

FINANCE SECTOR SUPPLEMENT
CONSULTATION QUESTIONS#

DRAFT CDSB Response

INTRODUCTION

The following questions are designed to help coordinate responses to the consultation on the Natural Capital Protocol Finance Sector Supplement. All completed answers must be submitted through the online collaboration platform, Collaborase rather than via email to make it easier to collate. Email info@naturalcapitalcoalition.org for access to this platform. The Consultation is open until August 25, 2017.

Orientation

Workshop questions: Are you responding on behalf of a workshop – **no**

1. The Supplement Stages are logical and easy to follow for a financial user
 - a. Fully agree; Stages are logical and easy to follow
 - b. **Mostly agree; Stages are usually logical and easy to follow, but with some key omissions**
 - c. Partially agree; logic can be weak and hard to follow in several places
 - d. Disagree; logic is consistently weak and hard to follow

[Please give details]

It may be helpful to include a process flowchart.

Frame Stage

2. The Supplement effectively articulates the relationship between the finance sector and natural capital
 - a. Fully agree; the relationship is effectively articulated
 - b. **Mostly agree; the relationship is usually articulated effectively, but with some key omissions**
 - c. Partially agree; the relationship is poorly articulated in several places
 - d. Disagree; the relationship is poorly articulated throughout

[Please give details]

This could be expanded upon further and articulated more strongly perhaps with some practical examples. If the business case is not strongly articulated at this stage then there is a risk that they are unlikely to go on to the next stage.
3. The conceptual model for natural capital and finance sector (shown in Figure 1.1) is illustrative and helpful in explaining how natural capital is relevant to the finance sector
 - a. Fully agree, the conceptual model is illustrative and helpful
 - b. **Mostly agree; the conceptual model is illustrative and helpful, but with some key omissions**
 - c. Partially agree; the conceptual model has some helpful elements, but is not fully illustrative
 - d. Disagree; the conceptual model is neither illustrative nor helpful

[Please give details]

Figure 1.1. explains that 'society' is out of scope yet para 2.3.3. specifying the value perspective refers to the 'consequences for society'. This is somewhat confusing as it implies society is in scope.

4. The Supplement frames risks and opportunities in a way that relates to the finance sector

a. Fully agree; the framing of risk and opportunity strongly relates to the finance sector

b. Mostly agree; the framing of risk and opportunity is strong, with some key omissions. Please specify.

c. Partially agree, the framing of risk and opportunity is often hard to relate to.

d. Disagree; the framing of risk and opportunity is consistently hard to relate.

[Please give details]

Section 1.3 is heavy focused on operations, yet on page 6 it states that financial activities are the focus of the supplement. This could benefit from further clarification.

5. The relevance of natural capital for sovereign credit risk and bond markets (described in Box 1.1) is helpful and frames the relevance to natural capital

a. Fully agree, the box is very helpful and properly framed

b. Mostly agree; the box is helpful but with some key omissions

c. Partially agree; the box is weak in several places

d. Disagree; the box is not helpful and/or not properly framed

[Please give details]

Yes, as this relates to investment activities of the finance sector.

Scope Stage

6. The term 'organizational focus' is appropriate for deciding between individual entity or portfolio level assessments (Section 2.3.1)

a. Fully agree; the term is appropriate

b. Disagree; the term is inappropriate and needs replacing. Please suggest alternative.

This seems to imply an either/or situation but there may well be cases where assessment needs to be undertaken at both the individual entity and portfolio level.

7. The distinction between individual entity and portfolio level assessments (Section 2.3.1) is well explained and practical

a. Fully agree; the distinction is well explained and practical

b. Mostly agree; the distinction is well explained and practical, with some key omissions

c. Partially agree; the distinction is only partially explained, and often isn't practical

d. Disagree; the distinction is neither well explained nor practical

[Please give details]

This distinction could be reinforced with practical examples from across the financial sector.

8. There is sufficient guidance on identifying the common impact drivers and/or dependencies (Section 2.3.2) to consider at entity and/or portfolio level

a. Fully agree; the guidance is fully sufficient

b. Mostly comprehensive; the guidance is mostly sufficient but with some key omissions

c. Partially agree; the guidance is helpful, but with several weaknesses

d. Disagree; the guidance is not sufficient

[Please give details]

It might be useful to contextualise the impact drivers or dependencies within a widely accepted conceptual framework like European Environment Agency's Driver-Pressure-State-Impact-Response (DSPIR) Model which was adapted from the OECD's Pressure-State-Response (PSR) Model. For more see: <https://www.eea.europa.eu/publications/92-9167-059-6-sum/page002.html>. It would also be helpful to have the same example cover the impact driver and dependency.

9. There is appropriate guidance for conducting a materiality assessment for natural capital impacts and dependencies (Section 2.3.5)

- a. Fully agree; the guidance is appropriate
- b. Mostly agree; the guidance is mostly appropriate but with some key omissions
- c. Partially agree; the guidance was only partially appropriate, and weak in several places
- d. Disagree; the guidance was not appropriate

[Please give details]

The text implies that the term materiality is synonymous with term significant (e.g. see pages 25 and 27); however on page 27, the Supplement then states that it is broader and refers to the impacts of the dependency on natural capital that have the potential to alter decisions being taken. Moreover, p.23 refers to impact drivers and dependencies as "most material". This is problematic as it implies layers of materiality; however, the outcome of undertaking a materiality assessment should be to determine whether a particular aspect is material or not. To support further guidance on how to conduct a materiality assessment for natural capital impacts and dependencies, we refer to the CDSB Framework and the guidance contained under Principle 1 of the framework on relevance and materiality: <http://www.cdsb.net/what-we-do/reporting-frameworks/environmental-information-natural-capital>.

Measure and Value Stage

10. The Supplement effectively articulates the distinction between measurement and valuation, and its applicability to financial decision making

- a. Fully agree; the distinction and applicability is effectively articulated
- b. Mostly agree; the distinction and applicability is mostly articulated, but with some key omissions
- c. Partially agree; the distinction and applicability is poorly articulated in several places
- d. Disagree; the distinction and applicability is poorly articulated throughout

[Please give details]

11. The process for understanding context (Section 3.2: measuring changes and trends change in natural capital) provides sufficient and practical guidance

- a. Fully agree; the process is sufficient and practical
- b. Mostly agree; the process is mostly sufficient and practical, but with some key omissions
- c. Partially agree; the process is insufficient and impractical in several places
- d. Disagree; the process is insufficient and impractical

[Please give details]

12. Table 3.5 (Valuation techniques) is helpful and provides helpful information for financial institutions

- a. Fully agree; Table 3.5 is very helpful
- b. Mostly agree; Table 3.5 is helpful, but with some key omissions
- c. Partially agree; there is some helpful content, but most of Table in 3.5 is

unhelpful

d. Disagree; Table 3.5 is not helpful

[Please give details]

13. The Supplement offers sufficient guidance on measuring and valuing natural capital across different scopes (e.g. portfolio and individual entity) and applications

a. Fully agree; guidance is sufficient

b. Mostly agree; guidance is mostly sufficient, but with some key omissions

c. Partially agree; guidance is insufficient in several places

d. Disagree; guidance is poor and insufficient throughout

[Please give details]

Further guidance is needed on the distinction between the portfolio and individual entity level.

14. The Supplement equips financial users with enough information to either engage an external provider, or conduct an assessment in-house

a. Fully agree; there is enough information to support and inform my choice of either option

b. Mostly agree; information mostly complete, but with some key omissions that might affect my choice of options

c. Partially agree; several sections don't contain enough information to offer me a meaningful choice of options

d. Disagree; there is consistently not enough information to offer me a choice of options

[Please give details]

Apply Stage

15. The guidance in the Apply Stage is sufficiently practical and robust to inform financial decision making

a. Fully agree, guidance is practical and robust enough to inform financial decision making

b. Mostly agree; guidance is mostly practical and robust, but with some key omissions

c. Partially agree; guidance is insufficient in several places

d. Disagree; guidance is poor and insufficient to inform financial decision

[Please give details]

Further guidance is needed on how to integrate such information into financial decision making and to tie it to internal governance, strategy and risk management approaches.

16. Are there any finance specific nuances of validation and verification that should be included in this section? No.

17. The precautionary approach relates to risk management in the finance sector, and is a term used by practitioners.

a. Fully agree; this is a relevant term used by practitioners

b. Mostly agree, this is a relevant term but could be better framed in relation to the finance sector (please suggest).

c. Disagree; this is not a relevant term for the finance sector.

[Please give details]

The precautionary principle is Principle 15 of the 1992 Rio Declaration. This environmental law principle which states that “where there are threats of serious or irreversible damage, lack of scientific uncertainty shall not be used as a reason for postponing cost-effective measures to prevent environmental damage. We do not feel that this principle is recognised in the finance sector as such and perhaps should better integrated into more customary language of the finance sector in the context of risk management.

18. Are there any other practical examples of how natural capital might be applied to financial decision-making?

We refer to the G20 Financial Stability’s June 2015 Task Force on Climate-related Financial Disclosures (TCFD) Final Report of Recommendations of the Task Force on Climate-related Financial Disclosures. This report aims to offer guidance on how to link financial information with information on climate-related risks and opportunities, particularly through the vehicle of the mainstream report (i.e. annual financial filings). The approach could be extended beyond climate-related risks and opportunities to embrace the linkages between financial and natural capital.

Other

19. The language and terminology used in the Supplement is appropriate for the finance sector

- a. Fully agree, language and terminology is appropriate
 - b. Mostly agree, language is appropriate with a few key exceptions
 - c. Partially agree, language and terminology is inappropriate in several places
 - d. Disagree, most of the language and terminology is inappropriate
- [Please give details]

Subject to the caveat above regarding the use of the precautionary principle.

20. The case studies in the Supplement offer realistic, helpful examples of natural capital assessments within financial institutions

- a. Fully agree; the case studies are realistic and helpful
- b. Mostly agree; the case studies are mostly realistic and helpful, but with some key omissions
- c. Partially agree; the case studies are unrealistic and unhelpful in several places
- d. Disagree; the case studies are unrealistic and unhelpful throughout (Please suggest alternative case studies below)

[Please give details]

The case studies could go one step further to explain how the assessments could be undertaken by an organisation drawing on existing internal strategy, governance and risk management processes and drawing on targets and metrics already collated.

21. There is an effective balance between business language, technical language, and images

- a. Fully agree, the balance is effective
- b. Mostly agree, the balance is largely effective, with some key exceptions
- c. Partially agree, the balance is unbalanced in several places
- d. Disagree, the balance isn’t effective

[Please give details]

As stated earlier, a process flow chart or decision support tree might be useful here.

22. The Supplement offers sufficient guidance on natural capital for each of the

financial sub-sectors considered (i.e. banking, investment, insurance)

- a. Fully agree; guidance is sufficient
- b. Mostly agree; guidance is mostly sufficient, but with some key omissions. Please specify.
- c. Partially agree; guidance is insufficient in several places. Please specify.
- d. Disagree; guidance is poor and insufficient throughout.

[Please give details]

More sub-sector specific guidance and examples would be helpful.

23. The Supplement includes broad and balanced reference to available methodologies and approaches

- a. Fully agree; references are broad and balanced
- b. Mostly agree; reference are mostly broad and balanced, but with some key omissions
- c. Partially agree; references are weak in several places
- d. Disagree; references are neither broad nor balanced

[Please give details]

More referencing and signposting to existing guidance would be beneficial.