

10th anniversary of
XBRL EUROPE



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EUROFILING XBRL WEEK IN WARSAW 28-30 MAY 2018

Eurofiling 25th workshop | 21st XBRL Europe day | Tutorials | Academic Track

Title: Why Corporate Natural Capital Accounting (NCA) and XBRL is Important for Business

Presented By: Liv Watson, Sr. Director of Strategic Customer Initiatives at Workiva Inc. (NYSE: WK)

Date: Wednesday, May 30th, 2018

Today's Agenda



- What is Corporate Natural Capital Accounting (CNCA)?
- Why is CNCA important to business?
- How can CNCA be incorporate into business decisions?
- XBRL and CNCA
- The scope of the INCA-SDTF XBRL Feasibility Study

What is Corporate Natural Capital Accounting (CNCA)?



*Natural capital can be regarded as the
source of all other types of capital*

Corporate Natural Capital Accounting

There are four basic corporate natural capital accounting categories:

1. Air

2. Water

3. Land

4. Biodiversity

(All are interdependent)

These provide us with the crucial **renewable** and **non-renewable** resources and environmental services that benefit society as a whole.

What are the CNCA Reports?



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Two Corporate Principal Reporting Statements

Natural Capital Balance Sheet

Reports the value of natural capital assets, and the costs (liabilities) of maintaining those assets

Statement of Changes in Natural Assets

Reports the change (gain or loss) in asset values and liabilities over an appropriate accounting period.

*In order to produce these reporting statements, an organization needs to compile a range of financial and environmental data.

*environmental management and reporting tools

WHY?

The environment, **our natural capital**, is a resource that is used and managed by individuals, corporations and governments.

(1) The Statical View - Green Gross Domestic Product (GGDP)

Calculating GGDP requires that net natural capital consumption, including resource depletion, environmental degradation, and protective and restorative environmental initiatives, be subtracted from traditional GDP.

GGDP would arguably be a more accurate indicator or measure of societal well-being.

(2) The Corporate View - The NCA Corporate Disclosure

Companies that embrace natural capital accounting are more likely to come to grips with the major challenges and risks facing the environment, society and their economic development.

Key Takeaways

Natural capital assessments are increasingly being used by businesses in corporate financial, risk and environmental management processes.



Why is CNCA Important to Business?



In a world where resource scarcity is becoming increasingly important to companies, they are looking for a strategic way of evaluating this **environmental risk**, and what impact it might have on their business and operations.

Regulatory Driven

Corporate Disclosure Requirements

EU Directive 2014/95/EU

- Jan 2017, more than 6,000 companies in Europe are preparing to comply by 2018 Annual Reporting Season



Sample UK National Authority

Fact sheet on non-financial reporting



What do companies need to disclose?

Strategic Report

The new regulations require companies within scope to disclose, to the extent necessary for an understanding of the company's development, performance, position and impact of its activity, information relating to environmental, employee, social, respect for human rights, anti-corruption and anti-bribery matters.

This includes a description of:

- the company's business model;
- the policies pursued by the company in relation to the matters noted, any due diligence processes; implemented by the company in pursuance of those policies;
- the outcome of those policies;
- the principal risks relating to the matters noted arising in connection with the company's operations;
- how the company manages those principal risks, where relevant and proportionate; and
- the non-financial key performance indicators.

A company is also required to describe, where relevant and proportionate, the business relationships, products and services which are likely to cause adverse impacts relating to the principal risks identified above.

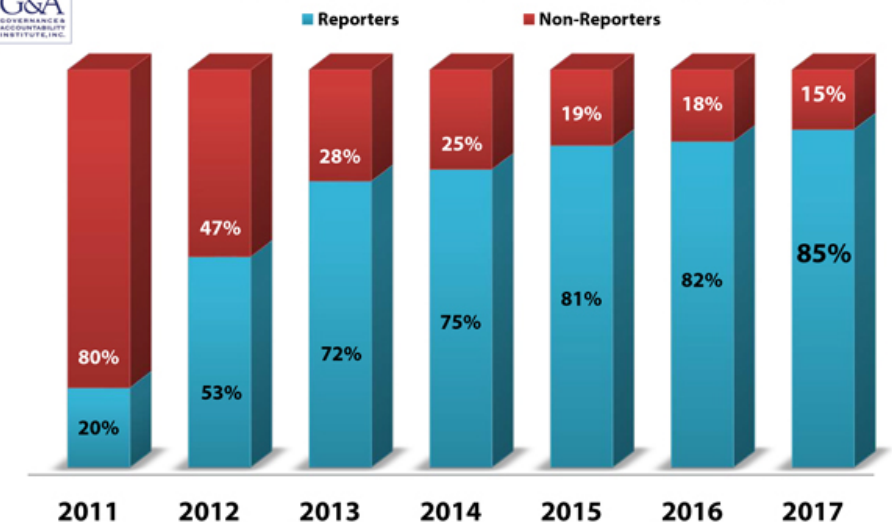


Financial Reporting Council

FLASH REPORT: 85% of S&P 500 Index® Companies Publish Sustainability Reports in 2017



Governance & Accountability Institute Research Results S&P 500® Companies Sustainability Reporting



Source: Governance & Accountability Institute, Inc. 2017 Research — www.ga-institute.com

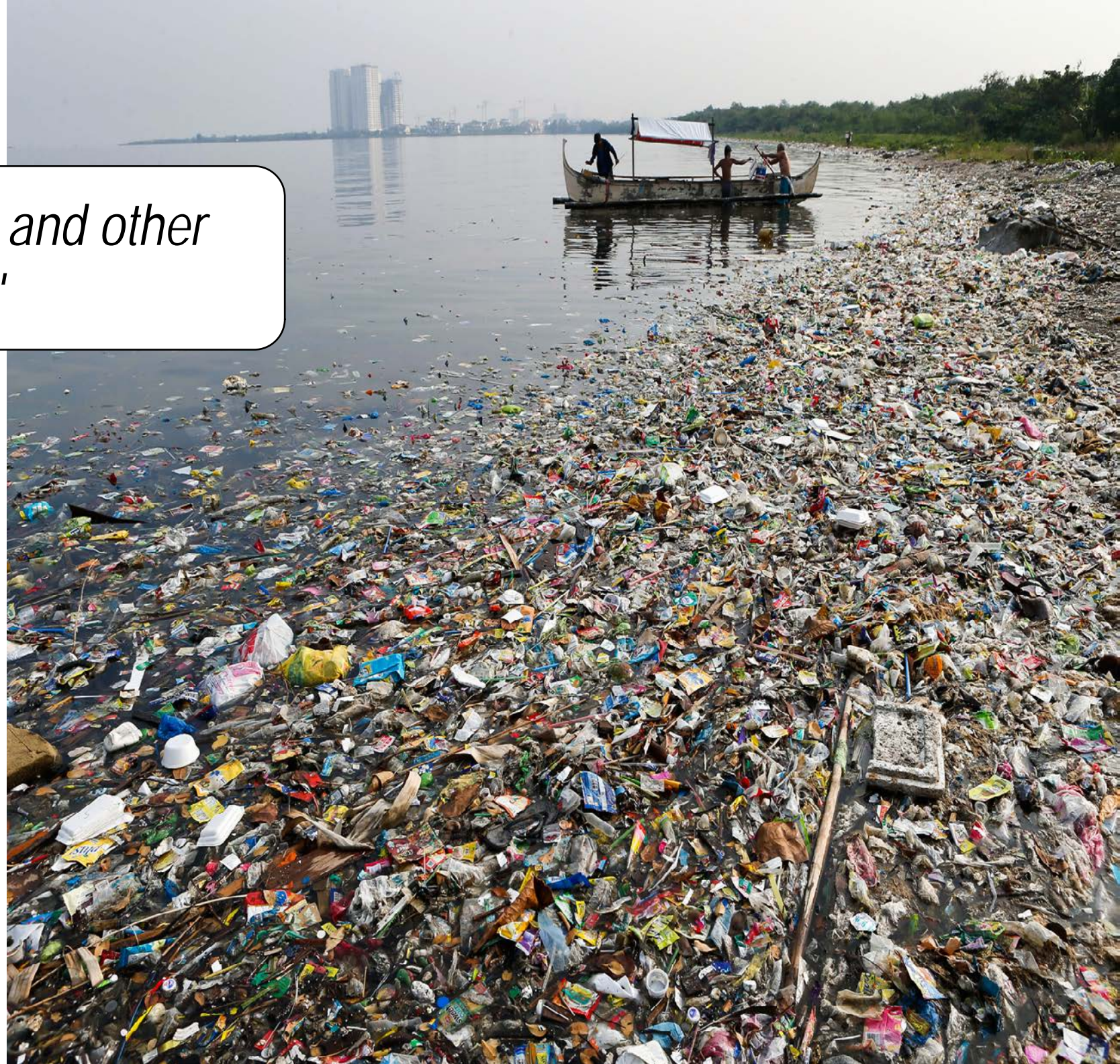
Regulatory Risks

"EU proposes ban on straws and other single-use plastics"

28 May 2018



Source: <http://www.bbc.com/news/business-44280532>



Reputation Risks - Public-Facing Campaign

Toxic 100 Air Polluters Index (2018 Report, Based on 2015 Data)

Toxic 100 Air Rank	Corporation	Toxic score (pounds released, toxicity, and population exposure)	Millions of pounds of toxic air releases	Millions of pounds of toxic incineration transfers	EJ: Poor Share	EJ: Minority Share
1	DowDuPont	6,021,585	8.22	23.53	22%	51%
2	Berkshire Hathaway	5,587,777	2.36	0.1	20%	34%
3	General Electric	4,813,749	1.51	0.13	25%	55%
4	Royal Dutch Shell	4,666,378	2.46	0.24	20%	67%
5	TMS International Corp	3,172,269	0.03		33%	72%
6	Arconic	2,671,242	0.39		24%	58%
7	LyondellBasell Industries	2,431,292	5.67	5.4	20%	70%
8	Robert Bosch	2,368,260			14%	36%
9	Freeport-McMoRan	1,925,413	6.81		27%	48%
10	Exxon Mobil	1,919,199	8.97	0.39	24%	69%
11	United Technologies	1,839,298	0.05		18%	49%
12	BASF	1,795,499	5.18	1.53	26%	44%
13	Schlumberger	1,613,639	0.02	0.01	23%	70%
14	Koch Industries	1,440,316	30.24	3.13	19%	44%
15	BP	1,401,273	1.93	0.04	19%	35%
16	Nucor	1,272,847	0.32		34%	67%
17	Huntsman	1,166,673	0.67	7.94	18%	41%
18	Valero Energy	1,145,710	5.13	0.05	20%	65%
19	Eastman Chemical	1,083,117	6.75	0.09	22%	24%
20	Phillips 66	1,041,909	4.87	0.07	19%	57%



Green Investment



A Landmark Letter
by BlackRock CEO Larry Fink
to Corporate CEOs

"I am warning that they will only fulfill their potential if they have a "sense of purpose" when it comes to environmental, social and governance (ESG) issues.



BLACKROCK
January 12, 2018

Dear _____

As BlackRock approaches its 30th anniversary this year, I have had the opportunity to reflect on the most pressing issues facing investors today and how BlackRock must adapt to serve our clients more effectively. It is a great privilege and responsibility to manage the assets clients have entrusted to us, most of which are invested for long-term goals such as retirement. As a fiduciary, BlackRock engages with companies to drive the sustainable, long-term growth that our clients need to meet their goals.

In 2017, equities enjoyed an extraordinary run – with record highs across a wide range of sectors – and yet popular frustration and apprehension about the future simultaneously reached new heights. We are seeing a paradox of high returns and high anxiety. Since the financial crisis, those with capital have reaped enormous benefits. At the same time, many individuals across the world are facing a combination of low rates, low wage growth, and inadequate retirement systems. Many don't have the financial capacity, the resources, or the tools to save effectively; those who are invested are too often over-allocated to cash. For millions, the prospect of a secure retirement is slipping further and further away – especially among workers with less education, whose job security is increasingly tenuous. I believe these trends are a major source of the anxiety and polarization that we see across the world today.

We also see many governments failing to prepare for the future, on issues ranging from retirement and infrastructure to automation and worker retraining. As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders. It will succumb to short-term pressures to distribute earnings, and, in the process, sacrifice investments in employee development, innovation, and capital expenditures that are necessary for long-term growth. It will remain exposed to activist campaigns that articulate a clearer goal, even if that goal serves only the shortest and narrowest of objectives. And ultimately, that company will provide subpar returns to the investors who depend on it to finance their retirement, home purchases, or higher education.

A New Model for Corporate Governance

Globally, investors' increasing use of index funds is driving a transformation in BlackRock's fiduciary responsibility and the wider landscape of corporate governance. In the \$1.7 trillion in active funds we manage, BlackRock can choose to sell the securities of a company if we are doubtful about its strategic direction or long-term growth. In managing our index funds, however, BlackRock cannot express its disapproval by selling the company's securities as long as that company remains in the relevant index. As a result, our responsibility to engage and vote is more important than ever. In this sense, index investors are the ultimate long-term investors – providing patient capital for companies to grow and prosper.

Just as the responsibilities your company faces have grown, so too have the responsibilities of asset managers. We must be active, engaged agents on behalf of the clients invested with BlackRock, who are the true owners of your company. This responsibility goes beyond casting proxy votes at annual meetings – it means investing the time and resources necessary to foster long-term value.



Key Takeaways

AGAIN: Natural capital assessments are increasingly being used by businesses in corporate financial, risk and environmental management processes.







How can CNCA be incorporate into business decisions?



ENVIRONMENTAL PROFIT AND LOSS ACCOUNT

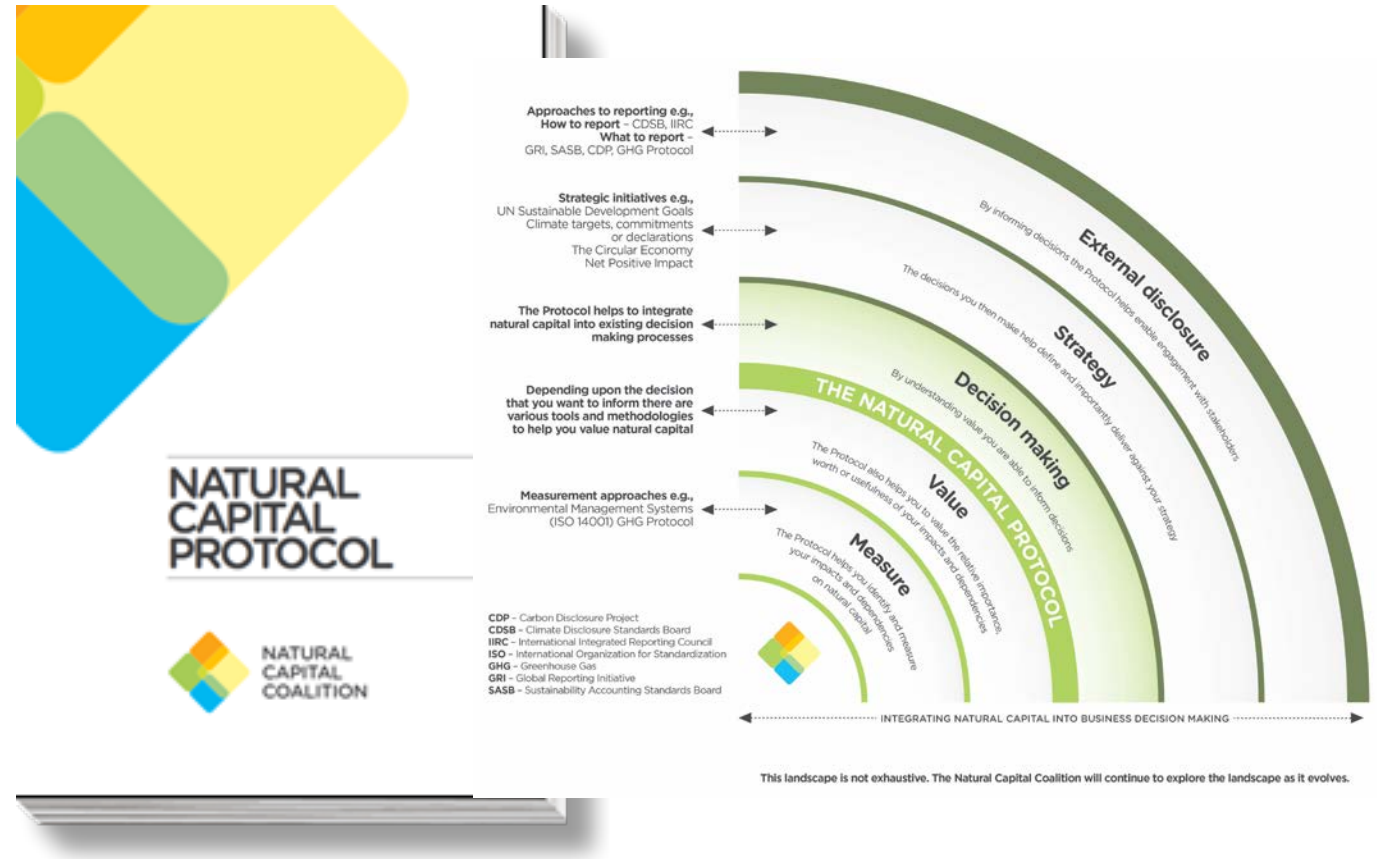
WHAT IS AN E P&L?

The monetary value of the EP&L is the amount to be paid, if the environment billed us for providing clean water and air, restoring soils and the atmosphere and decompose waste.

	EMISSIONS AND RESOURCE USE	ENVIRONMENTAL CHANGE	CHANGE IN WELLBEING
AIR POLLUTION 	Emissions of pollutants (PM _{2.5} , PM ₁₀ , NOx, SOx, VOCs, NH ₃) in kg	Increase in concentration of pollution	Respiratory disease, agricultural losses, reduced visibility
GREENHOUSE GAS EMISSIONS 	Emissions of greenhouse gases (CO ₂ , N ₂ O, CH ₄ , CFC's etc) in kg	Climate change	Health impacts, economic losses, change in natural environment
LAND USE 	Area of tropical forest, temperate forest, inland wetland etc in hectares	Reduced ecosystem services	Health impacts, economic losses, reduced recreational and cultural benefits
WASTE 	Hazardous and non-hazardous waste in kg	Climate change, disamenity and contamination	Reduced enjoyment of local environment, decontamination costs
WATER CONSUMPTION 	Water consumption in m ³	Increasing water scarcity	Malnutrition and disease
WATER POLLUTION 	Release of specific heavy metals, nutrients, toxic compounds in kg	Reduced quality water	Health impacts, eutrophication, economic losses

Tools to Incorporate CNCA into Business Decisions

A New Era of Corporate Disclosure



Key Takeaways

Globally, we are drawing down on our natural capital provisions at a rate of **50 percent more per year than the earth can replenish** and the rate of depletion is accelerating.

Natural assets are co-owned so value that corporates derive from their **consumption is in fact value that they are deriving from society at large**, often at a discount, or even for free.



XBRL & CNCA



Multiple CNCA Reporting Frameworks

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Corporate Natural Capital Reporting Frameworks

Statistical Natural Capital Accounting Framework

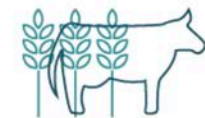
🚩 Purpose
🔍 Scope
📄 Content
● = Full coverage
◐ = Partial coverage
Click on each button for more information

Scope of standard or framework through the lens of «IR»

Initiative	Financial capital	Manufactured capital	Intellectual capital	Human capital	Social and relationship capital	Natural capital
CDP's Information Requests						●
CDSB Framework for reporting environmental information and natural capital						●
FASB Accounting Standards	●	◐	◐	◐		◐
GRI G4 Sustainability Reporting Guidelines and G4 Sector Disclosures				●	●	●
International Financial Reporting Standards	●	◐	◐	◐		◐
ISO 26000 – Social responsibility			◐	●	●	●
Sustainability Accounting Standards				●	●	●

System of Environmental-Economic Accounting (SEEA)

The SEEA is a guide to integrating economic, environmental and social data into a single, coherent framework for holistic decision-making.



Agriculture, Forestry and Fisheries



Air Emissions Accounts



Energy



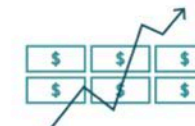
Environmental Activity Accounts



Ecosystem Accounts



Land Accounts



Material Flow Accounts



Water

Two CNCA Technical Standards?

Corporate Natural
Capital Disclosure
Framework



Statistical Natural
Capital Accounting
Framework



Natural Capital Accounting Today

Differences are related to the different focus of interest

Entity Disclosures

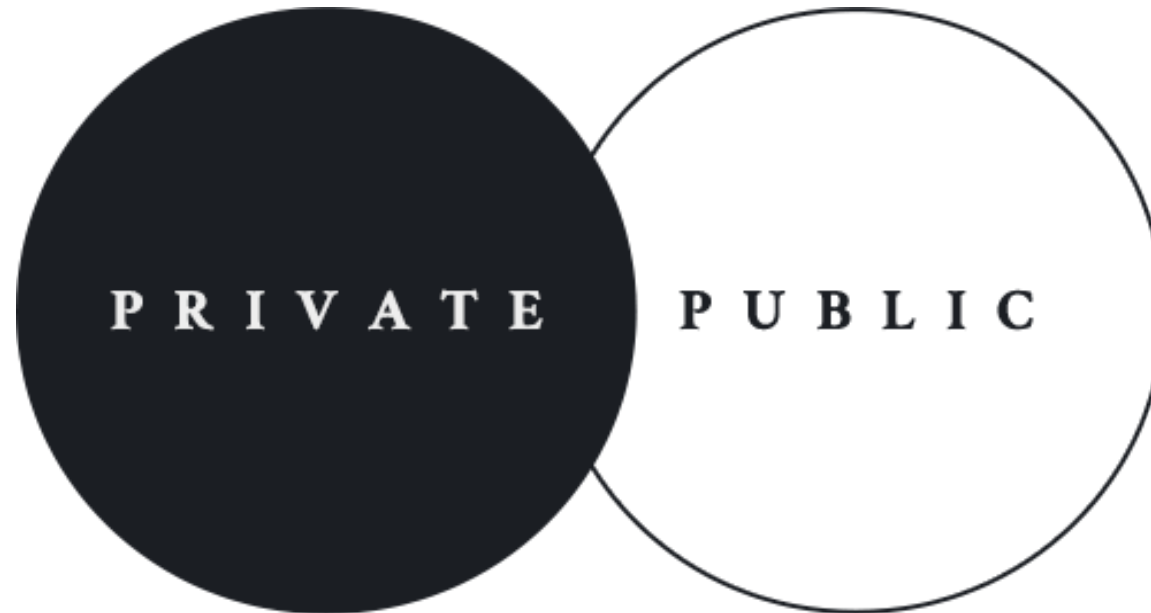
National Accounts Data

PURPOSE:

- Assessment of business impacts and dependencies on natural capital
- To help generate trusted, credible and actionable information to inform decisions

MEASUREMENTS:

- Companies focused mainly on measuring flows of natural capital.
- Companies use prices and/or values (changes on welfare), depending on the perspective of their assessment (business vs. societal).



PURPOSE:

- Support policy-makers on assuring future growth and society's welfare, including management of sector and thematic issues (e.g. forestry, water)
- Assessment of depletion and degradation of natural capital at national and sector level, measurement of environmental pressures and policy responses.

MEASUREMENTS:

- SEEA measures both stocks and flows.
- Market prices is the most common monetary valuation approach used in SEEA. There is also a more experimental approach to promote the assessment of non-market values of ecosystem services.

Do we have a problem?

Key Takeaways

- Two Technical Standards
- Multiple Reporting Frameworks
- Different Purposes



The ICAEW Natural Capital Accounting - Structured Data Task Force (INCA-SDTF)

Purpose: The UK Environmental Accounts by 2020

Deliverables: The UK CNCA XBRL Feasibility Study

Release Date: Sept. 11, 2018, San Francisco



Department
for Environment
Food & Rural Affairs



Office for
National Statistics



ICAEW
CHARTERED
ACCOUNTANTS

(INCA-SDTF) Co-Chairs:

- Liv Watson
- Brad Monterio

Recommendation Scenarios

Alternative 1

The 2020 Strategic
Report Scenario

Alternative 2

The Online Survey
Scenario

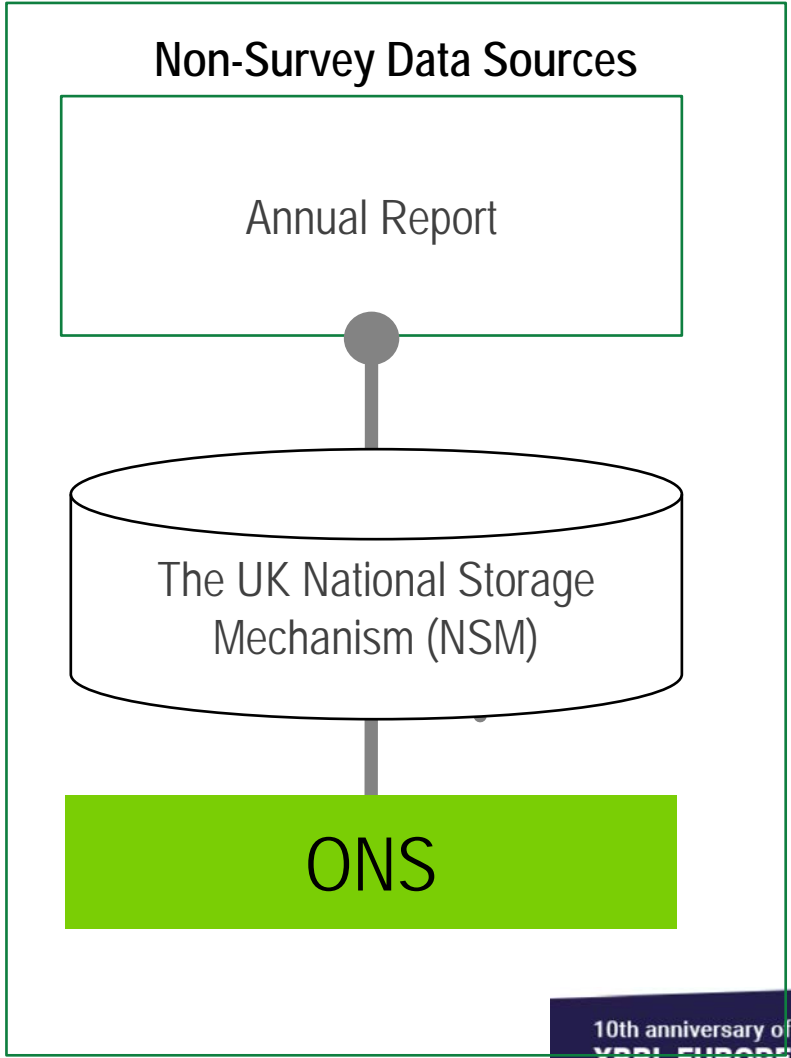
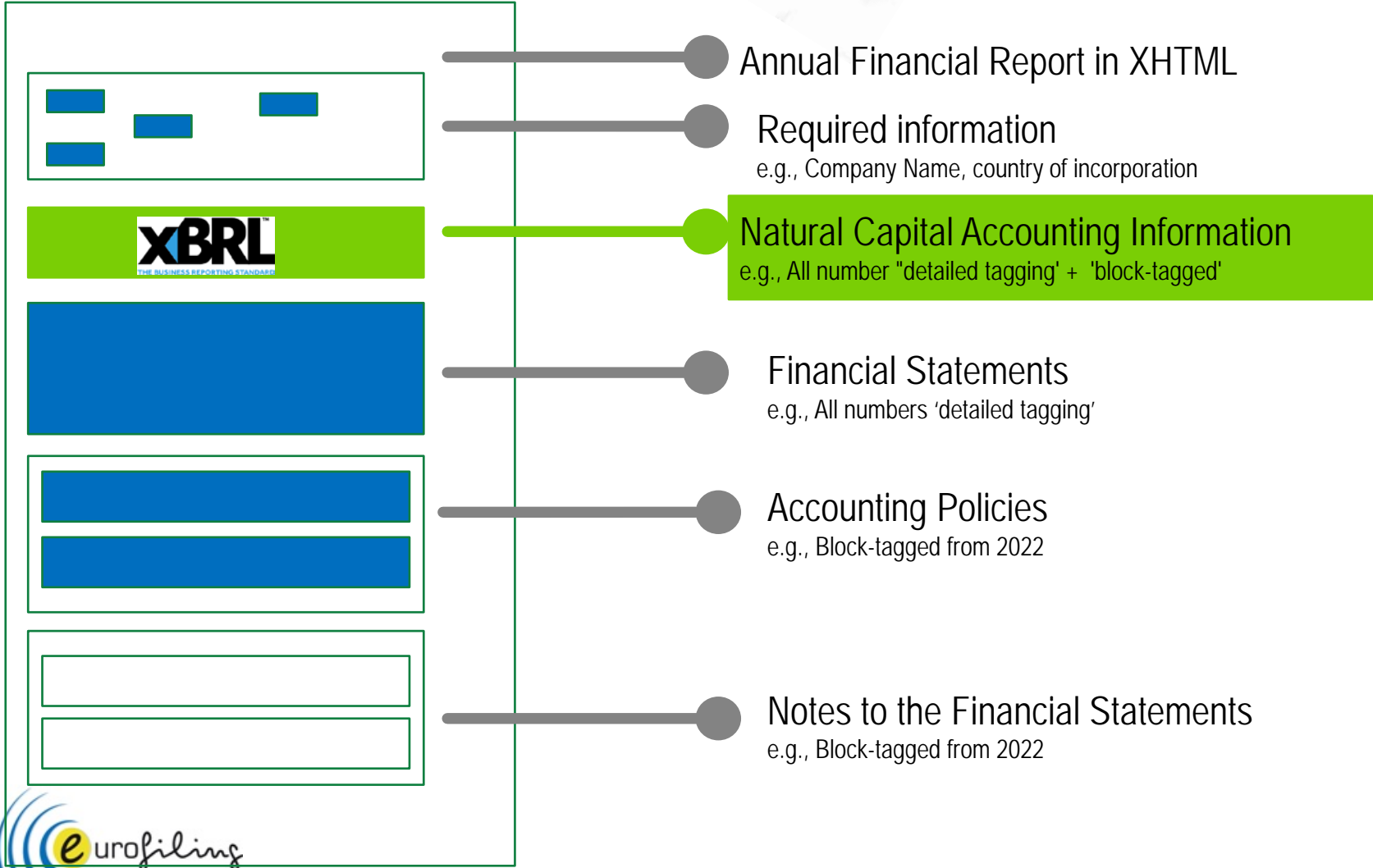
Alternative 3

Data Aggregators
Scenario

DRAFT

Alternative 1: The 2020 Strategic Report Scenario

DRAFT



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The new non-financial reporting regulations apply to certain large companies and qualifying partnerships with more than 500 employees.

New Development

The Data Information Flow Steering Group



The Natural Capital Coalition



+

UN Environment World Conservation Monitoring Centre (UNEP-WCMC)

Objectives: Addressing Data Barriers: The Project Approach

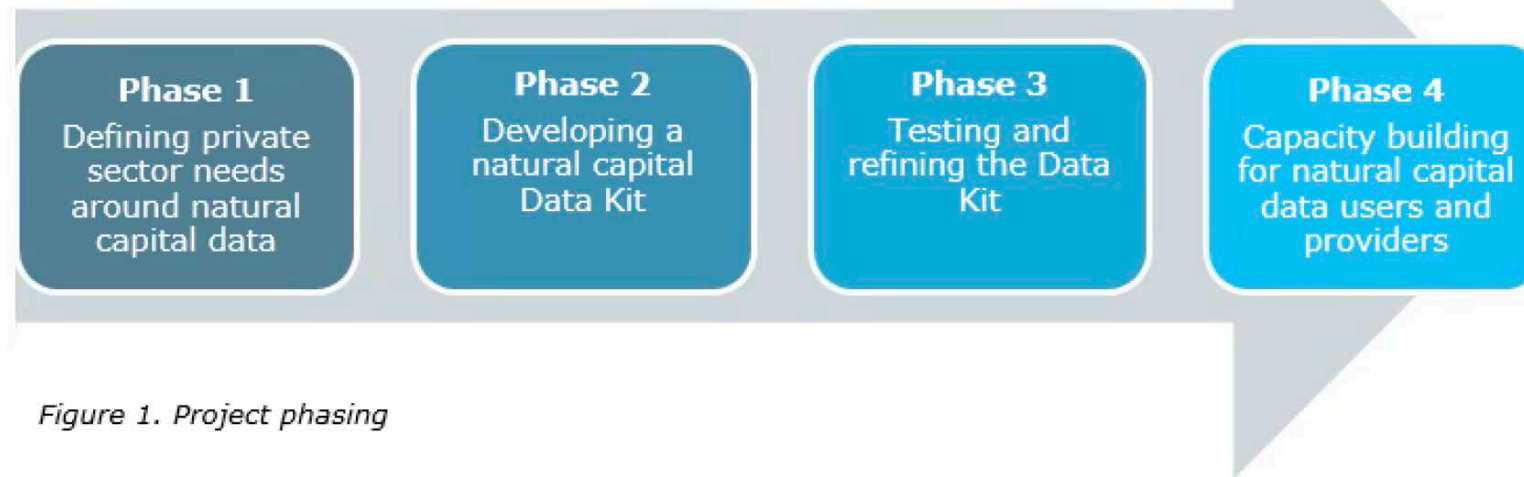


Figure 1. Project phasing

For more information: <https://naturalcapitalcoalition.org/projects/data-kit/>

Questions ?



Thank you!

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