

CONSULTATION RESPONSE

U.S. OFFICE OF MANAGEMENT AND BUDGET: STRATEGIC PLAN ON STATISTICS FOR ENVIRONMENTAL-ECONOMIC DECISIONS “RFI-NATURAL CAPITAL” (OMB-2022-0009)

21 October 2022

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To inform this briefing, the following investor group has been consulted: PRI Global Policy Reference Group and Sustainable Commodities Practitioners Group. This consultation is not an endorsement or acknowledgement of the views expressed in this briefing.

INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the White House Office of Management and Budget's call for feedback on the National Strategy to Develop Statistics for Environmental-Economic Decisions.

ABOUT THIS CONSULTATION

The White House developed a draft National Strategy to Develop Statistics for Environmental-Economic Decisions, in the form of a System of Natural Capital Accounting and Associated Environmental-Economic Statistics. The proposed draft seeks to provide new information on links between nature and the economy.

The PRI welcomes the development of a Natural Capital Accounting system in the US. Principle 1 of the Principles for Responsible Investment states that signatories "will incorporate ESG issues into investment analysis and decision-making processes". New information on the relationship between nature and the economy, in the form of Natural Capital Accounts, will aid investors in considering risks related to nature loss.

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SUMMARY OF THE PRI'S POSITION

The PRI welcomes the “National Strategy to Develop Statistics for Environmental-Economic Decisions” (National Strategy) for the following reasons:

- By measuring and reporting on stocks and flows of natural capital, natural capital accounts can provide tangible proof of the dependency of economic sectors on nature, and further cement the awareness of associated risks across the financial sector.
- The development of a “Change in Natural Asset Wealth” indicator would support better assessments of the system-level risk impacted by nature loss for the financial sector.
- The establishment of national natural capital accounts provides a reliable source of information to support financial institutions in measuring and valuing the physical risks associated with the real-world impacts of their investments over time.
- Natural capital accounts provide the opportunity for investors to access up-to-date information on the state of nature and identify priority areas where natural capital is being over utilized, for further consideration and engagement with their investees.
- Natural capital accounts could support efforts from investors to identify financial opportunities over time, by highlighting the economic benefits generated from the sustainable use, and long-term halt and reversal of nature loss.

KEY RECOMMENDATIONS

The PRI recommends the National Strategy:

- Align with global natural capital accounting standards, such as the UN System of Environmental Economic Accounting.
- Build on the research and initiatives that have looked to integrate natural capital accounting into private sector practices and processes, such as the Natural Capital Protocol. Global alignment is particularly important to facilitate use of natural capital accounting concepts and information by global investors operating across jurisdictions, including US-based investors.
- Establish a forum for dialogue and input from the private sector—including institutional investors—into the development of Natural Capital Accounts, to ensure the statistics and data generated are also useful and fit for business and financial decision-making.

DETAILED RESPONSE

THE PRI'S POSITION REGARDING NATURE-RELATED RISK AND NATURAL CAPITAL ACCOUNTING

Nature-related risks are increasingly relevant to institutional investors. The development of a natural capital accounting system would enable necessary investor action and risk management. With an unprecedented loss of nature globally, as highlighted by the landmark global assessment from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, institutional investors have a role to play and a responsibility to help halt and reverse nature loss in order to ensure sustainable investments in the long-term.¹

Globally, the financial sector has become increasingly aware of its impacts and dependencies on nature. Building on the ENCORE Knowledge Base², the Dutch³ and French⁴ Central Banks have published analyses of the financial risk associated with ecosystem services provided by nature. The Taskforce on Nature-related Financial Disclosures (TNFD)⁵ has defined three overarching categories of nature-related risk that are relevant to investment decision-making:

- Physical risks are “potential threats posed to an organisation linked to its and other organisations’ dependencies on nature and nature impacts”;
- Transition risks are “risks that result from a misalignment between an organisation’s or investor’s strategy and management and the changing regulatory or policy landscape in which it operates. Developments aimed at halting or reversing the damage to nature, such as government measures, technological breakthroughs, market changes, litigation and changing consumer preferences can all impact risks”; and
- Systemic risks are “risks arising from the breakdown of the entire system, rather than the failure of individual parts. Characterised by modest tipping points combining indirectly to produce large failures and cascading interactions of physical and transition risks (contagion), as one loss triggers a chain of others and stops systems from recovering their equilibrium after a shock.”

By measuring and reporting on stocks and flows of natural capital, natural capital accounts can provide tangible proof of the dependency of economic sectors on nature, and further cement the awareness of associated risks across the financial sector. It could in particular reflect the costs associated with the loss of ecosystem services for businesses and investors.

The development of a “Change in Natural Asset Wealth” indicator would support better assessments of the system-level risk triggered by nature loss. Research shows that more than half of the world’s total GDP, more than \$44 trillion, is moderately or highly dependent on nature.⁶ The Network for Greening the Financial System has acknowledged that nature-related risks could have

¹ IPBES (2019), [Global Assessment Report on Biodiversity and Ecosystem Services](#)

² ENCORE, [Exploring Natural Capital Opportunities, Risks and Exposure](#)

³ DeNederlandscheBank (2020), [Indebted to Nature: Exploring Biodiversity Risks in the Dutch Financial Sector](#)

⁴ Banque de France, [A “Silent Spring” for the Financial System? Exploring Biodiversity-Related Financial Risks in France](#)

⁵ Taskforce for Nature-Related Financial Disclosures, [TNFD Framework](#)

⁶ World Economic Forum (2020), [Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy](#)

significant macroeconomic implications, and that failure to account for, mitigate and adapt to these implications is a source of risks relevant for financial stability.⁷ It has further called on central banks and supervisors to consider nature-related financial risks for the fulfilment of their mandate, including through scenario analysis and macroeconomic models that include natural capital. Furthermore, the International Corporate Governance Network identified water scarcity as a significant systemic threat to the stability of the financial system in 2019.⁸ The Coalition of Finance Ministers for Climate Action have also called on Ministries of finance to support the implementation of national and subnational natural capital accounts, together with other relevant Ministries and agencies.⁹ Although the indicator will not be a direct measure of the system-level risk triggered by nature loss, it could support assessments by financial regulators.

The establishment of national natural capital accounts provides a reliable source of information to support financial institutions in measuring and valuing the physical risks associated with their investments. Financial institutions do not have the capacity and expertise to carry out natural capital assessments across their portfolio and rely on disclosure and third-party data sources. In fact, 70% of investors believe that a lack of available data is a key barrier to making investments supporting biodiversity.¹⁰ A PRI signatory that used natural capital accounting to better understand the risks of its real asset portfolio identified the biggest challenge as the collation of both internal and external datasets and had to rely on both private and public sources. Availability and suitability of nature-related data will therefore be fundamental to facilitate ongoing efforts to increase corporate disclosure and accountability.¹¹ Data from national natural capital accounts may not be directly applicable for risk analysis by investors, beyond macro-level assessments, but should be sufficiently granular and consistent to support such analysis.

Furthermore, natural capital accounts provide investors with up-to-date information on the state of nature and enable investors to identify priority areas where natural capital has been identified as depleting. This information could aid further engagement by investors on this topic. In collaboration with UNEP-WCMC, the PRI have developed maps to showcase hotspots of relative natural capital depletion on a global scale.¹² Those maps are intended to help investors identify potential portfolio exposure to natural capital depletion and refine their engagement strategies with investees. However, due to the nature of the underlying datasets, those global maps are relatively coarse in resolution and remain static in time.

The development of natural capital accounts would support efforts from investors to identify financial opportunities over time, by highlighting the economic benefits generated from the halt and reversal of nature loss. Because natural capital accounts enable a shift from the measurement

⁷ Network for Greening the Financial System (2022), [Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability](#)

⁸ International Corporate Governance Network (2019), [Investor Framework For Addressing Systemic Risks](#)

⁹ Power, Samantha; Nepomuk Dunz, and Olga Gavryliuk. (2022), [An Overview of Nature-Related Risks and Potential Policy Actions for Ministries of Finance: Bending the Curve of Nature Loss](#)

¹⁰ Responsible Investor and Credit Suisse (2021), [Unearthing Investor Action on Biodiversity](#)

¹¹ United Nations Finance Initiative (April 2022), [Nature in a haystack: Leveraging public nature-related data in disclosure frameworks](#)

¹² Principles for Responsible Investment (2021), [Mapping Natural Capital Depletion: How Investors can Identify Portfolio Exposure and Take Action](#)

of impacts and dependencies on nature to their valuation, they generate a better understanding of the value of financial decisions to society and to the economy.¹³ This could strengthen the business case for nature-based solutions, by providing evidence of the benefits of investing in nature over time.¹⁴

The development of natural capital accounts over a sufficient length of time would enable investors to better understand the impact of their investment decisions on nature, including on nature loss. With the increased recognition that responsible investors should act on sustainability outcomes¹⁵, data needs are changing. Natural capital accounts will provide investors with an additional tool to consider the outcomes of their investment decisions on the environment and help investors track whether real world outcomes related to natural capital are changing. This will further support meaningful contribution from the financial sector in achieving the goals and targets within the post-2020 global biodiversity framework, to be agreed upon during the 15th Conference of Parties of the Convention on Biological Diversity in December 2022.

DETAILED RECOMMENDATIONS

The PRI supports alignment of the National Strategy with global natural capital accounting standards such as the UN System of Environmental Economic Accounting.¹⁶ Consistency of data and information across jurisdictions helps global investors develop reliable decision-making processes. There is currently no standardised approach on the metrics and indicators to be used to measure impact or dependency of investments on nature¹⁷; but consistency in the underpinning data provides a valuable starting point.

We also recommend building on the research and initiatives that have looked to integrate natural capital accounting into private sector practices and processes, such as the Natural Capital Protocol and its Finance Sector Supplement.¹⁸ This will ensure that the information generated in the natural capital accounts is also relevant and fit-for-purpose for the financial sector and supports its mainstream usage.

We also recommend including within the Strategic Plan the establishment of a forum for dialogue and input from the private sector into the development of Natural Capital Accounts, to ensure the statistics and data generated are also useful and fit for business and financial decision-making.

¹³ Natural Capital Coalition, [Natural Capital Protocol](#)

¹⁴ UN Environment Programme (May 2021), [State of Finance for Nature](#)

¹⁵ The Principles for Responsible Investment (June 2020), [Investing with SDG Outcomes: A Five-Part Framework](#)

¹⁶ UN System of Environmental Economic Accounting (2022) [System of Environmental Economic Accounting Homepage](#)

¹⁷ Taskforce for Nature-Related Financial Disclosures (June 2022), [TNFD framework beta v0.2](#)

¹⁸ Capitals Coalition (2018), [Finance Sector Supplement](#)

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the U.S. Office of Science and Technology Policy further to develop statistics for environmental-economic decisions in the United States of America.

Please send any questions or comments to policy@unpri.org.

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