

Policy Statement

Standing for trust and integrity

January 2011



Sustainability

Preserving our natural capital: ecosystems and biodiversity

FEE (Fédération des Experts Comptables Européens – Federation of European Accountants) wishes to share its strategy on sustainability in the form of a series of policy statements' on sustainability and the accountancy profession. FEE acknowledges that the urgent nature of the challenge of sustainability is becoming widely recognised. At the level of the organisation, accountants whether in business, the public sector or within the world of professional practice, must rise to the challenge of sustainability which touches on many areas of traditional competencies.

About FEE

FEE (Fédération des Experts comptables Européens - Federation of European Accountants) represents 45 professional institutes of accountants and auditors from 33 European countries, including all 27 EU Member States. In representing the profession, FEE recognises the public interest. FEE has a combined membership of more than 500.000 professional accountants working in different capacities in public practice, small and larger firms, business, public sector and education, who all contribute to a more efficient, transparent, and sustainable European economy. Based on the practical experience gained in this daily involvement in all aspects of the economy and the set of values underpinning the profession's practice, FEE believes it has a contribution to make in this public policy debate.

Introduction

The Conference of Parties to the Convention on Biological Diversity (COP 10) in Nagoya in October 2010 has put into the spotlight the significant levels of destruction of our natural capital. This is now becoming one of the most important concerns for business and society today as the destruction of ecosystems and biodiversity gives rise to a range of risks. However, it also

represents substantial opportunities for business. FEE believes that the accountancy profession has a substantial contribution to make in the challenge that the depletion of our natural capital presents. The profession recognises the scale of the problem we face and how to respond to it both in terms of mitigation and adaptation.

Context

The diversity and services that nature provides underpin the financial success of our businesses. In many cases these are utilised without direct cost. However, the manner and levels of our consumption are now leading the destruction of our ecosystems and biodiversity.

Whilst the cost of this is currently largely borne by the world's poorest, it will eventually affect us all as human, environmental and economic systems are linked in complex ways. The long-term viability of society and economy depend on maintaining our natural capital.

From a corporate perspective much of this can be discussed in terms of externalities. Companies

create costs and benefits through their activities that are not necessarily reflected on their profit and loss statements or in their share price. For example, companies can deplete natural capital (which includes our ecosystems and biodiversity) at prices which do not reflect the true social costs of such uses. These costs are known as "externalities".

The data surrounding the challenges we face are almost overwhelming. However, there are a number of authoritative voices in this space who are now placing these debates in the mainstream. For example, at Nagoya the UN Environment Programme's TEEB (*The Economics of Ecosystems and Biodiversity*) project delivered its final,

FEE believes that the accountancy profession has a substantial contribution to make in the challenge that the depletion of our natural capital presents. The profession recognises the scale of the problem we face and how to respond to it both in terms of mitigation and adaptation. Good quality, trusted information that goes to the right decision makers is vital.

synthesis report, *Mainstreaming the Economics of Nature: A synthesis of the approach, conclusions and recommendations of TEEB*, which is perhaps the authoritative source. On a global scale the estimated economic cost of the loss of ecosystems and biodiversity is placed at US\$2-4.5 trillion, 3.3-7.5% of world GDP (TEEB *Cost of Policy Inaction Report 2008*). This is a much greater price than The Stern Report put on Climate Change.

Another example, which usefully summarises the risks and opportunities that

A way forward

So today's imperative is for a market system that rewards businesses for recognising the value of and maintaining ecosystems and biodiversity. The argument is no longer about "environment" or "prosperity" but how to achieve a sustainable and prosperous world.

FEE believes that good quality, trusted information that goes to the right decision makers is vital to the success of such a system. This and the processes that support it are the natural territory for accountants. Without better information we are unlikely to be able to progress our understanding of the issues that face us, understand the impact of what we do or make good decisions.

Role of the profession

FEE believes that there is a significant role for the profession, ranging from developing methodologies for the valuation of natural capital, ecosystems and biodiversity through to the generation of decision-useful information in these areas for managers and stakeholders, costing likely impacts and linking this to financial performance. The profession also has a crucial role to play in building

businesses face is the UNEP Finance Initiative report *Demystifying Materiality; Hardwiring Biodiversity and Ecosystems Services into Finance*. Some of the key risks that this report highlights are: reputational; regulatory; credit; operational; and legal liability/litigation. At a day-to-day level these could manifest themselves as consumer boycotts, disrupted supply chain, fines, damage to equipment or limited availability of resources. At the same time there is also huge opportunity for business here in terms of new products and asset innovation.

At the heart of accounting is the concept of capital maintenance and capital in its broadest sense is what sustainability – and ecosystems and biodiversity within that – is all about. Accounting enables business managers and stakeholders to assess whether a company has depleted or increased its financial capital by making profits and losses. Similar concepts can be applied to the natural world and the skill set that the accountancy profession has, can clearly be of great value to this debate.

Whilst the depletion of our natural capital presents a huge business risk and good environmental stewardship offers equally big opportunities, we are reliant on information to give us the size of the challenge or the prize.

trust in information through the provision of assurance services. For standard-setters the challenge and the opportunity is to develop new ways by which such information can be presented to meet the demands of markets and actors within them.



¹ Other Policy Statements issued can be found at the following link: http://www.fee.be/publications/default.asp?library_ref=4&category_ref=235