

The Natural Capital Declaration and Roadmap

Financial sector leadership
on natural capital

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Natural
Capital
Declaration

Secretariat:



UNEP **Finance Initiative**
Innovative financing for sustainability



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About the Natural Capital Declaration and Roadmap

The Natural Capital Declaration (NCD) is a finance sector initiative, endorsed at CEO-level, to integrate natural capital considerations into loans, equity, fixed income and insurance products, as well as in accounting, disclosure and reporting frameworks.

To achieve this, signatory financial institutions are working alongside supporter organisations to develop metrics and tools to help incorporate natural capital factors across their businesses. This work is guided by an NCD Roadmap paper, jointly developed by participating organisations.

A Steering Committee has been set up to oversee and catalyse implementation of the NCD Roadmap. It is supported by a Secretariat formed by the United Nations Environment Programme Finance Initiative (UNEP FI) and the Global Canopy Programme (GCP).

About UNEP FI

UNEP FI is a global partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions to develop and promote linkages between sustainability and financial performance.

About the Global Canopy Programme

The Global Canopy Programme is a tropical forest think tank working to demonstrate the scientific, political and business case for safeguarding forests as natural capital that underpins water, food, energy, health and climate security for all.

About Natural Capital

The NCD defines natural capital as the stock of ecosystems that yields a renewable flow of goods and services that underpin the economy and provide inputs and direct and indirect benefits to businesses and society. Natural capital is a subset of environmental, social and governance (ESG) factors that can be material to financial institutions, mainly through their allocations of capital to companies through loans and investments or premiums as part of insurance contracts.

The Declaration and its Commitments

The Natural Capital Declaration was launched at the UN Conference on Sustainable Development (Rio+20) in 2012. It has been signed by the CEOs of more than 40 financial institutions, and demonstrates their commitment to the eventual integration of natural capital considerations into private sector reporting, accounting and decision-making.

The 4 Commitments of the Natural Capital Declaration:

1. Build an understanding of the impacts and dependencies on natural capital relevant to our operations, risk profiles, customer portfolios, supply chains and business opportunities;
2. Support the development of methodologies that can integrate natural capital considerations into the decision making process of all financial products and services - including in loans, investments and insurance policies. We recognise that given the diversity of the financial sector, embedding natural capital considerations will differ across asset classes and types of financial institutions. We therefore aim to build on work undertaken through other initiatives, such as the UN-backed Principles for Responsible Investment, the Equator Principles, the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Sustainable Insurance, and The Economics of Ecosystems and Biodiversity (TEEB), so that we can develop methodologies to:

- a. Apply a holistic approach to evaluating bonds and equities through the integration of natural capital considerations in environmental, social and governance (ESG) risk analysis in short, medium and long-term growth forecasts of investee companies;
 - b. Systematically consider and value natural capital considerations in the credit policies of specific sectors, including commodities, that may have a major impact on natural capital either directly or through the supply chain;
 - c. Systematically consider and value natural capital considerations in core insurance business strategies and operations including risk management, risk underwriting, product and service development, claims management, sales and marketing, and investment management.
3. Work towards building a global consensus for the integration of natural capital into private sector accounting and decision-making; supporting, when appropriate, the related work of The Economics of Ecosystems and Biodiversity (TEEB) for Business Coalition, and other stakeholders.
 4. Collaborate, when appropriate, with the International Integrated Reporting Committee and other stakeholders to build a global consensus around the development of Integrated Reporting, which includes natural capital as part of the wider definition of resources and relationships key to an organisation's success.

For the full text of the Natural Capital Declaration, please visit: naturalcapitaldeclaration.org/the-declaration

It should be noted that the initiative does not create binding legal requirements. The implementation of the NCD commitments and uptake of outputs delivered through the Roadmap process remain voluntary.

What the NCD does create is an opportunity, and a framework for action: to strengthen credit risk management by understanding and managing your company's exposure to risks from clients' natural capital impacts and dependence, and to focus on business opportunities including the development of new products.

There are no formal reporting requirements, but as the work of the NCD Roadmap progresses your institution will have regular opportunities to share progress and demonstrate leadership through structured updates.

The NCD Roadmap: Implementing the Commitments – Our Working Groups

To help achieve the Declaration's aims, signatories have developed an NCD Roadmap paper. It lays out an ambitious but pragmatic plan for mainstreaming natural capital in financial products and in accounting, disclosure and reporting frameworks through four Working Groups that are linked to the Declaration's four commitments:

Working Group 1: Understand impacts and dependencies on natural capital

Working Group 2: Embed natural capital considerations in loans, equities, bonds and insurance products

Working Group 3: Account for natural capital financially in accounting frameworks

Working Group 4: Disclose and report on natural capital

The Roadmap defines key outputs for these work areas over the period between 2013 and 2020.

To read the full NCD Roadmap paper, please visit www.naturalcapitaldeclaration.org.

Four Working Groups, each chaired by a signatory financial institution with expert help from supporting organisations, have been established to deliver on the Natural Capital Declaration's commitments and Roadmap.

Working Group 1 is building an understanding of natural capital impacts and dependencies relevant to operations, risk profiles, customer portfolios, supply chains and business opportunities. Chaired by Rabobank, it seeks to develop a common methodology to map natural capital impacts and dependencies across portfolios, creating quantitative methods to identify risks.

Chair: Rabobank, The Netherlands

"We are leading work to identify a systematic way to evaluate the natural capital impacts and dependencies of financial institutions because this is vital to understand opportunities to strengthen risk management and create value. NCD Working Group 1 will develop techniques to help banks assess environmental exposure across portfolios."

**Lara Jacob, Program Manager
Client Engagements at Rabobank**

Working Group 2 will develop methodologies to integrate natural capital considerations into financial products and services - including loans, investments and insurance. Financial institutions are collaborating in order to develop systematic approaches to address risk and develop opportunities linked to natural resources and systems. Chaired by Banco Mercantil del Norte ('The Northern Merchant Bank', branded as Banorte), this Working Group seeks to quantify the business case and develop metrics and frameworks to embed natural capital considerations across all relevant asset classes (corporate loans, corporate and sovereign fixed income, public and private equity) with a focus on linking this to clients and investee companies with high natural capital impacts and / or dependencies including but not limited to agribusiness sector, energy, forest, timber, mining, oil and gas.

Chair: Grupo Financiero Banorte, Mexico

"Financial institutions in NCD Working Group 2 aim to develop methodologies to integrate natural capital considerations into financial decision-making. We are working to create opportunities for capital markets to strengthen risk management and embed environmental factors into finance."

Marcos Mancini, Director of Sustainable Banking, Banorte

Working Group 3 is working towards building a global consensus around integrating natural capital into private sector accounting and decision-making. Financial institutions will work to develop methods and guidance to incorporate natural capital into financial accounts, and to define material factors. Chaired by National Australia Bank, the Working Group will work with accounting firms and other group members to develop and test accounting and valuation frameworks for natural capital relevant to a bank's balance sheet. Financial institutions will review options to measure and value ecosystem goods and services at a company level, with a view to developing environmental profit and loss accounts.

Chair: National Australia Bank

"Data and methodologies to put information into context helps companies understand and evaluate which natural capital factors are material. All providers of financial capital need to further develop environmental risk management and accounting systems to operate as effectively as possible."

Rosemary Bissett, Head of Sustainability Governance & Risk, National Australia Bank

Working Group 4 aims to develop methods to disclose and report on natural capital using an Integrated Reporting approach. Financial institutions and supporters will collaborate, where appropriate, with the International Integrated Reporting Committee (IIRC) and other stakeholders to build a global consensus around the development of Integrated Reporting, which includes natural capital as part of the wider definition of resources and relationships central to an organisation's success. Chaired by Nedbank, it seeks to stimulate the disclosure of natural capital-related information and linking this to the way companies – including financial institutions – can report on this in an integrated way.

Chair: Nedbank, South Africa

"We are developing ways to disclose natural capital information through integrated and other public reporting so that financial institutions can become more transparent in managing risks linked to natural resource use and environmental degradation from business activities that are financed by loans and investments."

Vicky Beukes, Social and Environmental Risk Manager, Nedbank Group

Pilot Projects: Learning by doing

The Working Groups will develop and test metrics and tools through a series of pilot projects. Companies participating in a pilot project will benefit from learning by doing, building practical knowledge and internal capacity on these issues. Sensitive information will of course remain confidential, but emerging methodologies – how to go about linking natural capital to a specific financial product, for instance – will be shared with other financial institutions to help push forward best practice.

All signatory financial institutions are encouraged to put forward pilot projects for consideration by Working Group members and the NCD Steering Committee.

An asset class approach

The NCD Roadmap follows an asset class-based approach to quantifying the materiality of natural capital (with a focus on credit risk, new financial products, and policies) and providing practical knowledge and information that can be implemented in the financial industry. Besides pilot projects, the NCD aims to initiate and catalyse projects such as E-RISC (Environmental Risk Integration into Sovereign Credit analysis), which focuses on one specific asset class (sovereign fixed income) by linking the materiality of natural resource risks to macro-economic indicators such as GDP that are used to determine sovereign credit risk.

The Business Case for Financial Institutions to lead on Natural Capital

At both macro and micro economic levels, our financial systems will need to position products and services in accordance with 21st century trends such as declining access to natural capital and the significant price volatility and business constraints that this will likely cause. Correcting price signals in the world economy to address the hidden and external costs of doing business will be increasingly pertinent to credit risk, future-proofing investment returns and making the insurance industry resilient to these changing environmental phenomena. By looking at how natural capital can be integrated into the financial industry, signatories to the Declaration will get a strong grip on their own institutional risks and opportunities through impacts and dependencies on natural capital, and be able to quantitatively account for these risks and opportunities within their own firm and in relation to clients.

There are also specific reasons why particular financial institutions may find it beneficial to participate in the Natural Capital Declaration and Roadmap:

Institutional investors

1. Understand how asset values are exposed to financial risk from natural capital issues. Manage exposure to 'stranded assets' and unanticipated falls in the value of investments due to environmental challenges.
2. Enhance due diligence in capital allocations in line with fiduciary duties.
3. Develop capabilities to address risk of a net loss from portfolio-wide systemic environmental risk. Prepare for more uncertain, rapidly changing conditions in capital markets driven by depleted natural capital.

Fund managers / Investment banks

1. Prepare for mandates with criteria on environmental management.
2. Develop products and services that build natural capital resilience into capital allocations in order to reduce risk and protect future fund returns.
3. Build knowledge and expertise to prepare for ratings methodologies that incorporate environmental risk into credit risk assessments and securities valuations.
4. Develop new financial products – such as funds or indices – that incorporate material natural capital factors.

Commercial banks

1. Address credit risks from clients and investments that are exposed to lower cash flows / EBITDA and loss of license to operate due to resource-intensive or polluting activities in operations or supply chains.
2. Reduce exposure to unanticipated risks and cash flow fluctuations from underlying resource scarcity, commodity price volatility, and loss of market share.
3. Manage reputational risks from financing sub-optimal corporate environmental performance and damaging practices. Enhance transparency and develop evidence-based environmental credentials.
4. Develop new loan products that incorporate material natural capital factors within the credit risk analysis of clients, including exposure of clients to their wider supply chain.

Development banks / Multilateral financial institutions

1. Enable your organisation to address exposure to indirect risks from natural resource constraints and pollution issues

embedded in financial instruments, policies, practices and evaluations.

2. Develop more sustainable finance to maintain natural capital that underpins your economy and trade and supports society's access to clean air, water, land, energy, affordable food and climate security.
3. Build capabilities to help implement national commitments under the Rio+20 "The Future We Want" outcome document that recognises the need to prioritise sustainable development in capital allocations.
4. Mobilise financial support for green growth and mechanisms that support action to achieve targets of agreements under the Convention on Biological Diversity.

Non-life insurers and reinsurers

1. Collaborate to strengthen environmental risk management in underwriting and investment practices.
2. Develop understanding of implications of resource constraints and climate change impacts for actuarial analysis and catastrophe modelling.
3. Strengthen the resilience of products and services to position your business for growing environmental pressures.
4. Develop new insurance products, for example linked to ecosystem-based adaptation to hedge against weather extremes.

Securities and Commodities Exchanges

1. Access a platform that encompasses a range of financial sub-sectors to inform your organisation's understanding and management of environmental factors in capital markets.

2. Enable clients to reduce exposure to market volatility driven by environmental factors.
3. Develop capacities to incorporate material environmental information into indices and create more stable and efficient financial markets.

Other benefits of Signing the Declaration

Showing leadership by signing the NCD and engaging in implementing the Roadmap will provide your organisation with the opportunity to collaborate with other financial institutions globally through one or more of the four Working Groups.

The NCD provides a forum for financial institutions to create methods to systemically integrate natural resource and environmental degradation factors into valuation models. Supporters can share emerging knowledge in the field to innovate and shape structured approaches to embed natural capital in financial products, accounting and reporting in collaboration with peers to build support for common international methodologies and frameworks. The NCD can also provide financial institutions with access to:

- UNEP FI and UN system expertise and resources on environmental issues, policymaking and science.
- Resources such as studies, pilot project results, newsletters and webinars which will help to keep up to date with developments such as evidence of material natural capital risk and tools to manage financial exposure.
- A global environmental finance hub to develop the thought leadership on the financial sector's response to natural resource and environmental challenges.

Please see the NCD website for more information.

Current NCD Participants

Financial institution members of NCD Working Groups

Althelia Ecosphere
ASN Bank
Banco Pichincha
Banorte
BBVA
Caisse des Dépôts
Caixa Economica Federal
Caledonia Wealth Management
Calvert
CDC Climat
CI Banco
Cyrte Investments
Financiera Rural
FIRA Banco de Mexico
First Green Bank
Fundación Social
IFC
Infraprev
Kenya Commercial Bank
Mongeral Aegon
Mutualista Pichincha
National Australia Bank
Nedbank
Oppenheim
Pax World Management Corporation
Rabobank
Robeco
SNS Asset Management
Sovereign
Standard Chartered
Sumitomo Mitsui Trust Holdings
Vision Banco
Unicredit
YES BANK

NCD supporters*

Association of Chartered Certified Accountants
Aldersgate Group
Association for Sustainable & Responsible Investment in Asia
CDP
Climate Disclosure Standards Board
Colombian Business Council for Sustainable Development
Conservation International
Corporate Knights
Eurosif
Flora and Fauna International
Forum for the Future
Fundação Grupo Boticário
Fundação Getúlio Vargas
Global Footprint Network
Global Reporting Initiative
Institute of Chartered Accountants in England & Wales
International Institute for Sustainable Development
Social Investment Forum (Japan)
Maplecroft
Natural Value Initiative
Quercus
Social Investment Organisation
SPVS
Stakeholder Forum
TEEB for Business Coalition
Trucost
The UK Sustainable Investment & Finance Association
United Nations Development Programme
The Forum for Sustainable and Responsible Investment
Vereniging van Beleggers voor Duurzame Ontwikkeling
World Business Council for Sustainable Development
WWF

*More than 30 organisations are official Supporters of the NCD, providing technical help and expertise within the Working Groups, and helping to develop quantitative information to strengthen due diligence in financial decision-making.

Signing the Declaration and What Happens Next

The NCD welcomes the participation of new signatories to help us deliver the vital work to advance this agenda. We welcome committed and dynamic financial institutions of all sizes, and the participation of staff from across the company.

The NCD has the potential to deliver truly ground-breaking results. This relies on professionals from different departments coming together – including from corporate finance, fixed income, equities, commodities, treasury, and non-life insurance – to jointly understand and overcome the challenges laid out in the NCD Roadmap, and begin embedding natural capital considerations within their organisations.

Join us in this remarkable endeavour.

To sign the NCD, we need:

- Signatory letter (available on request) signed by your company's CEO
- Photo and quote from the CEO explaining his / her motivation for signing the NCD
- High resolution company logo

These materials will be uploaded on to the Natural Capital Declaration website.

After signing the NCD, you will:

- Be invited to join one of more Working Groups based on your interests and needs. Joining the Working Groups is not compulsory but is at the heart of active engagement with the initiative and will return the greatest long-term value to your organisation.
- If your company would like to propose a pilot project, or participate in one, your team will be contacted to explore options and develop concept notes.

- The convening organisations – UNEP FI and GCP – will provide introductory materials such as the NCD Business Plan, Roadmap and other materials that have been produced to date.

For a full list of requirements and details on how to sign please visit www.naturalcapitaldeclaration.org.

Providing financial support

Financial institutions that become signatories are requested to make an annual financial contribution for the period 2013 - 2015 to support the NCD Roadmap process. These contributions help leverage additional funding from foundations and governments. To find out more about the costs associated with supporting the NCD visit www.naturalcapitaldeclaration.org

Financial contribution are requested according to the structure below:

Contribution UNEP FI Members

< \$5bn total assets: US\$ 2000 / yr
> \$5bn total assets: US\$ 4000 / yr

Non UNEP FI Members

< \$5bn total assets: US\$ 5000 / yr
> \$5bn total assets: US\$ 10,000 / yr

Getting involved

To find out more about endorsing or supporting the Natural Capital Declaration and the Roadmap process, or to stay abreast of the latest research and thinking from the NCD Working Groups, please email info@naturalcapitaldeclaration.org or visit www.naturalcapitaldeclaration.org.



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