

Biodiversity and climate action: why does biodiversity matter and how can nature-related financial disclosures help?

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Pensions for Purpose's quarterly 'all-stakeholder' event for the Paris Alignment Forum, sponsored by Invesco and Redington.

The Paris Alignment Forum runs quarterly events which are open to all members. In our second event of 2022, Nathalie Borgeaud, Lead, Financial Markets Stakeholder Engagement, for the **Taskforce for Nature-related Financial Disclosures** (TNFD) reflected on what is happening with nature and why we need to focus on biodiversity when considering an investment approach. She explained the risk and disclosure framework underpinning TNFD, and why this integrated approach to incorporating nature-related risk and opportunity analysis into the corporate and financial decision making was so important for pension fund investors.

Keynote address



Why does biodiversity matter?

Biodiversity is disappearing at a rapid rate. Ecosystems have declined by 47% since the 1970s.

Nathalie recommended reading the **2019 IPBES report**. This explains why nature is disappearing.

She pointed to the loss of 83% of wild animals and 50% of plants with the trend continuing at an alarming rate. It represents an enormous threat to our existence and our economies.

Nature is key to businesses

The dependence of nature to the economy has not been well understood in the past. However, the World Economic Forum has published a study which states that over 50% of the world's economic output is either moderately or significantly dependent on nature.

The sectors which are most at risk, and highly dependent on nature, are: construction, agriculture and food & beverages. New attention needs to be given to these sectors. In geographic terms, the most exposed regions are China which has an estimated two-thirds of its GDP dependent on nature. This is followed by the EU and the US.

Nathalie gave some examples. For example, the Californian almond industry produces 80% of the world's production. Almonds need pollination by bees, yet bees are dying in California. They are now so rare that they are being stolen or shipped in from other states. This has pushed up the production cost of almonds. (Pollination affects many crops, not just almonds.)

Another example is microchip manufacturing. Taiwan is a key producer. Over 150,000 tons of water per day is required to maintain operations but there is a water shortage with some cities being rationed. This has had a knock-on effect on the supply of computers.

Policy and regulation

Biodiversity is beginning to attract a lot of attention from policymakers. Nathalie referred to the [NGFS](#) (Network for Greening the Financial System). They are looking at the question of biodiversity loss. They now see biodiversity and climate change being inextricably linked and they are seeing systemic risk which could impact financial stability.

TNFD

TNFD's overarching goal is to shift the flow of global capital from nature-negative to nature-positive outcomes. Nathalie stressed that we were facing an enormous crisis which showed no sign of stopping. We need a huge game-changer. TNFD wants to allow decision-making which makes sense and better risk management that takes nature into account. They are developing a risk management and disclosure framework for organisations to report and act on evolving nature-related risks.

The Taskforce is a market-led initiative with 34 members who are drafting the framework. They are supported by the Secretariat of TNFD and a forum of over 300 institutions, including regulators, corporate institutions, NGOs and other institutions who want to see TNFD emerging. Nathalie invited Paris Alignment Forum members to [register](#) to become TNFD forum members.

TNFD is funded by a number of governments, and they are officially endorsed by the G7 and G20. They are science-based, being supported by world-leading scientific and standards bodies. The [first framework](#) was published at the end of March. This is a beta-version on which they are seeking feedback. The next release will be in June. The first round of feedback has now closed, but there will be an opportunity to review the next version over the summer.

The framework has three key components. The first is about the fundamentals for understanding nature. The second block contains the TNFD disclosure recommendations, which are similar to TCFD. The third block is a 'how to' guide called LEAP (locate, evaluate, assess, prepare), to help organisations report on nature-related risks.

Aligned with TCFD

Because climate and nature are linked, TNFD has developed a similar approach to TCFD. This should help organisations ramp up their knowledge. There are the same pillars: governance, strategy, risk management and metrics/targets, although the detail below each pillar is, of course, focused on nature.

They are developing scenario analysis with the NGFS which should be announced over the summer.

In conclusion

Nathalie stressed that collectively we needed to become 'nature smart' and understanding the link with the economy.

Q&A

Common standards and metrics: a local authority pension fund committee member observed that they had been working on climate action, but they faced a challenge because of a lack of common standards and metrics for measuring and disclosing. How did TNFD see common standards and metrics being developed?

Nathalie replied that they had two working groups - one on data and one on metrics – who were considering these challenges. They have published a paper on data already '[A Landscape Assessment of Nature-related Data and Analytics Availability](#)' and a paper on metrics will be published with the June release. At the moment, this paper is discussing metrics architecture but the full picture will come out later. The finalised framework has a target of September 2023. They recognise there is a need.

Combining TNFD and TCFD reporting: a professional trustee recognised the similarity with TCFD. Because the two are so interlinked, was there a way of considering joint reporting. TNFD reporting was quite long, so could the two be combined so that only one report was published?

Nathalie said there were no formal plans to do this. However, the regulators do tend to ask for both TNFD and TCFD to be considered together.

Timeline and getting a coordinated response: a corporate pension fund delegate supported the request for combined reporting. He also had an issue over the timeline and reporting requirements of asset owners versus corporates. The DWP had produced their own set of reporting requirements for asset owners but these were subtly different to the reporting required of corporates. He observed that asset owners are required to report ahead of the asset managers, under different regulations, which was causing them challenges. He requested that TNFD worked with local regulators to avoid repeating the same experience, with a more coordinated response ultimately being rolled out.

Nathalie agreed to raise this with her UK colleagues. There were several discussions taking place at different levels within TNFD on this topic.

Breakout room discussions

During the breakout room discussions, moderated by forum sponsors Redington and Invesco, forum members discussed three questions:

1. What benefits are there to pension funds and asset managers to develop and disclose a nature strategy alongside their climate strategy?
2. How might pension funds and asset managers prepare for, and support, a shift in global financial flows away from nature-negative outcomes towards nature-positive outcomes?
3. What sort of impact investment opportunities supporting biodiversity would pension funds like to see and what ideas do other forum members have?



Redington moderators Paul Enderby, Sadia Rahman and Edina Molnar

Some of the points raised when discussing these questions included:

Question 1 –the benefits to develop and disclosure a nature strategy alongside climate strategy

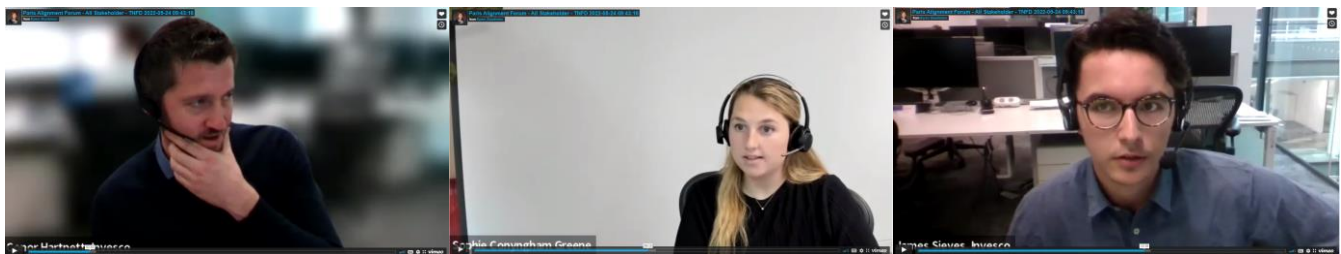
- It was key for climate and nature to be addressed together.
- Nature was a good topic to engage with members on their pension savings/benefits and enquiries from members about biodiversity were beginning to be seen.
- Transparency on underlying investments and their impact was a benefit.
- What is the point of paying into a pension fund in a world that isn't worth retiring into? Everything becomes much more holistic when you take that perspective.
- Reporting and engagement on nature would result in a better dialogue between asset owners and asset managers.

Some challenges raised included:

- Standardised reporting was critical.
- There was a need for continued education on biodiversity.
- TCFD reporting alone is an involved exercise. That having been said, it is useful to use the same approach for TNFD. The concern is around the volume of reporting. A combined report would be preferable. Several breakout room discussions touched on the desire to have a combined reporting obligation rather than TNFD and TCFD running in parallel.
- Will there be pushback from the asset managers until TNFD is a legal requirement? There isn't sufficient resource to cope with TCFD reporting, already.

Question 2 – preparing for a shift from nature-negative to nature-positive outcomes

- The challenge was how much impact schemes should be looking to achieve and how to go about it.
- Nature-related issues are at present overshadowed by climate issues.
- Impact investment should include nature and should be treated as the third dimension alongside risk and return.
- A document such as DWP's '[Top ten questions to ask fund managers on climate](#)' on nature-related issues would be helpful.
- A skeleton framework would be helpful to consider first, before it becomes too granular.
- There is a complex relationship between social and governance issues in relation to nature.
- Was there a role for TNFD to take a strategic view across the industry to ensure we are working towards our goal? With each fund moving forward in their own way, how can we ensure that collectively we are all doing the 'right' thing?
- Engagement was a key factor – had there been much engagement on biodiversity, to date?
- [Nature Action 100+](#) was an initiative that was already being developed, which was seen as a positive.
- Could reporting be made more accessible to members? Reporting at present is cumbersome and not very accessible for members.
- Investing in suitable opportunities took time but we shouldn't wait until the data is in a perfect position to act.
- Active managers can thrive in an environment where there is an asymmetry of data.



Invesco moderators Conor Hartnett, Sophie Conyngham Greene and James Sieyes

Question 3 – impact opportunities in biodiversity

- Private markets offer good opportunities and there are an increasing number of intentional strategies being seen that are aligned to the SDGs or have positive-nature aligned metrics.
- Investing in biodiversity was more of a challenge for mature defined benefit pension schemes on a buy-out journey.
- There was a raised awareness on impact investment and a growing demand for nature-based solutions. Biodiversity offset credits were being developed which could develop into a tradeable market.
- A typical pooled impact solution needed to generate a return of 7-8% per annum – natural capital could form part of that fund.
- Asset owners are becoming more open to considering what were historically quite niche areas.

Final remarks

Nathalie Borgeaud felt there had been a very rich and valuable debate. Sustainability needed to be considered holistically. We must ensure that climate does not dwarf nature because the issues are just as critical.

She took away the message that there was a desire to report on TCFD and TNFD together. She had heard some interesting investment opportunities and was encouraged by the innovation being seen. There was a need to build capacity, a need to educate and a need to research nature-related opportunities.

TNFD are developing their framework not just for disclosures but for risk management too. This is a 'for action' initiative. She was pleased to hear the discussion and encouraged us all to become more 'nature smart'.

Forthcoming event

8 June 2022 – 10:30-11:30 BST – Paris Alignment Forum online morning coffee – with Gresham House

WWF estimates that nature is worth over \$125 trillion per year globally and the UK is in the bottom 10% globally in terms of nature. Following the ground-breaking Dasgupta report, learn why nature is so important and how private capital can be mobilised to build back nature and level up our environment. In this session, Professor David Hill CBE, Chairman of EBL (Environment Bank) will discuss why asset managers must work harder to find solutions, covering topics including: why is biodiversity important and how does it relate to climate change; what is causing the problems in agriculture and infrastructure; how restoration and protection can alleviate the problems and why it is important to focus on the UK. Peter Bachman of Gresham House will then explain how a pension fund can invest in biodiversity and achieve a suitable return, through the ideas and mechanism they have developed for funding enhancements to the natural environment.

If you would be interested in joining or participating in the Paris Alignment Forum, please contact [Karen Shackleton](#).

