

A Win for Nature: Rules to Tackle Biodiversity Loss Start to Emerge

- In June, the Taskforce on Nature-related Financial Disclosures was launched to develop a reporting framework to shift global financial flows from “nature negative” to “nature positive”
- More than half of the world’s economic output depends on nature
- Biodiversity and climate change are two sides of the same environmental coin and need to be considered together

WHAT’S NATURE’S ROLE?

It’s hard to overstate the symbiotic relationship between humans and their environment. Scientists predict that on our current trajectory of habitat loss and global warming, up to 1 million **species** are threatened with extinction, many within decades. Their disappearance would disrupt ecosystems and imperil human civilization as we rely on other species to make the earth habitable, for example, certain insects eat pests on crops, which could no longer fulfil a critical role in the food cycle.

The World Economic Forum recently put a number on that reliance. More than half of the world’s economic output – \$44 trillion of economic value generation – is moderately or highly dependent on nature.

The data supports a growing recognition that the conservation of natural capital is indispensable not only for healthy human lives but also as the lifeblood of the economy. United Nations Environment Programme (UNEP) and the International Finance Group estimate that the loss of ecosystem services costs at least \$479 billion per year.

OVERVIEW

Against that backdrop, the Taskforce on Nature-related Financial Disclosures, (TNFD), was officially launched in June 2021. Its mission is to develop a disclosure framework so that global financial flows shift from “nature negative,” which adversely impacts natural capital, to “nature positive.”

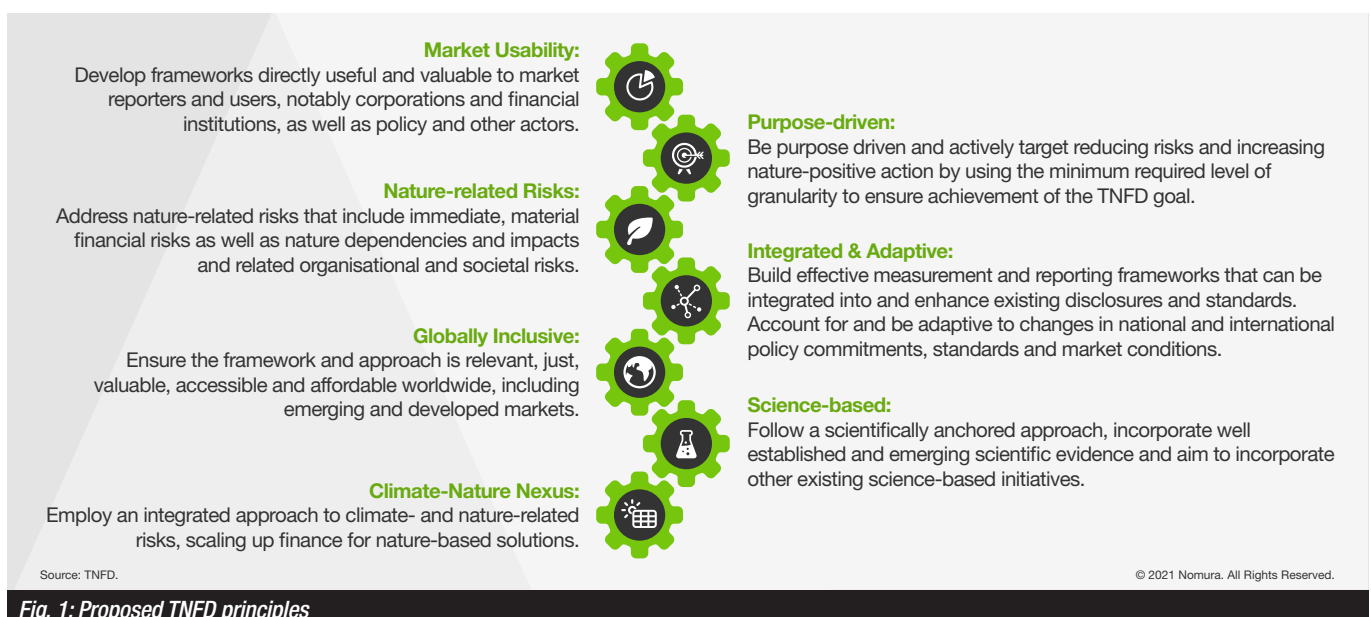


Fig. 1: Proposed TNFD principles

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The TNFD also formed an informal working group (IWG) and published a report called “**Nature in Scope**” outlining the steps to finalize the framework in 2023. G-7 Finance Ministers and Central Bank Governors issued a communique endorsing TNFD and at the G7 UK summit, world leaders adopted the 2030 Nature Compact, which aims to stop and restore biodiversity loss by the end of the decade.

The TNFD is co-chaired by David Craig, strategic advisor to LSE Group and Elizabeth Malma Mrea, executive director of the United Nations Convention on Biological Diversity. The election of Craig, an expert on data analysis at stock exchanges, underscores the desire to link the United Nations functionally with the finance industry and to provide disclosures that are useful to influential groups like institutional investors. The accumulation of better data to assess nature-related risks, is intended to accelerate understanding of these issues and shift global capital flows.

Last month the TNFD appointed 30 members from financial institutions like BlackRock, and major corporates like Nestle, plus data providers, and accountants to shape the framework.

OUTLINE OF THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

Item	Overview
Goal	Develop a framework for companies to report and act on increased natural-related risks to help shift global financial flows from “nature-negative” to “nature-positive”
Principles	<ol style="list-style-type: none">1. Market usefulness: Developing a framework that is directly beneficial and valuable not only to policymakers, but also to market users such as companies and financial institutions2. Science-based3. Addressing nature-related risks: including significant financial risks at hand, including the degree of dependence on and impact on nature and the associated organizational and social risks4. Purpose-derived: Active focus on risk reduction and increasing “nature-positive” initiatives5. Integration and conformity: Establishment of an effective measurement methodology and disclosure framework that can be integrated and enhanced with existing standards. Adaptation to changes in domestic and international policy commitments, standards and market conditions6. Climate and nature integration: Scale up financing for nature-based solutions and adopt integrated approaches to climate and nature-related risks7. Global and comprehensive – including emerging and developed markets
Co-Chairs	<ul style="list-style-type: none">▪ David Craig, (<i>Founder of Refinitiv</i>) and <i>Strategic Advisor to, London Stock Exchange Group</i>▪ Elizabeth Malma Mrema, <i>Executive Director, United Nations Convention on Biological Diversity</i>
Members	It has about 30 members, including financial institutions, corporate enterprises, data/service providers and accountants (Including developed and emerging countries). Expected the same number of members from financial institutions, corporate enterprises, and data/service providers
Founding Partners	<ul style="list-style-type: none">▪ United Nations Development Programme▪ United Nations Environment Programme Finance Initiative▪ World Wildlife Fund▪ Global Canopy, an environmental nonprofit organization in the United Kingdom

OUTPUT AND ROLE

The remit of the TNFD is to develop standards that promote consistent disclosure of nature related financial information at the global level. The IWG proposes to coordinate definitions between existing frameworks for biodiversity and natural capital conservation in order to minimize the reporting burden on companies and financial firms.

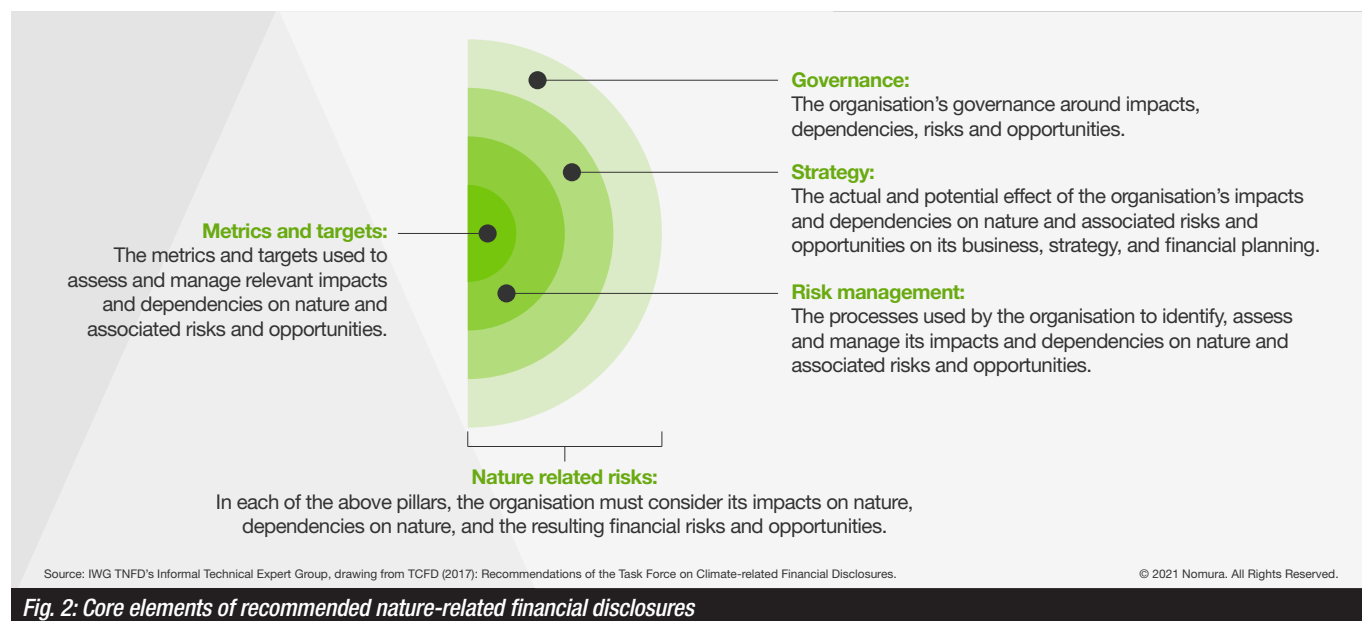
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The TNFD framework will be based on the Taskforce on Climate-related Financial Disclosures, which is already being used globally. Biodiversity and climate change are two sides of the same environmental coin and need to be considered together. While climate change is an important factor leading to loss of biodiversity, the conservation of biodiversity is also an important factor when considering measures to address climate change.

IMPLEMENTATION

TNFD consists of four pillars: governance, strategy, risk management, and science-based indicators and targets. It will provide companies and financial institutions with a complete picture of their environmental risks.

Refining and implementing the rules will play out across 5 phases. Phase 1, which represents the first draft of the TNFD framework, and Phase 2, which covers testing, will be completed in 2022 before launch and dissemination a year later.



FUTURE DEVELOPMENTS

The 15th Conference of the Parties to the Convention on Biological Diversity (CBD) is scheduled to be held in Kunming, China, this month, which could add impetus to existing initiatives. The meeting is being held in two parts with a new COP15 goal expected after the second summit in May.

TNFD has bold ambitions to turn the tide on nature's loss. It bridges an important gap by pushing companies to protect biodiversity through their financial flows. In harmonizing TNFD with TCFD, we can expect the framework to be widely used by companies and financial institutions.

On the other hand, data on risks and opportunities related to the conservation of natural capital and biodiversity is likely to be more difficult to obtain, which could mean slow progress.

TNFD promises to disclose information that is consistent, comparable and useful as a basis for making decisions but as the field of natural capital is so broad, developing unified indicators may be challenging. Even if a company that reveals information based on TNFD can explain its dependence on natural capital and its degree of influence, it is important to decide at what level to collect and disclose the data on which it is based.

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DISCLAIMER

This article first appeared in fuller form and in Japanese language in the Nomura Sustainability Quarterly Spring 2021 edition, published by the Nomura Institute of Capital Markets Research (NICMR), authored by **Hiromi Hayashi** of NICMR. Sponsored for translation and publication by Nomura International plc by Andrew Bowley. The information contained herein (the "Information") is provided to you by the Sales, Structuring and or Trading Departments of Nomura International plc ("NIP"). NIP is part of the Nomura group of companies ("Nomura") and the Information may contain contributions from employees of the Nomura group of companies. NIP authorised by the Prudential Regulation Authority ("PRA"), regulated by the UK Financial Conduct Authority and the PRA and is a member of the London Stock Exchange. 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