TMX DATALINX & GIST IMPACT

What Investors Need to Know About Biodiversity Reporting Standards

Since the launch of the Global Biodiversity Framework at the Kunming-Montréal conference in December 2022, we are seeing an international movement urging businesses to disclose the impact of their operations on biodiversity and nature loss, the dependencies they have on nature, and the risks posed to their business of those impacts and dependencies. According to KPMG, however, only 46% of the world's largest revenue-generating companies acknowledge the influence of biodiversity loss on their operations.

Investors are uniquely positioned to influence biodiversity through their capital allocation to companies. The positive and negative effects of these investment decisions can and do shape the future of ecosystems and species across the planet.

The scale of the challenge remains staggering. According to MSCI, only 2% of the estimated USD 3 trillion invested in sustainable funds globally is linked thematically to biodiversity, representing USD 60 billion held by 149 funds (as of September 2023). To make matters worse, in most of these cases, the methodology applied to link investment strategies to biodiversity remains a black box.

In order to bridge the gap in nature-positive investment and bring transparency and rigor to the process, we need:

1. A set of transparent, credible, and science-based standards that provide frameworks and guidance for investors to easily and confidently evaluate how their strategies align with biodiversity objectives.
2. Disclosure regulations that incorporate those standards systematically and in an interoperable way.
3. Datasets that use accurate data sources (whether that's company data or site-specific data) as a foundation and apply transparent methodologies based on peer-reviewed science, in alignment with the frameworks defined by standards and built into regulation.

Organizations like TMX and GIST Impact now provide science-based and fully traceable biodiversity data to support investors in this transition. Such guidance is essential for investors to allocate funds in a way that mitigates risks and contributes positively to ecosystem preservation and species conservation.

In this article, we provide an overview of the latest updates related to the standards and associated frameworks that provide guidance to investors on biodiversity, as well as the key regulatory developments from around the world and implementation timelines to help investors navigate this complex landscape.

Emergence of Biodiversity-related Frameworks

The emergence of science-based frameworks and regulations has fundamentally reshaped how companies and investors are expected to report on biodiversity. Many frameworks that assist organizations in assessing and disclosing their nature-related risks, impacts, and dependencies are already available. Here, we'll provide an overview of the critical frameworks companies and investors need to know about.

Global Biodiversity Framework (GBF)

1

The Global Biodiversity Framework was adopted at the Kunming-Montréal CBD COP-15 (the UN Convention on Biological Diversity) in December 2022. The framework includes four goals and 23 targets to halt and reverse biodiversity loss by 2030. The framework is historic as it recognizes the leading role of big businesses and large investors in conserving biodiversity. Target 15 requires all large companies and financial institutions to assess and disclose their risks, impacts, and dependencies on nature.

Task Force on Nature-related Financial Disclosures (TNFD)

2

The taskforce has been at the forefront of efforts to align nature- and financial-related disclosures. The final TNFD recommendations were published in September 2023 and provide a comprehensive framework for measuring, understanding, disclosing, and managing the impacts and dependencies of business activities on nature. The TNFD guidance comprises 14 disclosure recommendations and adopts a systematic approach, encompassing the Locate, Evaluate, Assess, and Prepare (LEAP) framework. The framework enables businesses to systematically address their nature-related impacts and dependencies. It covers the same four pillars as the Task Force on Climate-related Financial Disclosures (TCFD): governance, strategy, risk and impact management, and metrics and targets.

Science Based Targets for Nature (SBTN)

3

Released in May 2023, SBTN supports corporations in assessing their impacts on nature and biodiversity. SBTN covers a five-step process: Assess, Interpret and Prioritize, Measure, Set and Disclose, Act and Track. The method enables corporations to set nature-related targets to halt and reverse biodiversity loss and track progress. SBTN has also released a Materiality Screening Tool and a High Impact Commodity List to help companies navigate the assessment step.

Partnership for Biodiversity Accounting Financials (PBAF)

4

An independent foundation based in the Netherlands and is the sister initiative of the Partnership for Carbon Accounting Financials (PCAF). Its aim is to provide specific guidance to the financial sector on nature-related disclosures and investment strategies. PBAF's Standard for Financial Institutions provides a step-by-step approach to assess, measure and report on the positive and negative impacts of an organizations' loans and investments on biodiversity. Fund managers can use these to, for example, estimate biodiversity loss from an investment in a multinational food company and gain insights into the underlying causes. Furthermore, PBAF updated its standards in 2023 to include dependencies on ecosystem services.

The congruence between all of these frameworks is encouraging. PBAF is aligned with the "Evaluate" stage of the TNFD's "LEAP" framework. TNFD and SBTN are collaborating to align their respective frameworks and methods further to help ease the corporate disclosure burden and accelerate standardization. Together, these increasingly aligned voluntary frameworks provide the foundations of a robust and science-based measurement and reporting system for companies and investors.

The Evolving Regulatory Reporting Landscape

Some governments have established mandatory disclosure requirements to promote sustainable growth of businesses and financial institutions and to protect and restore nature and biodiversity. Here, we provide salient information on noteworthy nature-related disclosure requirements worldwide to help investors stay informed.

Europe

1 Corporate Sustainability Reporting Directive (CSRD): A new, comprehensive set of reporting rules that govern the requirements for sustainability reporting in the European Union (EU). It is an evolution of the Non-Financial Reporting Directive (NFRD). It significantly broadens the scope of social and environmental information companies must report on, with explicit consideration for double materiality and financial effect.

The CSRD requires large companies to disclose material biodiversity and ecosystem-related information, and 22 required disclosures around biodiversity are included. From January 1, 2024, it applies to all EU companies and companies listed in European markets with more than 500 employees and subsequently to all micro, small and medium enterprises from 2025 onwards. Companies headquartered outside the EU must comply with the CSRD if they have operations or business activities within the EU that generate over EUR 150 million in revenue, and follow EFRAG-developed European Sustainability Reporting Standards (ESRS) reporting. The new standards build on and contribute to international standardization initiatives such as the International Sustainability Standards Board (ISSB) and are tailored to EU policies. The Commission adopted the first set of ESRS in June 2023.

For listed companies, CSRD raises the bar significantly for disclosures to investors, who will likely expect similar levels of transparency from non-EU companies. Reporting companies will also require accurate data from their suppliers to meet disclosure requirements, driving CSRD requirements into all corners of the global supply chain. Companies will also be required to obtain external assurance for the sustainability information they report, starting with limited assurance and expanding to reasonable assurance later. The Commission is expected to adopt assurance standards for limited assurance before October 2026.

Over the next six months, EFRAG is focusing on the drafting of disclosure standards for small and medium-sized businesses (SMEs), as well as sector-specific reporting standards for the industries already covered by the Global Reporting Initiative (GRI), such as agriculture, aquaculture and fishing, coal mining, mining and both upstream and mid-to-downstream oil and gas (further GRI sector standards are currently under development, including for financial services and textiles). The EFRAG standards for SMEs will also apply to five high-impact sectors: energy production, road transport, motor vehicle production, textiles, and food and beverage.

2 Sustainable Finance Disclosure Regulations (SFDR): SFDR sets out specific reporting requirements for financial industries. The aim is to “integrate sustainability considerations into the financial system” and “steer the flow of capital towards sustainable investments.” CSRD and SFDR represent the two key reporting initiatives to help European members achieve the climate neutrality goal of the European Green Deal by 2050. One of the fourteen key disclosure data points (principal adverse impact indicators) specifically targets activities negatively affecting biodiversity-sensitive areas, while others are focused on environmental and social/employee-related impacts.

Several countries, including France, Germany, the Netherlands, Norway, Switzerland, the UK, and Australia, have been actively funding the development of the TNFD. France has already implemented Article 29 of its Energy-Climate Law, which requires financial institutions with over €500 million in assets under management to report on six biodiversity-related indicators. This complements the EU’s SFDR regulations, focusing on climate, biodiversity, and ESG factors. The UK is considering making TNFD-aligned disclosures mandatory to mirror its upcoming requirement for companies to disclose climate risks, opportunities, and emissions under the TCFD by 2025.

North America

In the US, current regulations lack common standards for nature or biodiversity-related disclosures. However, in March 2024, the Securities and Exchange Commission (SEC) adopted new rules requiring companies to include certain climate-related disclosures in registration statements and reports. These disclosures encompass climate-related risks that could significantly impact businesses, results of operations, financial conditions, and specific climate-related financial statement metrics in a note to their audited financial statements.

The final rules differ from the original proposal in several areas. Most notably, they eliminate the scope 3 greenhouse gas (GHG) emission disclosure requirement, lengthen the adoption timeline for companies, and limit the scope and number of companies subject to the GHG emission disclosures. Specifically, smaller reporting companies are now exempt from these requirements. The rules have since sparked a wide array of reactions from various stakeholders, including several legal challenges, which has prompted the SEC to stay the final climate disclosure rules to allow time for these to be resolved (latest as of April 2024).

In Canada, regulators such as the CSA and the Office of the Superintendent of Financial Institutions (OSFI) have expressed support for the ISSB and indicated their plan to adopt ISSB requirements in the future, wholly or partially. Reports suggest that any nature-related disclosure requirements would likely originate from a standard developed by the ISSB in alignment with the TNFD and refined for the Canadian market by the Canadian Sustainability Standards Board (CSSB). However, this process is expected to take several years.

Embracing the opportunity to integrate biodiversity and nature in decision-making

The movement towards standardized nature-related reporting is a global effort to unify voluntary and regulatory frameworks. The aim is to simplify disclosures and enhance their reliability. Standardization is critical for providing investors with the clarity and confidence required to support biodiversity-friendly initiatives. Beyond compliance, investors need to develop a deep understanding of these emerging frameworks and regulations to incorporate biodiversity as an integral component of sustainable investment.

The path forward involves embracing new standards and regulations, integrating them into investment practices, and participating in the global conservation dialogue. Investors have the opportunity to lead by example, demonstrating that financial success can go hand in hand with environmental stewardship.

By leveraging available frameworks and tools and engaging with initiatives to enhance biodiversity disclosures, investors can ensure their portfolios yield financial returns while also contributing to the health and sustainability of our planet. The data, tools, and guidance provided by organizations like TMX and GIST Impact will prove essential to investors committed to making a positive difference in finance and beyond.

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