Investment Institute Sustainability

New standards and frameworks arm investors in the battle against biodiversity loss

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Key points

- Biodiversity standards and frameworks are setting out expectations for how businesses should approach biodiversity protection and risks
- Their adoption should also give investors more information to build into their investment processes
- Investors have a vital role to play in helping translate corporate intentions into action via engagement and stewardship

The global pledge to halt and reverse biodiversity loss – known as the Kunming-Montreal Global Biodiversity Framework (GBF) – is helping to shape and accelerate government policy as well as corporate and investor action in terms of protecting the natural world. The GBF signals that while great strides have been made in terms of tackling the biodiversity crisis, much more still needs to be done.

The landmark agreement aiming, among other goals, to protect 30% of the world's land, water and seas by 2030 was signed by 188 countries at the 2022 United Nations COP15 biodiversity conference. It consists of some 23 targets including integrating biodiversity considerations at every level of society and aligning all financial flows (target 14) and driving policy that will, among others, encourage and enable businesses to assess and disclose biodiversity-related risks, dependencies and impacts (target 15).

Here we analyse recent key developments since the GBF's adoption which are shaping the corporate landscape and highlight what this means for investors.

New corporate disclosures on nature

More recent industry and regulatory efforts have focused on developing the necessary tools for better factoring biodiversity into policy, processes and implementation. A number of new, critical standards and frameworks on biodiversity have been published in just a short time-span – both voluntary and mandatory – setting clear expectations for how businesses will approach biodiversity protection and risks.

With widespread adoption, this new layered and complementary architecture for biodiversity integration should create more favourable conditions for investment in nature-friendly practices –equipping investors with greater information and in turn helping to catalyse corporate practices.

A wave of biodiversity-related disclosure standards and frameworks has recently been launched. These include:

- The Taskforce on Nature-related Financial Disclosures (TNFD), September 2023
- The European Sustainability Reporting Standards (ESRS), December 2023
- The updated Global Reporting Initiative (GRI) Biodiversity Standard, January 2024

All three provide guidance for corporate disclosure on nature-related issues. However, they can also be more foundational tools for corporates approaching their use as more than a reporting exercise, providing information that can help guide necessary biodiversity assessments whose outcomes can in turn be integrated into risk management and other business processes.

The **TNFD** sets out 14 recommended disclosures on nature-related dependencies, impacts, risks and opportunities that follow the same four-pillar structure on governance, strategy, risk and impact management and the same metrics as the Task Force on Climate-Related Financial Disclosures (TCFD) – allowing for integrated climate and nature reporting by design.

More than just a voluntary disclosure framework, the TNFD provides corporates with a risk management framework with which to identify, assess and manage nature-related issues. It also offers a rich body of knowledge on biodiversity integration for market participants to draw upon such as sector and biome specific guidance, scenario analysis, stakeholder engagement and tools and metrics.

The **ESRS** is a set of mandatory sustainability reporting standards that dictate 12 environmental, social and governance reporting areas and what needs to be included within them, for corporates subject to the European Union's (EU) Corporate Sustainability Reporting Directive (CSRD). These areas include biodiversity and ecosystems; climate change; pollution – the latter two also relate to direct drivers of biodiversity loss – as well as water and marine resources, which together provide a fuller picture on a corporates' relationship with nature. The ESRS also connect to financial institutions' own EU reporting requirements, in relation to the Sustainable Finance Disclosure Regulation's Principal Adverse Impact indicators, which signify the most negative impacts of investments on the environment and people.

The **GRI** provides voluntary sustainability reporting frameworks through its modular standards. The new topic standard, GRI 101: Biodiversity 2024, equips companies with a framework to communicate their biodiversity impacts and how they manage them.

Coupled with April 2024's International Sustainability Standards Board announcement that it would be commencing research on nature-related disclosure (potentially leading to new standards[1]), and the CDP framework regarding disclosure on select biodiversity pressures in line with the TNFD[2], a new phase of information and growing maturity on biodiversity has arrived.

What does this mean for investors?

Investors will benefit from the greater corporate disclosure and have more information to enable better integration of biodiversity into their investment processes. This should also help spur more virtuous practices among investee companies.

Though the TNFD, ESRS and GRI are intended to direct corporates on the nature-related issues they should report on and do not prescribe specific actions or strategies they should adopt, they do serve as important building blocks towards that end.

The need to identify and assess interaction with nature to be able to disclose on it will also foster corporates' maturity in this area. The ESRS and the TNFD provide guidance on how impacts and dependencies should be identified[3]. Disclosure, in turn, can bring certain public accountability on appropriate risk and opportunity management. This includes expectations on progressive target setting and corresponding action to reduce impacts and augment positive contributions in line with global and national-level policies.

Harmonisation with some divergence

There has been a conscious effort towards interoperability among standards. Whatever disclosure corporates choose to adopt, a certain level of consistency has already been established between them[4] ensuring common concepts, definitions and approaches permeate within the market. Notably, the ESRS and GRI have both been informed by the work of the TNFD which they both reference.

This effort at coherence will afford investors visibility on corporates' impacts on biodiversity across direct operations and the value chain[5]. Impacts are commonly framed through the prism of the direct drivers of biodiversity loss established by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

However, location-specific data and assessments are also addressed by all reporting standards, recognising the need to accompany more indirect pressure pathways to biodiversity loss with an assessment on the actual state of nature; specific attention is also paid to proximity to and impacts on biodiversity-sensitive areas.

This will help to bring crucial visibility to what is both a global and an inherently local issue, bridging gaps between modelled potential impacts and actual impacts. While location-based data is key, it is not currently widely available; hence the significance of this disclosure in not only building a more meaningful understanding but also in reducing gaps between modelled and reported data. In all cases, corporates will also have to communicate how policies, targets or commitments relate to the GBF.

There are, however, differences that can affect the information expected to be available which informs investment processes. Most notable is the definition of materiality which forms the basis of the impacts corporates choose to disclose. The ESRS has taken a double materiality approach – that is, taking into account both financial materiality and environmental and social materiality – while the GRI considers a single materiality focused on social and environmental materiality only, and the TNFD is positioned to be adapted to any materiality regime. In addition, unlike the ESRS and TNFD, the GRI's scope is more limited and does not include nature-related dependencies or opportunities.

Time to maturity for financial effects

Nuances between and within standards may also influence the degree of disclosure on the financial effects of nature-related risks and opportunities. Although the ESRS and TNFD explicitly ask for current and anticipated financial effects, we expect this area may be slower to mature.

This could be partly due to the phased-in nature of the disclosure. For the ESRS, companies may omit anticipated financial effects for the first year of reporting with further leeway to only disclose qualitatively for the first three years, while the TNFD remains voluntary with the flexibility for all recommendations to be adopted progressively. In addition, the TNFD has acknowledged financial risks and opportunities is currently a challenging area to quantify[6] - three years into the adoption of the TCFD, disclosure on this area was still relatively low[7] on a topic less complex than biodiversity.

Nature-related target setting

Targets on nature, a natural extension of stocktaking and an expectation of all disclosure frameworks, have also seen significant developments – although they are less complete at this stage. In May 2023, the Science Based Targets Network (SBTN) – a group of organisations working to collectively define what is needed to stay within Earth's limits and meet society's demands - released the first set of science-based targets (SBTs) for nature on freshwater and land. This is the start of a multi-year plan to provide SBTs across freshwater, land, biodiversity and the ocean[8] and we may already see some companies setting validated SBTs on nature this year with the full roll-out of the validation process.

While more methodologies are expected to complete the suite of SBTs and bolster the overall approach, SBTN is already progressively equipping corporates to assess impacts and set targets grounded in the best available science and aligned with global goals like the GBF.

Harmonisation of approaches has also occurred with the TNFD and SBTN releasing joint draft guidance on corporate target setting[9] recommending the use of SBTN's approach that results in location-specific action to mitigate impacts.

For a systemic issue as complex as biodiversity loss, target setting may look different than for climate which has a singular objective: reducing greenhouse gas emissions. It may instead resemble a suite of targets that address the different drivers of biodiversity loss as well as impacts on the state of nature, covering avoidance and reduction but also positive contributions.

The imperative for climate and nature to be addressed together has already resulted in one important instance of harmonisation between climate and nature targets. Since May 2023, the Science Based Targets initiative (SBTi) – a United Nations-backed body that helps companies set emissions reduction targets - has required certain companies to account for their land-based emissions and set forest, land and agriculture targets, including a 'no deforestation' target by 2025 – a component of guidelines that are considered best practice for deforestation and conversion free supply chains. We expect more developments around climate and nature integration, particularly related to transition planning.

Onwards and upwards: Corporates and engagement

Engagement has an essential role to play throughout the process of corporate assessment, disclosure, target setting and action - ensuring that corporates are rigorously advancing at an appropriate pace and allowing investors and corporates to move in tandem.

The milestones that lay ahead illustrate that this is a critical period of market adoption which investor engagement should be tailored to support.

Upcoming milestones

FY2024

- First reporting wave by **TNFD** early adopters
- First **CSRD** (ESRS) reporting *
- **SBTN** target validation open

FY2025

- Second reporting wave by **TNFD** early adopters
- **GRI** 101: Biodiversity 2024 in effect (required for all reporting published after January 2026)**

Source: Source: AXA IM, TNFD, European Commission, SBTN, GRI
**The first set of applicable companies will need to publish their first CSRD-compliant annual report in 2025 for FY2024;*
***Earlier adoption is encouraged prior to this date. GRI will be piloting the new standard with early adopters*

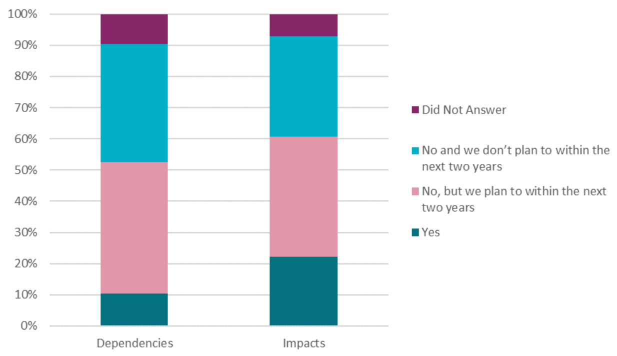
Opportunities for engagement

The 2023 CDP Climate questionnaire's biodiversity module[10] provides insight into the current state of corporate biodiversity integration and the gaps to be filled.

The survey's findings illustrate that foundation-setting will need to be an essential focus area for the near term as corporates' understanding of their impacts and dependencies is not yet widespread or mature. Only a minority of corporate respondents are currently assessing their dependencies and impacts, at 10% and 22% of respondents respectively.

Of those that do assess their impacts and dependencies, only a fraction cover their full value chain[11], and downstream is the scope that is the least covered today[12]. The higher awareness and greater priority of impacts over dependencies also leaves an essential piece of financial materiality much less understood today.

Corporates assessing dependencies and impacts



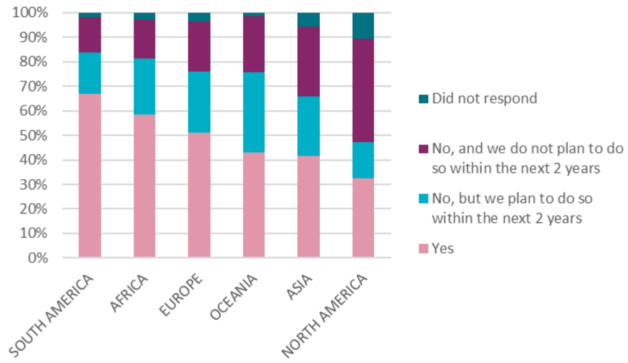
Source: CDP Climate Questionnaire data set, indicator C15.3

For key biodiversity sectors[13], impacts are assessed by nearly half of fossil fuels entities but only about a third of entities in food, beverage and agriculture and materials. This is lower still for retail, biotech, healthcare and pharma at 16%-17%, illustrating the critical gaps to be filled not only in assessment, but in commitments whose exhaustivity this has likely influenced.

Lower relative awareness on biodiversity-related issues hasn't inhibited corporates from mobilising. Some 44% of respondents had already made a public commitment and/or endorsed initiatives related to biodiversity and were progressing on these commitments in the reporting year[14].

Hence, while the way in which corporates are expected to address biodiversity and nature may be new and more robust, the topic is not necessarily new and there is a good base of efforts to ratchet up from an engagement perspective.

Share of corporates by region that made a public biodiversity commitment and/or endorsed initiatives



Source: CDP Climate Questionnaire data set, indicator C15.2

Notably, the corporates surveyed exhibited overall a strong willingness to augment their understanding of and efforts towards biodiversity initiatives.

A significant number plan to assess impacts and dependencies and make commitments within the next two years – if translated to action this would bring these practices across the 50% threshold of respondents. There are, however, geographical differences with US corporates expressing less willingness to do so[15].

This may represent an inflection point where engagement can help make a difference in converting intention into action. Both collective and individual engagement have a role to play in that regard.

In September 2023, an important broad-based collaborative initiative was launched, Nature Action 100 (NA100), that will help to raise the collective voice of investors to drive greater corporate ambition and action on tackling nature loss within sectors considered systemic for biodiversity. This remains complementary to other initiatives that have emerged dedicated to specific facets of nature protection.

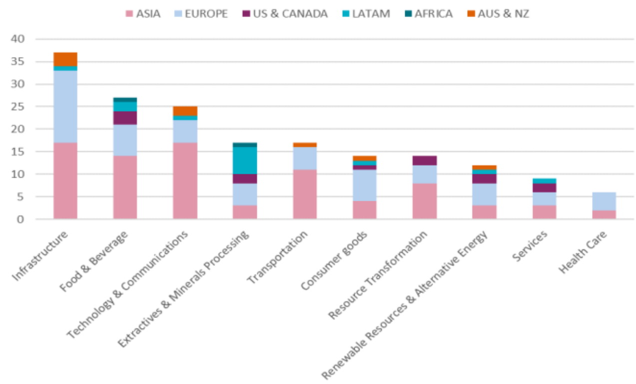
TNFD early adopters paving the way forward

The first wave of TNFD early adopters will also help raise the bar. In January 2024, 178 corporates announced their intention to make TNFD-aligned disclosures by the 2024-2025 fiscal year; full alignment is not required, and corporates may expand disclosure across the recommendations over time.

While further adopters are expected, this first cohort can already give insight into industry dynamics and momentum to come. There is, for example, a strong appetite amongst Japanese corporates across sectors, representing a third of the cohort.

The presence of major Japanese commercial banks and capital market actors as financial early adopters highlights the important traction nature is likely to have within the sector there. Conversely, the US remains rather unrepresented with eight corporates committed in the cohort.

Number of corporate TNFD early adopters by main sector and region



Source: TNFD Early Adopters, TNFD, January 2024. Main sector is according to TNFD.

The relatively low inclusion of NA100 target companies, at 15, reinforces the need for collective engagement to drive greater corporate assessment, disclosure, and action; particularly as the initiative targets companies considered significant in reversing nature loss in key sectors. The low crossover may also reflect the US bias of NA100 target companies. The NA100's Nature Benchmark, expected towards the end of the year, will help highlight where such significant actors stand.

Crucially, priority sectors for nature[16] are represented among the early adopters, albeit some more than others. This will be important as a blueprint for future adopters in critical sectors, which investors should raise during engagements. With more corporates invited to adopt the standard, the way ahead looks promising.

Investors' role in engagement

Ultimately, both new and recent developments in voluntary and mandatory standards and frameworks on nature – from disclosure and risk management to target setting – should accelerate corporates factoring in biodiversity to their strategies and operations. For these to be truly catalytic for corporate disclosure and practices, widespread adoption is crucial.

Investors have a key role to play in helping translate corporate intentions to action through engagement and stewardship. Corporate adoption of these standards and frameworks will allow market actors to better move in tandem to halt and reverse biodiversity loss, by progressively equipping investors with greater information on nature to help inform investment processes and hopefully raising the bar within the investible universe.

[1] https://www.ifrs.org/news-and-events/news/2024/04/issb-commence-research-projects-risks-opportunities-nature-human-capital/
[2] The CDP announced its intention to align with the TNFD in September 2023. CDP's thematic questionnaires can be used to disclose on select pressures on biodiversity: Climate Change: CDP Climate; Land Use Change: CDP Forest; Overexploitation of natural resources: CDP Forest, CDP Water; Pollution: CDP Water – plastic use. Invasive species is not covered by CDP.
[3] TNFD provides step-by-step guidance on how impacts and dependencies should be assessed, while the ESRS provides recommendations on what impact and dependency assessment should include.
[4] Accountability for Nature, UNEP FI, January 2024.
[5] Although GRI only recommends the inclusion of the downstream value chain.
[6] Recommendations of the Taskforce on Nature-related Financial Disclosures, TNFD, 2023.
[7] Task Force on Climate-related Financial Disclosures: 2020 Status Report, TNFD, 2020.
[8] In February 2024, the SBTN opened applications to be part of a pilot on ocean science-based targets, extending the realms its targets cover. The pilot of science-based targets covering seafood value chains launched in April 2024.
[9] Guidance for Corporates on Science-based Targets for Nature, TNFD and SBTN, September 2023
[10] CDP Climate Questionnaire: C15 Biodiversity, CDP, 2023. All data refers to the 2023 data set published on 11 October 2023. The scope is restricted to corporates only. The following primary activities were excluded: Agencies National, Asset Managers, Banks, Government Banks, Insurance, Other Financial, while Real Estate Investment Trusts are included. This results in a universe of ~5,000 entities.
[11] 28% cover direct operations, upstream and downstream for dependencies, and 22% cover impacts.
[12] Of those assessing their dependencies, only 34% cover downstream; of those assessing their impacts, only 31% cover downstream.
[13] CDP Primary Industries that correspond to the top five high-impact GICS Industry Sectors according to 'Top 10 biodiversity-impact ranking of company industries, Finance for Biodiversity Foundation, 2023'. Namely: Food Products, Oil, Gas & Consumable Fuels, Chemicals, Consumer Staples Distribution & Retail, and Metals & Mining.
[14] This refers to indicators C15.2 – C1 and C15.5 – C1 in the data set.
[15] Share of US corporate respondents that do not plan to do the following within the next two years: 52% assess dependencies, 46% assess impacts, 45% make a public commitment and/or endorse initiatives related to biodiversity.
[16] In terms of the key high-impact sectors according to Top 10 biodiversity-impact ranking of company industries, Finance for Biodiversity Foundation, 2023; as well as the larger list of TNFD priority sectors for financial institutions listed within Additional Guidance for Financial Institutions, TNFD, 2023. Note that this document was still open for public consultation until March 29, 2024 and may be subject to change.

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