EU Business@Biodiversity Platform & Finance for Biodiversity Foundation

‘Finance and biodiversity regulation’

Tuesday 28 September

Webinar minutes

Welcome & opening

***Welcome –** Anne-Marie Bor, Lead Finance@Biodiversity Community, Coordinator Finance for Biodiversity Foundation*

This webinar has been prepared by members of the Finance@Biodiversity Community (part of the Business@Biodiversiy Platform of the European Commission) and the Finance for Biodiversity Foundation. We invited both speakers who are involved in the global COP15 policy process, and speakers who are working on the EU Corporate Sustainability Reporting Directive. Although both are separate processes, UN policy and EU regulation on biodiversity should become aligned in the end. Speakers for the Sustainable Finance Disclosure Regulation have been invited too, but were unavailable.

***Introduction on behalf of the finance sector** – Sonya Likhtman, the international business of Federated Hermes, interim chair of the FfB Foundation Public Policy Advocacy Working Group*

There is a lot of positive momentum currently on the topic of biodiversity:

1. The finance sector is starting to understand the importance of biodiversity.
2. It is becoming more and more clear that the sector must be a part of the solution. This is illustrated by growing number of signatories to the Finance for Biodiversity Pledge, 75 now!
3. There is a growing recognition that we cannot solve climate change without addressing the nature crisis.

Policy and regulation are an important part of the puzzle, because, for finance sector to do their part, supporting regulation needs to be in place.

PART 1. Policy developments within the Convention on Biological Diversity (CBD)

***Update on developments within the CBD and the first draft of the Global Biodiversity Framework** – Basile van Havre, Co-Chair Open Ended Working Group of the Convention on Biological Diversity*

As co-chairs of the Open Ended Working Group, Francis and Basile are preparing and coordinating the Global Biodiversity Framework as part of the CBD negotiations. Over the last months, we have noticed how fast the finance community can move, and even are pulling us instead of us trying to pull them.

Our task - The context for drafting the Global Biodiversity Framework (GBF) is the urgent need to act. None of the 2020 targets for biodiversity were fully met, biodiversity loss is still ongoing, and about half of global GDP is highly or moderately dependent on nature. *Biodiversity loss is amongst the biggest risks we face, and today is the last change to put the system back on track*. This is underpinned by science in the IPBES Global Assessment Report and WEF’s report The Future of Nature and Business.

The process of the new to be agreed GBF should adhere to overarching principles: being open, transparent, inclusive, participatory, etc. We need realistic targets, and a robust system for reporting and review, which was missing from previous frameworks. Also, the GBF should be far-reaching in terms of being a framework for everyone.

The CBD - The Convention on Biological Diversity (CBD) is one of the three Rio conventions (Biodiversity, Climate and Desertification). The CBD objectives are: 1) Conservation of biodiversity, 2) Nature meeting people’s needs, and 3) Equitable sharing of benefits. Through the GBF, the CBD will be setting goals. It relies on implementation through (sub)national actors and other conventions.

The GBF – Process – After long consultations at the regional level on thematic issues, leading to a draft 0 of the GBF in 2020, a first detailed draft was published this year. The next face-to-face negotiations will take place in January. If we are successful, we will deal with almost all issues in January. The negotiations at the CBD COP15 (25 April – 8 May) will then be used to finalize everything.

Draft 1 - The first detailed draft of the GBF is structured according to:

- Four goals: define the 2050 vision
- Milestones: define the desired state of the goals in 2030
- Targets: define actions needed to reach the milestones (by 2030) and goals (by 2050)

Of most interest to finance actors is probably goal D, which is about closing the financing gaps by 1) eliminating harmful incentives and 2) increasing available resources. We are currently at about a quarter of the goal of closing the financing gap. Even if we are afraid of the magnitude of the changes in financial flows that are needed, we should go for it. Some relevant targets:

- Target 14: Alignment of all financial flows with biodiversity values
- Target 15: All businesses report and assess their biodiversity impacts and dependencies.
- Target 18: Eliminate economic and regulatory incentives (e.g. subsidies) that are harmful to biodiversity
- Target 19: Increase financial resources from all sources for implementation. Note: this is a big leap, as it includes leveraging private finance. Until now, conservation was often seen as something that should be funded with public money.

Call to action - As financial institutions, you can engage both at the global and national level. National level advocacy is important as we know that implementation varies between countries. The commitments agreed to by parties form the core, but voluntary commitments like the FfB Pledge by the finance sector, form an important complement. In the end, we depend on your efforts to be successful. Therefore, we need you to continue your voluntary commitments and to push us as well. Those moving early will benefit from it. We will be successful if we all push in the same direction.

Views by WWF *– Guido Broekhoven, Head Policy Research, WWF International*

The recent IPCC-IPBES workshop report Biodiversity and climate change highlights the interconnectedness of climate and biodiversity. As climate, biodiversity, and human society are coupled systems, we need and integrated policy framework and a Paris-style agreement for Nature. WWF therefore calls on governments to agree on 'nature-positive by 2030' as the overall goal or mission for the post-2020 global biodiversity framework.

As a part of our advocacy work, WWF formulated proposals for what goals and targets are needed. The Kunming Plan for Nature and People 2021-2030 outlines five things the GBF should include, in addition to area based and species conservation.

1. A mission to reverse nature loss and achieve a nature-positive world by 2030
2. A goal to halve the ecological footprint of production and consumption by 2030
3. A strong implementation mechanism (that of the Aichi targets was not strong enough/ not achieved)
4. A comprehensive resource mobilization strategy, aligning financial flows and eliminating or repurposing harmful subsidies
5. A rights-based approach

In order to halve the ecological footprint of production and consumption, action-oriented and measurable targets are needed, outlining the actions governments can undertake to transform key sectors (agrifood, forestry and fisheries, infrastructure, extractive industry, finance sector). Circular economy, pollution reduction and nature-based solutions are cross-cutting issues here.

WWF's reactions to draft 1 of the GBF - WWF welcomes targets 14 and 15, but proposes to strengthen their (government) action orientation and to align their level of ambition with the mission of achieving a nature-positive world by 2030. Also, food systems, fisheries and infrastructure should be addressed more explicitly in the GBF, as they have been identified e.g. by WEF as important drivers of biodiversity loss.

Call to action - We need a nature movement, similar to the climate movement. WWF encourages the financial sector to engage with CBD parties to adopt an ambitious post-2020 framework and to create a level playing field.

***Finance sector views** – Sonya Likhtman, Federated Hermes International, interim chair of the FfB Foundation Public Policy Advocacy Working Group*

Within the Public Policy Advocacy working group of the Finance for Biodiversity Foundation, we are focusing this year on engaging with the CBD process and influencing the Global Biodiversity Framework. There is a strong appetite from the finance sector for a framework that everyone understands and can contribute to, and that is sufficiently ambitious to address the nature crisis. The finance sector has to be an explicit part of the solution. This is being recognized by the CBD as well, as illustrated by their workshop in June 'The Financial Sector and the Post-2020 Global Biodiversity Framework'.

The FfB Foundation recently became an observer member of the CBD, making it possible to contribute to negotiations where relevant. We brought forward a statement to the OEWG in August in a session about target 14. Our proposal was supported by the EU and the Swiss delegation. Also, we coordinated a Financial Institution Statement together with Ceres, which outlines four specific asks from government ahead of COP15. This statement has now been signed by 78 financial institutions, who together represent over US$10trillion in assets. The statement will remain open to new signatories until COP15. Our FfB Public Policy Advocacy working group continues to explore how to engage with national governments and with the CBD process.

Q&A

a. When will a second draft of the Global Biodiversity Framework be published?
Answer: We are currently preparing a reflection document to summarize the input we received in August. We are not writing a new draft yet, because there were no negotiations. Depending on the outcome of the January negotiations, we will publish a final text or new draft after those negotiations. (Basile van Havre)

b. Given the interdependence between the climate and biodiversity crises, how much does a successful CBD15 depend on the outcome of CoP26?
Answer: We are co-dependent on each other. Climate goals cannot be met without reversing biodiversity loss, and biodiversity goals cannot be met without addressing climate change. Luckily, the measures are interlinked as well: it is hard to find projects that do not have dual benefits. Sometimes the two communities are not totally aligned, but we are being pushed towards integration and alignment. (Basile van Havre)

c. Can you elaborate a bit further on the monitoring of Target 15 through local and national initiatives, what would that look like in terms of indicators?
Answer: Indicators for target 15 are probably among those that require the most work. This means that there is ample room to design effective systems. In general, we want to build a performance management system that is open. This means that it will enable sub-national government and non-state actors to connect to it and contribute to national level results. (Basile van Havre)

d. Which role will the TNFD have with regards to the Post 2020-framework?
Answer: TNFD will define how risk will be identified, measured, and communicated. We have seen how TCFD has been instrumental in shifting a significant amount of investment towards climate positive endeavours. TNFD should do the same for Nature. In fact, one can imagine an integrated Climate and Nature risk assessment and communication system. (Basile van Havre)

e. CBD post2020, SDG, IPBES: We are starting to have multiple targets with different timeline about biodiversity, interacting a lot, yet that seem to be managed independently by different COPs. This must be so confusing for sectors, like finance, that seek to become involved as customers seek to invest in 'sustainable transitions'. Why can't the UN work across COPs to develop unified targets and indicators to clarify the field and make private sector investment easier?

Answer: Setting target for individual subjects like Nature or Climate is complex and involves specialists. It took many years and perhaps decades for Climate. We are trying to do this in a matter of years for Nature. The first priority is integration and coordination to unify the planning, reporting and resourcing mechanism. An on the ground project may have multiple benefits and we ought to provide them with an integrated set of criteria and a one window approach to funding. Beyond this, the setting of goals involves issue specific experts negotiating and it may therefore be counterproductive to seek integration at the goal setting stage first. Once again, there is no doubt that what we need are sector strategies that integrate all goals (Nature, Climate, One Health…) and clarify this for business and investors**.** (Basile van Havre)

f. Connecting a reduction in footprint via lower production / consumption seems to conflict with the growth logic of capitalism. Some sectors will grow, but a lot of the current economy that is focused on catering to consumption will have to downsize, if we are serious about reducing our ecological footprint. With that, the finance sector, whose logic is also built on growth in the real economy, is also in question. What is your view?

Answer I: I would qualify it as change in production and consumption, and not necessarily as an overall decrease. Let's take the example of meat production: a large contributor to both climate and biodiversity impact, yet equally a source of nutrition for many societies. Perhaps the way forward is the production of smaller quantities of higher quality product for which consumers are ready to pay more and consume in smaller quantities less often. Under this model, ranchers can get a steady stream of sustainable revenues while contributing to biodiversity.
It is interesting to see how market forces (finance and consumer choice) is reshaping the energy economic sphere faster than anyone would have imagined. My expectation that it will evolve even faster for Nature. The challenge is to ensure that transition is fair and equitable for all and that political pressure groups have time to adapt. (Basile van Havre)

Answer II: In order to achieve a nature positive world - and to safeguard our own future – we need policies and actions to transform the world's economic and financial systems. Many studies indicate that nature positive investments not only make ecological sense but also economic sense (see e.g. the New Nature Economy Report Series and the Global Futures Report)
These transformations must include the following:

- We must recognize the value of nature and the costs of its degradation, systematically factoring it into our economic and policy decision-making, including adopting measures of progress that go beyond GDP, promoting sustainable production and consumption, incentivizing circular and regenerative economies, and taking responsibility for our global environmental impacts.
- We must work collectively to reshape the global economy so that it delivers long-term inclusive well-being and prosperity consistent with the SDGs, rather than maximizing short-term income growth and accelerating social inequality.
- We must scale business models that build long-term shared value for society, and improve corporate governance so that it strengthens corporate responsibility to customers, clients, employees and communities, as well as to shareholders.
- And we must reshape financial and market incentives and regulatory frameworks so that they value natural systems and ecosystem services, and support our economy in realizing the promise of the SDGs—prosperity for all on a healthy planet.

Finally, a key message in the Dasgupta Review is that, whilst GDP is an important measure of economic activity, we need to stop using it as our primary measure of economic success and start using Inclusive Wealth instead (defined as the aggregate value of all assets, including natural assets). A focus on measuring and maximising our asset base will incentivise increased investment in activities that protect and restore those assets, improving future economic prospects and in turn our wellbeing. (Guido Broekhoven)

PART 2. EU regulation on biodiversity disclosure and reporting

***Update on developments under the Corporate Sustainability Reporting Directive (CSRD)** – Jean-Christophe Nicaise Chateau, Legislative Officer, DG for Financial Stability, Financial Services and Capital Markets Union of the EC*

The Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) aims to improve the completeness, comparability and reliability of sustainability reporting by companies. The Non-Financial Reporting Directive (NFRD) does not specify in any significant detail the information that companies should disclose, and does not require companies to use a non-financial reporting standard. There are currently no binding rules on what sustainability information companies need to report on. This is problematic for both users and preparers of sustainability reporting.

CSRD aims to ensure a consistent flow of sustainability data all the way from companies, to asset managers and analysts, to investors. It is about empowering investors to make the right decisions. The CSRD will apply to all large companies in the EU and all listed companies in EU-regulated markets (roughly 50.000 companies in total). Non-listed SME's can decide voluntarily to report according to the CSRD standard. The CSRD proposal requires companies to "tag" information to make it machine-readable. This sustainability information can feed into the future European Single Access Point for which the Commission will put forward a proposal later this year. The standards are currently being developed by EGRAG. The new standards will cover all ESG topics and will need to be coherent with EU ambitions and use the double materiality principle.

We expect a first set of draft standards to be ready by mid-2022. The earliest the standards and legislation could be in place, would be for companies reporting in 2024 (covering the financial year 2023).

***Update on developments under the Corporate Sustainability Reporting Directive (CSRD)** – Patrick de Cambourg, President at Autorité des Normes Comptables (ANC) and board member at European Financial Reporting Advisory Group (EFRAG)*

The key goal of the CSRD is to create a game changing step in corporate reporting. So far, corporate reporting had a high-quality financial part, and a looser non-financial part on sustainability. The overemphasis on financial reporting should now be replaced by two legs of equal weight. This is ambitious: it took decades for financial reporting to evolve to where it stands today, and we need to develop sustainability reporting in a much shorter period.

Whereas the scope and high-level principles will be defined through regulation, EFRAG is working on the technical side of defining reporting standards. A project taskforce has been active for this since September 2020. It consists of 35 members, representing different EU countries and stakeholder groups. After the first phase (Sept 2020-Feb 2021) of preparatory work, we entered into elaborating the standards. For this, EFRAG is also modifying its governance which will be in place in Q1 2022. The process of elaborating the standards will be handed over to the new governance body when it is established.

The architecture of the standards for non-financial reporting is defined by three 'rules of three'.

1. Each standard consists of three layers: a sector-agnostic layer, a sector-specific layer, and an entity-specific layer.
2. Companies will need to report on three areas: a. their strategy; b. the implementation of this strategy (policy and targets, action plans; and c. performance measurement. These three areas compare well with four pillars of TCFD.
3. Non-financial reporting will cover the three ESG-themes: Environment, Social and Governance. Environmental reporting covers six subtopics: climate mitigation, adaptation, biodiversity, water, pollution, and circular economy.

A working paper on the Climate standard prototype is already publicly available. We aim to publish a pre-exposure draft by the end of 2021, so that public consultation can take place in Q1 2022.

When it comes to the biodiversity standard, we would like to incorporate everything that is currently underway, such as the COP15 outcomes. We are considering launching the standards in multiple batches, starting with topics (such as climate change), for which reporting and disclosure are quite mature. This would give us time to wait for and incorporate new developments into topics (such as biodiversity), for which reporting is currently less mature.

Call to action: Contributions about biodiversity metrics are very welcome, through e-mail to patrick.decambourg@efrag.org

***Finance sector views** – Liudmila Strakodonskaya, AXA IM, F@B member and chair of the FfB Foundation Impact Assessment Working Group.*

The FfB Foundation Impact Assessment working group has started a first analysis to understand the space investors are finding themselves in today as regards biodiversity. We identified three dimensions:

1. Scientific imperatives – alignment with global scientific goals
2. Technical constrains – availability of data, tools, metrics
3. Legal incentives – directed towards both corporates and FI's and developed in a situation of high uncertainty.

By analysing the three dimensions and their interplay, we are trying to understand what questions we as investors should ask others, or ourselves. For example:

1. Overarching question: to what extent can legal incentives help investors to align with scientific imperatives, within the boundaries of the current technical constraints?
2. Timeline: Will investors have reported corporate biodiversity data by the time they need it to produce their biodiversity reporting? To what extent can we rely on modelled data? Is modelled data reliable enough?
3. Biodiversity approach: Are legal incentives and scientific imperatives aligned? How to address the IPBES drivers?
4. Double materiality: How do we apply it to biodiversity? When should we talk about dependencies, and when about risks? Can we use the TCFD terminology for biodiversity, or do we need a different logic than in the climate space? Do we include opportunities as well?
5. Metrics: We have some indications on KPI's that will become required under European or national law. For example, SFRD will probably be based on geolocation KPI's, whereas French law builds on biodiversity footprinting. How to align these different KPI's and metrics?

Our analysis is still work in progress, and we are looking forward to discovering both solutions and new questions. We are also considering drafting a paper about this work.

Q&A

a. When will the biodiversity standard be published?
Answer: We will have several sets of standards, to be published in the end of 2022 and end of 2023. We need to prioritize. Personally, I anticipate that we might need more than two iterations to get to a stable platform for sustainability reporting that is of equal quality as financial reporting. (Patrick de Cambourg)

b. How and where does science regarding the assessment/measurement of various environmental impacts (incl. biodiversity) feed into the EFRAG decision-making (European Fin Reporting Advisory Group)?
Answer: Science is key to standard setting. There are two approaches to let science feed into the standard setting process. One is based on consensus: you put experts in a room and let them discuss what impacts to include. This is of course perception-driven. The second approach is to assess scientifically which impacts are the most impact impactful, remediable, likely, etc, and to use the outcomes to make decisions. Both approaches are used, depending on the maturity of the knowledge base. (Patrick de Cambourg)

c. In the CSRD, will there anything specific on biodiversity (like in SFDR and Taxonomy)?
Answer: Biodiversity is one of the six Environmental reporting subtopics. In what way it will be included (like specific aspects and KPIs), is part of the standard setting process that EFRAG is organising (Jean-Christophe Nicaise Chateau)

d. Thank you for the information regarding the development process of the CSRD by EFRAG. You have mentioned a call for contributions on biodiversity metrics, is there a particular path for these contributions to be provided, and if so - what would that be?
Answer: Please contact me for contributions: patrick.decambourg@efrag.org

e. Will the CSRD reporting requirements also apply to semi-public enterprises (such as hospitals and drinking water production companies)?
Answer: The scope of the CSRD is first of all framed by the scope of the Accounting Directive. Therefore, only limited liability companies (LLC), or companies with de facto limited liability, as stated in article 1 of the directive, will be subject to any requirements under the Accounting Directive. Therefore, companies mentioned in the question are not likely to be subject to the reporting requirements, unless they take one of the forms defined in article 1 of the Accounting Directive. The only area in which the CSRD broadens the scope of the Accounting Directive beyond LLC, and only for the purposes of the sustainability reporting requirements, is in the case of banks and insurance companies, to ensure that any kind of entity falls under the scope if it meets the size thresholds. (Jean-Christophe Nicaise Chateau)

Contact

Finance@Biodiversity Community, part of the EU Business@Biodiversity Platform, becoming a member
Anna Karamat (Anna.KARAMAT@ec.europa.eu), coordinator B@B Platform;
Anne-Marie Bor (a.bor@nextgreen.nl) and Anita de Horde (anita.de.horde@financeforbiodiversity.org), Leads F@B Community

Finance for Biodiversity Pledge and Foundation, Anne-Marie Bor and Anita de Horde (info@financeforbiodiversity.org), coordinators FfB Foundation