

Guernsey Financial Services Commission

**Extending the Sustainable Funds Regime:
Consultation Paper on Natural Capital Fund Rules**

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Responses to this Consultation Paper are sought by 4 July 2022.

We welcome and encourage respondents to provide feedback or comment on any section and question. Feedback may be provided via the Consultation Hub section of the Commission's website (www.gfsc.gg).

Background

This consultation paper proposes the creation of new fund rules providing for the voluntary application for designation by the Commission of registered or authorised collective investment schemes as Natural Capital Funds. Designation would be available to funds committed to making a nature-positive investment, setting and monitoring appropriate targets, and making relevant disclosures. Nature-positive investments are those with an objective to contribute positively to and/or significantly reduce the harm done to the natural world, including through transitional strategies.

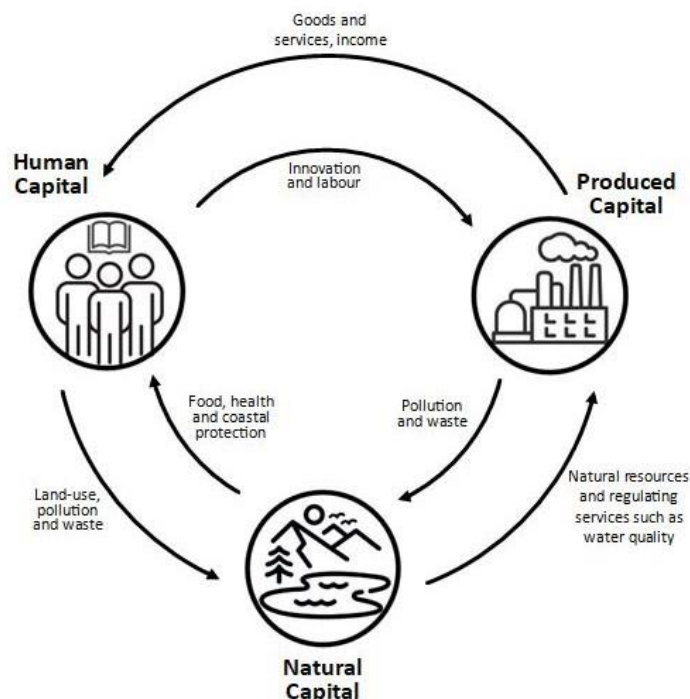
The draft Natural Capital Fund Rules, which include guidance, are attached to this Consultation Paper at Appendix 1. The Commission welcomes feedback and comments on the draft rules and the proposals as set out in this Consultation Paper.

What is Natural Capital?

“Natural Capital” may be defined as:

The stock of renewable and non-renewable natural assets (e.g. ecosystems) that yield a flow of benefits to people (i.e. ecosystem services). The term ‘natural capital’ is used to emphasise it is a capital asset, like produced capital (roads and buildings) and human capital (knowledge and skills).¹

The concept of natural capital seeks to recognise the role of nature as an asset which is key to the sustained functioning of human social and economic activity. Examples of natural capital include clean air, water supply, plant life, animals, soils and minerals.



¹ The Economics of Biodiversity: The Dasgupta Review, HM Treasury, February 2021

International Developments

Recognition of natural capital has not been a feature of traditional economic or accounting models and the concept has not normally been taken into account in financial risk assessment or investment decision making. In many international fora the ability to better understand and evaluate the contribution of natural assets, and the risks of their loss, is being viewed with increasing importance.

Biodiversity is declining faster than at any time in human history² and steps are being taken at a global level to institute transformative change:

- The second phase of the 15th United Nations Conference of the Parties (COP15) to the Convention on Biological Diversity (CBD)³ is scheduled to take place in the third quarter of 2022 and is anticipated to approve a Post-2020 Global Biodiversity Framework⁴ to galvanize urgent action by governments, businesses and civil society to meet targets to counter biodiversity loss and promote the recovery of natural ecosystems. The draft Framework sets a number of goals and targets (set out at Appendix 2) including closing the shortfall in available financial resources necessary to implement the framework. It is estimated that this will require up to at least US \$700 billion per year by 2030.
- The United Nations 2030 Agenda for Sustainable Development was adopted by UN Member States in 2015 and sets out wide ranging Sustainable Development Goals “for peace and prosperity for people and the planet, now and into the future”. There are goals addressing sustainable consumption, climate change, ocean conservation and protection of terrestrial ecosystems; all of which align with a natural capital agenda.
- The Taskforce on Nature-related Financial Disclosures (TNFD), a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, was formed in 2021. The TNFD published a beta version of a framework for Nature-related Risk & Opportunity Management and Disclosure in March 2022⁵. The TNFD is not a standard setter but acts as a parallel body to the Task Force on Climate-related Financial Disclosures, it will issue guidance broadly aligning with the targets of the CBD and will feed into the work of the recently formed International Sustainability Standards Board (ISSB).
- The ISSB was established in late 2021 by the IFRS Foundation to create global standards for sustainability disclosure and published in March 2022 its first, climate-related standard, based on the TCFD recommendations for consultation. It is anticipated that a nature-related disclosure standard will be developed thereafter.
- The Network for Greening the Financial System, an international network of 83 central banks and financial supervisors (of which the Commission has been a member since 2019) issued a comprehensive report on how members can fulfil their mandates in the context of biodiversity loss in March 2022⁶. The report concludes that biodiversity loss is a source of financial risk relevant to financial stability and falls within the mandate of financial supervisors. One of the report’s recommendations is the building of the necessary financial architecture for mobilising investment for a biodiversity-positive economy.

² [The Global Assessment Report on Biodiversity and Ecosystem Services, Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019](#)

³ With 196 national government signatories the Convention has near universal participation.

⁴ [First draft of the post-2020 global biodiversity framework, Convention on Biological Diversity, 5 July 2021 \(cbd.int\)](#)

⁵ [Welcome to the TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework » TNFD](#)

⁶ [Central banking and supervision in the biosphere: An agenda for action on biodiversity loss, financial risk and system stability, NGFS-INSPIRE Study Group on Biodiversity and Financial Stability, March 2022](#)

In November 2021, at the invitation of the Network for Greening the Financial System, and in support of this body's COP26 Glasgow Declaration⁷ "Committed to Action", the Commission pledged to extend the regulatory regime for sustainable funds⁸. The proposals in this consultation paper seek to fulfil this pledge.

⁷ NGFS Glasgow Declaration, Network for Greening the Financial System, 3 November 2021

⁸ <https://www.gfsc.gg/green-approach>

Key Proposals

Designation as a Natural Capital Fund (NCF)

It is proposed that the NCF designation will be an optional “overlay” available in addition to the authorisation or registration of a collective investment scheme. Once designated as an NCF, a fund must comply with the requirements of both the NCF Rules and the core rules under which it is authorised or registered.

Investment objective

As any other fund, an NCF must be established with the objectives of spreading risk and seeking a financial return for investors. Additionally, it is proposed that to qualify for the designation as an NCF, a fund’s overall investment objectives must encompass making a positive contribution and/or significantly reducing the harm done to the natural world. NCFs would be expected to align their objectives with the parts of the Convention on Biological Diversity’s Post-2020 Global Biodiversity Framework’s 2030 Action Targets and the United Nations’ Sustainable Development Goals 12-15 which may be relevant to their investment focus.

Both frameworks were developed by the United Nations, are well-respected internationally in the sustainable finance community, were designed with the immense variety of natural capital in mind and provide a comprehensive understanding of the strategies and goals necessary to abate natural capital loss. By aligning its investment strategy with these frameworks, an NCF will have the flexibility to adopt the sections of the frameworks relevant to its specific investment focus while operating in line with internationally recognised standards. As the frameworks are outcome-based and set at the global/national level, there is no prescriptive approach to designing the fund’s investment strategy. Further relevant frameworks may be added to the NCF Rules at a future date as international standards evolve.

Targets and monitoring

All NCFs, regardless of the focus of their investment objectives, must set and strive towards natural capital targets relevant to the fund’s objectives. It is imperative these targets are based on the latest and best available science. Additionally, an NCF must have a credible framework with adequate policies, procedures, and controls to assure that a fund can accurately assess progress against the targets and report on that progress to its internal governing body. Guidance to the draft Rules has been provided on target setting and the key qualities of effective measurement tools and metrics.

While the draft Rules do not prescribe any one target setting and monitoring methodology the guidance highlights for consideration the methodology of the Science Based Targets for Nature and other credible available metrics.

Governance and Oversight

The governing body of an NCF must approve the natural capital targets, measurement tools chosen, and monitor progress against those targets, not less than once every year.

The regulatory duties of a fund's administrator, and custodian where applicable, will continue to be prescribed with reference to the applicable authorisation or registration rules. For example, while an administrator of a registered fund would continue to be required to administer the fund in accordance with the principal documents the administrator would not be required to verify the alignment of natural capital objectives or assess progress against natural capital targets.

Reporting to the Commission

As part of the annual submission to the Commission it is proposed that an NCF's governing body would be required to provide an additional report detailing the fund's progress against its natural capital targets. Such reporting may include an explanation of the monitoring framework, any changes to targets, the metrics adopted and the quantitative output of measurement tools.

Investor Disclosures

It is proposed that the governing body of a fund would be required to report on progress against its natural capital targets as part of its annual reporting to investors. There would be an expectation that in preparing disclosures NCFs would have regard to the draft disclosure recommendation issued by the TNFD and look to comply with these recommendations following finalisation of this framework.

Application

It is proposed that an application for designation as an NCF must be supported by a declaration of compliance with the NCF Rules made by the fund's governing body (see Schedule 1 to the Draft NCF Rules) along with a report setting out in detail how the fund will meet the requirements of the NCF Rules.

The Commission has included, within scope of the proposed regime, funds that through their activities commit to significantly reducing environmental harm to nature in addition to those which exclusively aim to contribute positively. It is hoped that in calibrating the scope of the regime to encompass funds with such transitional investment strategies a wider spectrum of investments strategies may be accommodated, increasing the range of funds which might seek designation. It is hoped that, as a consequence, a greater contribution can be made to the flow of resources directed towards the effort to preserve and rebuild the planet's reserves of natural capital.

This approach is not, however, an invitation for applications of a superficial nature. Applicants for designation are expected to make a genuine commitment to their overarching objectives and demonstrate this in the reporting of their activities to the Commission.

Guernsey Sustainable Funds

It is proposed that the NCF regime will complement the existing Guernsey Green Fund (GGF) Regime. While the GGF is focused on climate change mitigation (for example carbon reduction) investment and built on prescribed green investment criteria the proposed NCF regime has a broader, nature-focused scope and relies on alignment of objectives with international standards. Only designated funds will be permitted to use the Natural Capital Fund label and, as is the current practice for GGFs, a register of NCFs will be disclosed publicly on the Commission’s website. Together both regimes will provide a comprehensive sustainable funds offering for the Bailiwick.

Anti-Greenwashing Assurance

The expansion of the Sustainable Funds Framework proposed by the creation of the NCF Rules will provide more funds with the opportunity to seek a regulatory sustainable funds designation providing more investors with assurance as to the sustainable credentials of their investment. In a parallel consultation paper⁹ the Commission is making proposals on issuing guidance for funds marketed as sustainable funds and the marketing of sustainable investments by licensees with the objective of countering any potential greenwashing¹⁰ risk.

Q1: Do you have any comments on the key proposals highlighted?

⁹ <https://consultationhub.gfsc.gg/>

¹⁰ ““greenwashing” refers to the practice of misrepresenting sustainability-related practices or the sustainability-related features of investment products” - [Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management Final Report](#), International Organization of Securities Commission, November 2021.

Q2: Do you have any further comments on the proposed NCF Rules?

Appendix 1 – Draft Natural Capital Fund Rules

Please see accompanying Rules document.

Appendix 2 – Convention on Biological Diversity – Draft Post-2020 Global Biodiversity Framework’s 2030 Action Targets

| Goals | Targets |
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| Reducing threats to biodiversity | Ensure all land and sea areas are under integrated biodiversity-inclusive spatial planning addressing land- and sea-use change, retaining existing intact and wilderness areas |
| | Ensure at least 20 per cent of degraded freshwater, marine and terrestrial ecosystems are under restoration, ensuring connectivity among them and focusing on priority ecosystems |
| | Ensure at least 30 per cent of land areas and of sea areas are conserved through effectively and equitably managed, ecologically representative, and well-connected systems of protected areas and other effective area-based conservation measures, and integrated into the wider landscapes and seascapes |
| | Ensure active management actions to enable the recovery and conservation of species and the genetic diversity of wild and domesticated species, including through ex situ conservation, and effectively manage human-wildlife interactions to avoid or reduce human-wildlife conflict |
| | Ensure harvesting, trade and use of wild species is sustainable, legal, and safe for human health |
| | Manage pathways for the introduction of invasive alien species, preventing, or reducing their rate of introduction and establishment by at least 50 per cent, and control or eradicate invasive alien species to eliminate or reduce their impacts, focusing on priority species and priority sites |
| | Reduce pollution from all sources to levels that are not harmful to biodiversity and ecosystem functions and human health, including by reducing nutrients lost to the environment by at least half, and pesticides by at least two thirds and eliminating the discharge of plastic waste |
| | Minimize the impact of climate change on biodiversity, contribute to mitigation and adaptation through ecosystem-based approaches, contributing at least 10 GtCO ₂ e (gigatonnes of CO ₂ equivalent) per year to global mitigation efforts, and ensure that all mitigation and adaptation efforts avoid negative impacts on biodiversity |
| Meeting people’s needs through sustainable use and benefit-sharing | Ensure sustainable management of wild terrestrial, freshwater and marine species and protecting customary sustainable use by indigenous peoples and local communities |
| | Ensure all areas under agriculture, aquaculture and forestry are managed sustainably, in particular through the conservation and sustainable use of biodiversity, increasing the productivity and resilience of these production systems |
| | Maintain and enhance nature’s contributions to regulation of air quality, quality and quantity of water, and protection from hazards and extreme events for all people |

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| | Increase the area of, access to, and benefits from green and blue spaces, for human health and well-being in urban areas and other densely populated areas |
| | Implement measures to facilitate access to genetic resources and to ensure the fair and equitable sharing of benefits arising from the use of genetic resources, and as relevant, of associated traditional knowledge, including through mutually agreed terms and prior and informed consent |
| Tools and solutions for implementation and mainstreaming | Fully integrate biodiversity values into policies, regulations, planning, development processes, poverty reduction strategies, accounts, and assessments of environmental impacts at all levels of government and across all sectors of the economy, ensuring that all activities and financial flows are aligned with biodiversity values |
| | Assess and report on dependencies and impacts on biodiversity, from local to global, and progressively reduce negative impacts, by at least half and increase positive impacts, reducing biodiversity-related risks and moving towards the full sustainability of extraction and production practices, sourcing and supply chains, and use and disposal |
| | Reduce by at least half the waste and, where relevant the overconsumption, of food and other materials |
| | Establish, strengthen capacity for, and implement measures to prevent, manage or control potential adverse impacts of biotechnology on biodiversity and human health, reducing the risk of these impacts |
| | Redirect, repurpose, reform or eliminate incentives harmful for biodiversity, in a just and equitable way including all of the most harmful subsidies, and ensure that incentives, including public and private economic and regulatory incentives, are either positive or neutral for biodiversity |
| | Increase financial resources, including new, additional and effective financial resources, increasing international financial flows to developing countries, leveraging private finance, and increasing domestic resource mobilization, taking into account national biodiversity finance planning, and strengthen capacity-building and technology transfer and scientific cooperation, to meet the needs for implementation, commensurate with the ambition of the goals and targets of the framework |
| | Ensure that relevant knowledge, including the traditional knowledge, innovations and practices of indigenous peoples and local communities with their free, prior, and informed consent, guides decision-making for the effective management of biodiversity, enabling monitoring, and by promoting awareness, education and research |
| | Ensure equitable and effective participation in decision-making related to biodiversity by indigenous peoples and local communities, and respect their rights over lands, territories and resources, as well as by women and girls, and youth |

Appendix 3 – United Nations 2030 Agenda for Sustainable Development – Sustainable Development Goals 12 to 15

This Agenda was established and adopted at the UN General Assembly in 2015, as a 15-year plan to achieve the Sustainable Development Goals, as such the individual components might have different target timelines and the UN publishes reports of progress against the targets annually. All targets and their individual components remain valid until the end of 2030.

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| 12 Ensure Sustainable Consumption and Production Patterns |
| 12.1 Implement the 10-year framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries |
| 12.2 By 2030, achieve the sustainable management and efficient use of natural resources |
| 12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses |
| 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment |
| 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse |
| 12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle |
| 12.7 Promote public procurement practices that are sustainable, in accordance with national policies and priorities |
| 12.a Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production |
| 12.b Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products |
| 12.c Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities |
| 13 Take urgent action to combat climate change and its impacts |

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| 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries |
| 13.2 Integrate climate change measures into national policies, strategies and planning |
| 13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning |
| 13.a Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly \$100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible |
| 13.b Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities * Acknowledging that the United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change. |
| 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development |
| 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution |
| 14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans |
| 14.3 Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels |
| 14.4 By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics |
| 14.5 By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information |

14.6 By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation

14.7 By 2030, increase the economic benefits to Small Island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism

14.a Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries

14.b Provide access for small-scale artisanal fishers to marine resources and markets

14.c Enhance the conservation and sustainable use of oceans and their resources by implementing international law as reflected in UNCLOS, which provides the legal framework for the conservation and sustainable use of oceans and their resources, as recalled in paragraph 158 of The Future We Want

15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements

15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally

15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world

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| 15.4 By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development |
| 15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species |
| 15.6 Promote fair and equitable sharing of the benefits arising from the utilization of genetic resources and promote appropriate access to such resources, as internationally agreed |
| 15.7 Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products |
| 15.8 By 2020, introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species |
| 15.9 By 2020, integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts |
| 15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems |
| 15.b Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation |
| 15.c Enhance global support for efforts to combat poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities |