



TRANSPARENT

19 March 2021



Co-developing standardized natural capital accounting and valuation principles for business

19 March 2021

Agenda

- **Transparent project overview**
- **Benchmarking report: findings**
- **Progress on the Methodology**
- **Discussion**
- **Next steps**





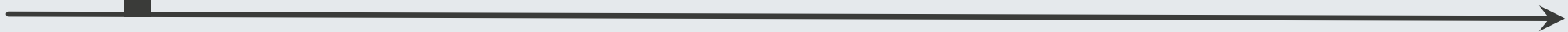
Why Transparent?



Kering EP&L

First environmental profit and loss statement

2013





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Natural Capital Protocol

Framework to measure business impact and dependency on nature





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Founded to create a standardized model for measuring and disclosing the environmental, human, social, and financial value companies provide to society



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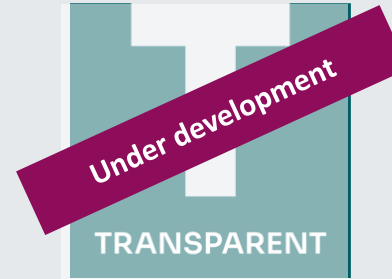
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2020 - 2022

Transparent

Methodology and application guidance for businesses on how to measure and value impacts and dependencies on natural capital

Natural Capital Protocol

Framework to measure business impact and dependency on nature



2016



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What is Transparent?

To Standardize Natural Capital Accounting:

By this we mean to develop a **methodology** to create consistency in how businesses measure and value their impact and dependency on natural capital.

This methodology is intended to **improve data quality** and **robustness** for decision making within companies.





Transparent actions and role of partners

Operating lead:



Implementation

- Benchmarking
- Methodology
- Piloting
- Guidelines

Communication

- Engagement
- Communication
- Dissemination

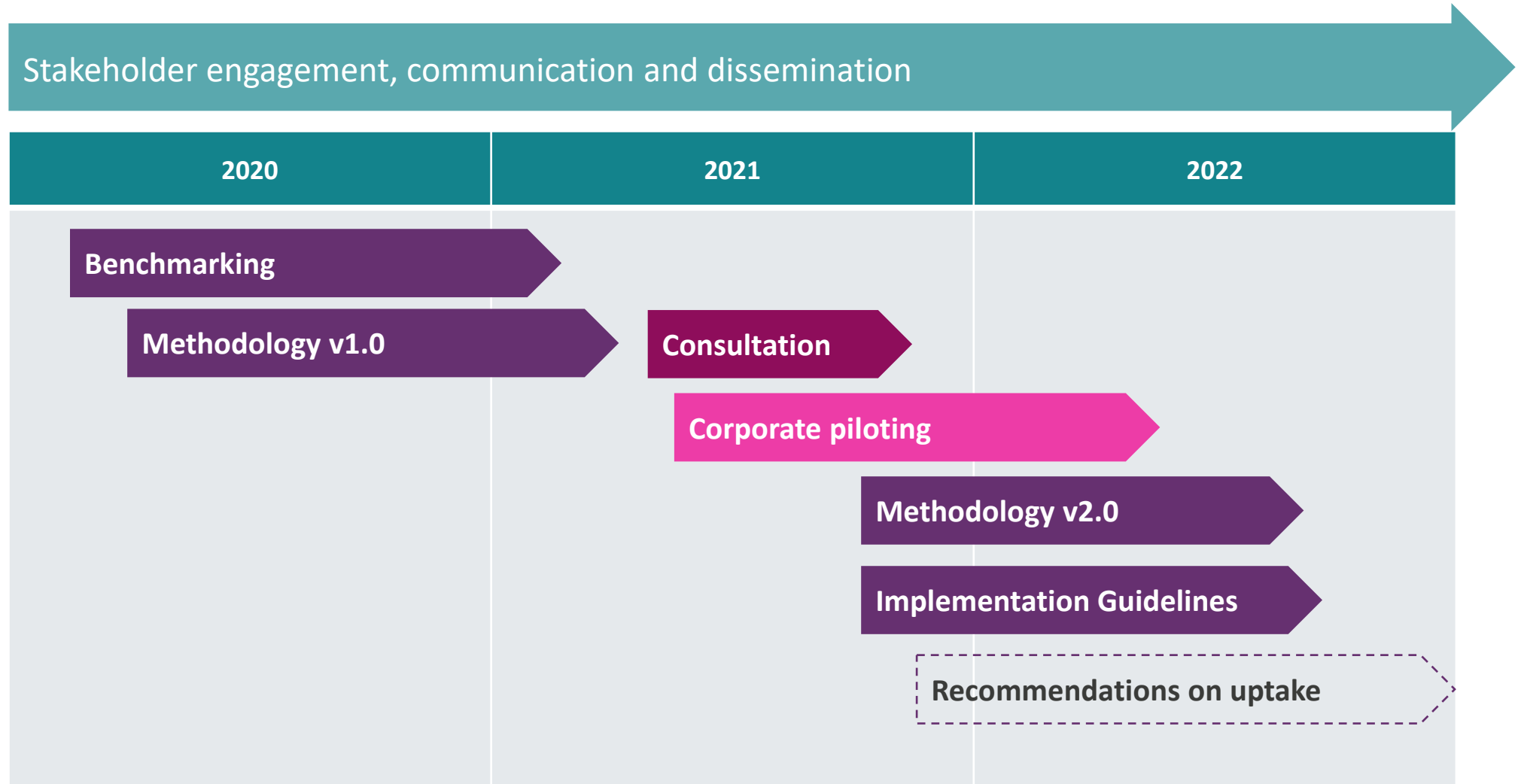
Project management

- Review panel
- Project management
- Recommendations





Transparent timeline





Corporate natural capital accounting - from building blocks to a path for standardization

Understanding the landscape, leading applications,
challenges and opportunities

March 2021

Luke Blower





What and how?



Objective

Review resources and applications to identify best practices, challenges and standardization opportunities, in order to drive better decision making and sustainable businesses.

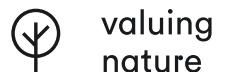


Method

- Selected 10 companies and >25 resources to review based on stakeholder consultation
- Interviews with businesses on current practices and applications



K E R I N G





Landscape and ecosystem



Initiatives

| | |
|----------------------------|-----------------------------|
| Capitals Coalition | Impact Valuation Roundtable |
| The Economics of Mutuality | WBCSD Redefining Value |
| A4S | |
| VBA | |

Research (providers)

| | |
|-------------------------|-------------------------|
| Harvard Business School | TEEB |
| University of Oxford | Audencia |
| Impact Institute | University of Cambridge |

Framework/standards

| | |
|---------------------------------|------------------|
| Natural Capital Protocol (2016) | ISO 14007 (2019) |
| BSI 8632 (2020)* | ISO 14008 (2019) |

Methods

| | | |
|-----------------|----------------------|--|
| GIST impact 360 | KPMG TV | TEEB Ecological and Economic Foundations |
| PwC TIMM | VBA Impact Statement | Impact Weighted Accounts |

Valuation factors

| | | |
|--|--------------------------------|---|
| CE Delft (2020) | TEEB Valuation Database (2010) | Environmental Valuation Reference Inventory |
| True Price – Monetisation Factors (2020) | | |

Corporate reporting (channels)

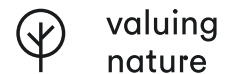
- Annual report
- Financial results and P&L integration
- Sustainability report
- Dedicated report (e.g. added value statement)

It is important to understand relationships, dependencies and connections between initiatives, research, frameworks, standards, methods etc.

Corporate governance, strategy, policy and performance management

*At time of writing in development

Not exhaustive





Key landscape insights



Good progress has been made on a range of initiatives and frameworks but methods and methodologies (approaches to baseline, scope, impact pathways, valuation factors etc.) are less mature

| Themes | Maturity/availability |
|-------------------------------|-----------------------|
| Initiatives | High |
| Research | Medium |
| Frameworks | High |
| Methods | Low |
| Valuation factors | Medium |
| Reporting | Medium |
| Governance/strategy models | Low |
| Performance management models | Low |



Business application insights



- Value to society and impact over value to business and dependencies
- Comprehensive scope – value chain and topics
- Limited transparency but building and raising awareness internally
- Beginning to influence discussions and decisions (e.g. product development and use phase, impact aligned with business purpose, stakeholder engagement, etc.) – specific applications often most valuable
- Key challenges such as lack of granularity, data type/format, business value connection, uncertainties and lack of external drivers, must be addressed
- High expectations about the potential uses - to challenge expectations and assumptions, analyze trade-offs, perform comparative assessment, identify options, etc.



Connecting methods and decisions



More emphasis should be placed on the decision-making context and application - we argue everything we produce is for decisions though we are not clear which or what type e.g. strategic, tactical & operational decisions

| Example of methods and valuation technique | Example of business use |
|--|---|
| Damage cost | Strategic prioritization and options Risk assessment and severity (operations) |
| Mitigation or solution cost | Risk response and management Budgeting and costing |
| Revealed/stated preferences | Risk assessment and severity (reputation) Market opportunity |
| Market prices and taxes | Investment and business case appraisal |
| Dependencies valuation (which relies on a mix of other valuation techniques, e.g. market based, or business value derived) | Risk assessment and severity (supply & operations) |
| Rate of internalization of costs (mix of techniques: market prices, taxes, mitigation/solution costs, etc.) | Financial planning and performance forecasting/scenarios |



Supporting standardization

To scale practice, support uptake and provide a lower barrier to entry standardization could focus on:

1. **Method** with clear scope, categories and indicators covering:
 - a. **Impact pathways definition:** across societal impact, dependencies and business impact.
 - b. **Valuation techniques and factors**
 - c. **Accounting rules:** such as the choice of baseline; additivity of results; use of exchange, discounting, inflation rates; value chain scope; etc.
2. **Showing the connection between natural capital accounting, Input-Output and Life Cycle Assessment approaches.**
3. **Decision making applications:** standardization should prioritize relevance for decision making and integration in different business functions, units and applications (e.g. product development, strategic guidance, investment appraisal, resource management and risk assessment).



Progress on Methodology

March 2021

Susanne Klages



Towards a standardized methodology – preliminary considerations

Target audience

- Corporate practitioners, focus on finance / controlling function

Objective: General acceptance

- **Enable decision-makers** to integrate natural capital into corporate decisions
- **Standardize** where possible, provide guidance where needed
- **Embed** in broader movement, be **connected** to existing frameworks
- **Be scalable** and **accessible**



Towards a standardized methodology – wireframe

ORIENTATION

What is this document? Who is it for? Principles for Natural Capital Accounting, etc.

PREPARATION

Framing, scoping: organizational boundaries, value chain, value perspective, etc.

MEASURE AND VALUE

General indications – applicable for any impact driver

Specific indications, by impact driver

- Non-GHG air emissions
- GHG emissions
- Water consumption
- Water pollution
- Land use
- Waste

Further specifies
Steps 05 – 07 of the
Natural Capital Protocol

USING RESULTS

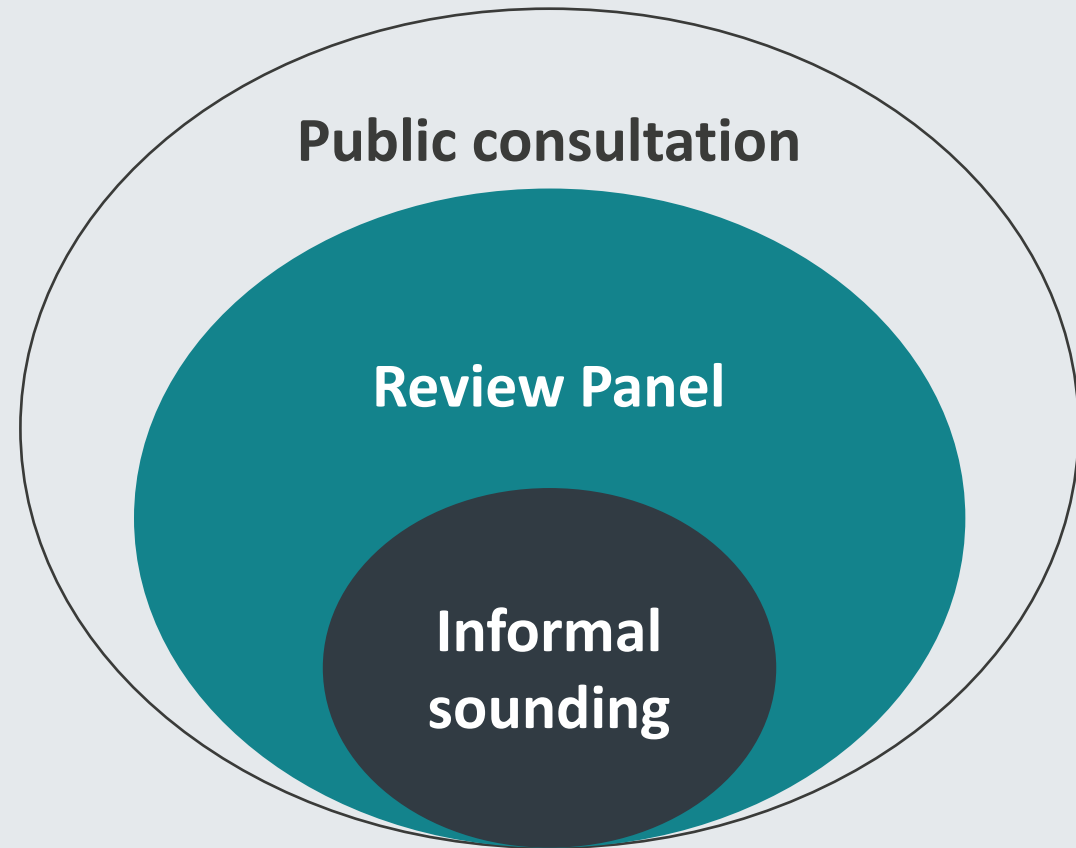
HYPOTHETICAL APPLICATIONS



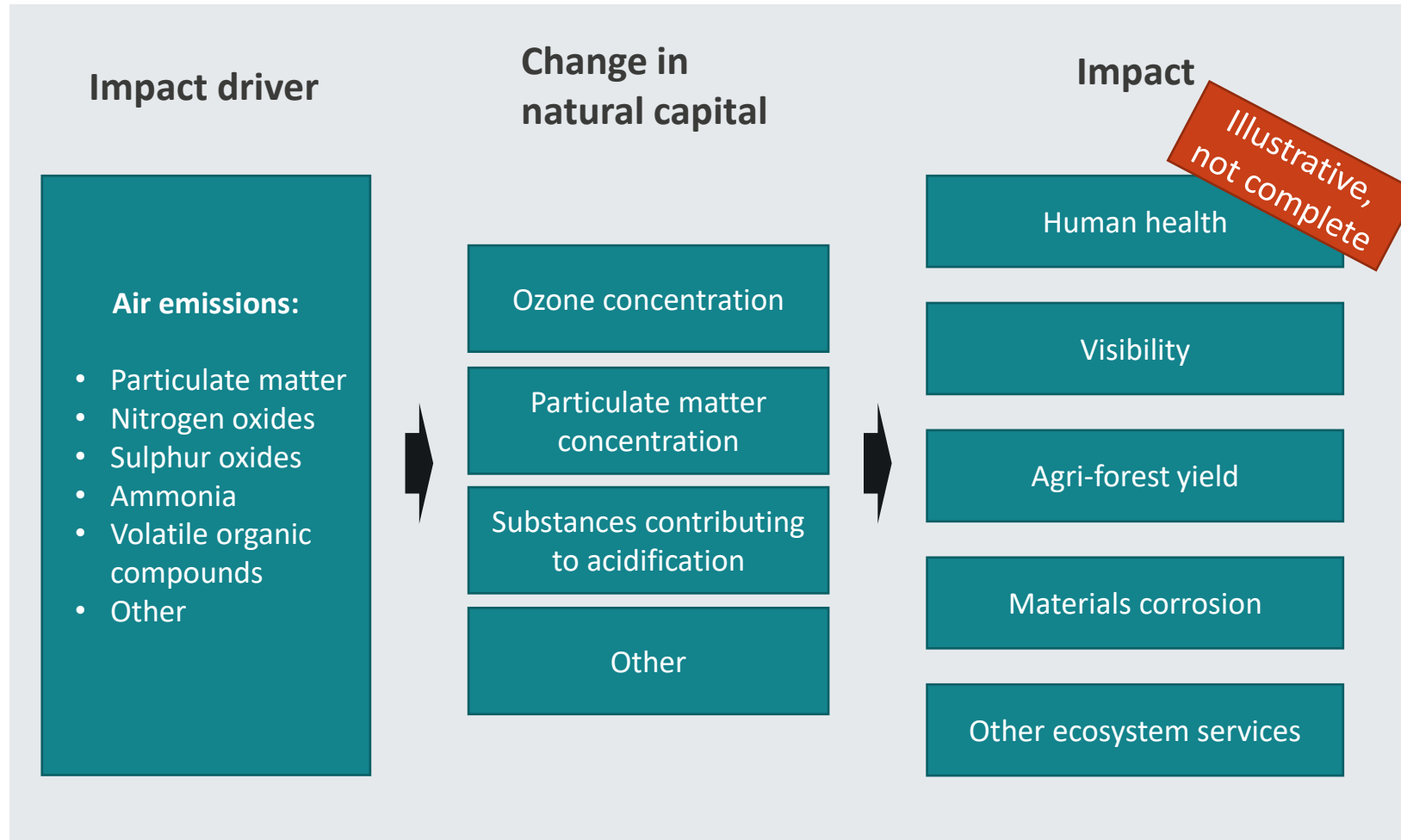
Embedded in broader movement: involving leading experts

Review Panel includes leading international representatives from:

- Business & Finance
- Technical experts
- Academia



Elements of standardization: impact pathways



Challenges

- Maturity of science, availability of studies and data
- Rigor
- Generalization from specific context (geography, time, etc.)
- Granularity of data needed to measure impact drivers



Next steps

- **Benchmarking report**
 - Publication soon at Transparent webpage
<https://capitalscoalition.org/project/transparent/>
- **Consultation**
 - May 2021
 - Invites to follow

