends on natural capital to some degree and will experience risks and/or opportunities associated with these relationships.

Why should I participate? Understanding natural capital offers a range of benefits for financial institutions that could offer a competitive advantage, help identify new investment streams or new insurance products, stress test risk profiles, and build brand loyalty.

How can I participate? This primer outlines the work NCL is set out to do, the role financial sector partners can play, and the opportunities, risks, and impacts of accounting for natural capital on the financial sector.

THE CONTEXT

Banks, insurers, and investors increasingly understand that environmental risks and opportunities can inform and enhance risk management, decision-making and performance management to create value. As an engine of growth, financial institutions play a pivotal role in all market sectors, including impact sectors and dependent sectors (see Figure 1). They are susceptible to vulnerabilities and can create opportunities in the event of changes to the availability, condition, and quality of ecosystem assets – or natural capital. As such, the financial sector has responded by developing tools and methodologies to evaluate environmental, social, and governance (ESG) (including natural capital) aspects to inform decisions on lending, insurance, and investment. A number of Canadian financial institutions such as the Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of

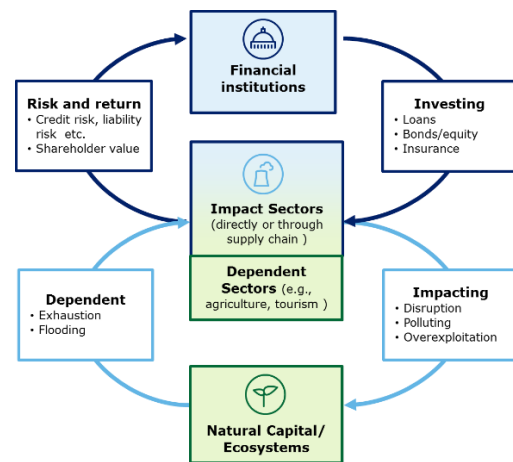


Figure 1 Relationship between natural capital and ecosystems, industry, and financial institutions. Adapted from Bor, A. et al. *Finance for One Planet - CoP Financial Institutions and Natural Capital*, 2016.

NATURAL CAPITAL LAB – CORPORATE WORKSTREAM FINANCIAL SECTOR

Canada, Toronto Dominion Bank, Manulife, and HSBC have demonstrated leadership by embedding ESG considerations into their lending and investing decision making processes and committing to the United Nations Principles for Responsible Investment and the Equator Principles.

Natural capital management presents an opportunity for financial institutions to understand their impacts and dependencies on natural capital and manage them in the present and long term. Many industries that drive the national and global economy depend on Canada's natural assets. Therefore, there is a need to account for and protect natural capital in order to sustain economic benefits. With a full understanding of impacts and dependencies on natural capital, portfolio risks can be more accurately assessed and managed and new strategic opportunities identified.

Further, with heightened focus on the shift to the low carbon, sustainable economy through initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD), financial service organizations are delivering innovative products and services (such as green bonds), with the added benefit of revenue generation and brand optimization, to capitalize on market opportunities.

A number of international initiatives have been developed to aid businesses, including the financial sector, to mitigate risks and capitalize on opportunities in accounting for natural capital. This global landscape is complex and rapidly changing. [The Natural Capital Declaration](#), a financial sector, CFO-level-endorsed statement, aims to develop tools and metrics to integrate natural capital into loans, equity, fixed income, and insurance products. In 2016, the [Natural Capital Coalition](#) (NCC) released

Natural capital is another term for the stocks of renewable and non-renewable resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people. The benefits provided by natural capital include clean air, food, water, energy, shelter, medicine, and the raw materials we use in the creation of products. It also provides less obvious benefits such as flood defense, climate regulation, pollination and recreation." (Natural Capital Coalition, 2017)

"Ecosystem goods are the products from natural capital such as food, fiber, clean air, and water; ecosystem services are the less tangible but no less significant benefits from ecosystem processes such as nutrient cycling, water purification and climate regulation, and non-material benefits such as recreation, aesthetic and cultural benefits." (Municipal Natural Asset Initiative, 2017)

TD Bank Group measures the organization's natural capital impacts across three main areas:

- business operations (e.g. TD's carbon neutral commitment)
- green products and financing (e.g. green bonds); and
- community initiatives (e.g. protecting critical forest habitats).

In 2015, TD reported natural capital values in each of these areas as \$34 million, \$2 million and \$2.5 million respectively.

"Understanding the full impact our environmental initiatives is challenging, because there are many different ways to quantify the impact (e.g. kWh saved, emissions saved, dollars invested, etc.). Natural capital valuation lets us assess our impact through an economic lens and provides a common approach to measuring impact." TD Bank 2015 CRR Report

the Natural Capital Protocol, which provides a standardized framework to help businesses systematically integrate natural capital into their strategy and business decisions. Further, the NCC is developing a financial sector supplement to support financial institutions apply the Natural Capital Protocol, which will be released in the Fall 2017.

Despite these international efforts, Canada's efforts to measure and account for natural capital are fragmented and lagging. This in spite of being home to 10% of the world's forests, 60% of the world's lakes, and 25% of the world's wetlands¹. In order to make progress in this field and to scale efforts to have a greater and longer term impact, leading Canadian organizations need to collaborate to clearly define and communicate the business case for natural capital accounting, test approaches, experiment with methodologies, share knowledge, and demonstrate leadership.

THE NATURAL CAPITAL LAB

The Natural Capital Lab (the Lab or NCL) serves as a collaborative and experimental platform for Canadian businesses. NCL is working with a number of Canadian and international initiatives on natural capital accounting as well as providing opportunities to learn from other jurisdictions and global leaders. It sets out to help Canadian businesses define the business case for natural capital management and will provide the support for leading players to plan and scope a natural capital assessment.



Figure 2: Select natural capital initiatives to enhance financial sector decision-making.

¹ John A. Downing et al, 2006. The global abundance and size distribution of lakes, ponds, and impoundments. *Limnology and Oceanography*. 51(5): 2388-2397. <http://www.statcan.gc.ca/pub/16-201-x/2010000/part-partie2-eng.html>
Natural Resources Canada. 2014. The State of Canada's forests annual report 2014. <http://cfs.nrcan.gc.ca/pubwarehouse/pdfs/35713.pdf>

NATURAL CAPITAL LAB – CORPORATE WORKSTREAM FINANCIAL SECTOR

The Natural Capital Lab is convened by The Natural Step Canada with the support of Chartered Professional Accountants of Canada (CPA Canada), TD Bank Group, The Cooperators, Deloitte, the Municipal Natural Asset Initiative and Smart Prosperity. NCL facilitates a select group of individuals – Natural Capital Innovators - to advance the integration of natural capital into government, business, and community decision-making in Canada. The Lab has designed three workstreams based on these sectors and is working to identify and experiment with natural capital accounting solutions to address sector specific challenges and identify new opportunities.

As part of its efforts in the Corporate workstream, NCL is seeking financial sector business partners to participate in the Lab as Natural Capital Innovators and pilot the 'framing' and 'scoping' steps of the Natural Capital Protocol – a series of interactive sessions and activities to understand how a company benefits from conducting a natural capital assessment and which business objectives and processes could be enhanced with new information and data.

THE WORK

The Corporate workstream of NCL is launching a pilot project to experiment with the Natural Capital Protocol and is seeking active involvement from Canadian financial sector companies. NCL will support participating financial sector partners in identifying the opportunities in accounting for natural capital for internal decision making through piloting the 'framing' and 'scoping' steps of the Natural Capital Protocol. This will include engaging in a series of dialogues and workshops to understand specific natural capital accounting challenges, opportunities, and questions partners are facing. Through the Corporate workstream, NCL will provide financial institutions with the guidance and support to:

- Identify the natural capital context for their business, by identifying the impacts, dependencies, risks, and opportunities that are most relevant to them to enable organizations to respond on timely basis;
- Consider impending business decisions where relevant, timely, and reliable information about the impacts of natural capital would provide useful insight and guidance; and,
- Understand which natural capital impacts and/or dependencies are material and could create sustainable value for the organization.

The NCL Corporate workstream, has dedicated resources and participating representatives from Deloitte, CPA Canada, TD Bank Group, among many others, to support the development and execution of the pilot project.

THE BENEFITS

Participating businesses will not only understand how natural capital can improve decision-making, they will also be pivotal in setting the foundation for future natural capital application in Canada. Participating industry partners will benefit from the collective skill set, network, and knowledge the Lab provides. Partners will be able to identify and consider their impacts and dependencies on natural capital and how accounting can support more informed decision-making and identify opportunities to improve internal decision-making processes, potentially create new products and services, and drive the organization's long-term economic prosperity.

Through a series of workshops and facilitated dialogues built upon best-practices in social innovation and collaboration, financial sector partners and Natural Capital Innovators will build a strategic and systems-level understanding of natural capital accounting, its players, and inter-relationships. Further, Natural Capital Innovators and financial sector partners can leverage the NCL as a platform to nationally and globally showcase their work and efforts in advancing the natural capital and sustainability agenda.

THE EXPECTATIONS

Participating partners will be required to provide at least one internal resource to participate in a series of dialogues and working sessions for the pilot project. This resource will need to bring a strong financial sector perspective to engage in meaningful dialogue with other sector participants and Natural Capital Innovators. Participants will be required to support the facilitation and organization of internal workshops with key stakeholders (as required), participate in the Lab activities that will facilitate knowledge transfer during the pilot project, and have a willingness to share their lessons learned. Corporate confidentiality is important to the initiative, and the Lab will work with all partners to ensure sensitive data and information is kept confidential.

Seize this opportunity to demonstrate your leadership. Participate in this progressive and proactive initiative and prepare your organization to demonstrate commitment and leadership.

If you are interested in this opportunity please contact:

John Purkis, Director, Natural Capital Lab – jpurkis@naturalstep.ca or

Geneva Claesson, Corporate workstream Lead, Natural Capital Lab - gclaesson@deloitte.ca