

Nature: the next frontier in disclosure?

Blog post by Lucy Cairns, 15 July 2022

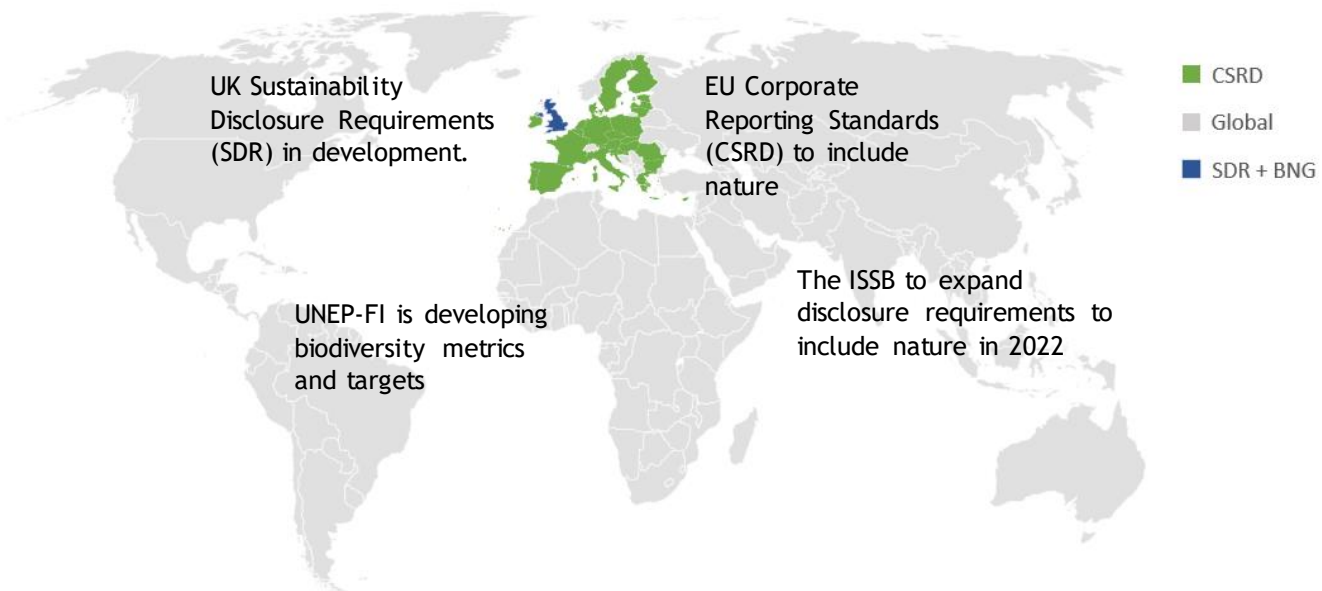
Over the last few years, there has been an increasing recognition of the impact of climate change on financial performance and a proliferation of disclosure regulations as a result. Whilst reporting on climate-related financial risks is now being mandated across a range of jurisdictions, expanding the scope of these frameworks to include the risks posed by biodiversity decline is gaining momentum.

There is increasing understanding that biodiversity loss poses considerable, and so-far unaddressed, risks for corporates and financial institutions alike. Indeed, more than half the world's economic production is moderately, if not heavily, reliant on ecosystem services. There are many ways in which biodiversity decline poses direct risks to businesses. For example, unsustainable trawling practices result in reduced fish stocks, thereby posing a financial risk to the fishing and seafood industry, and retail sectors. In addition, biodiversity decline can have much wider reaching impacts, such as the ramifications of declining fish catchment on global trade and food security. Despite this, the decline of nature and the risk this poses is so far something that is not widely addressed within disclosure frameworks, which generally remain focused on climate. This is now changing.

The extent to which the global economy is reliant upon biodiversity and ecosystem services is something that is being increasingly recognised and incorporated into legislation. Whilst there has been a longstanding trend to incorporate both nature and risks to biodiversity in public advocacy campaigns, such as the Wildlife Trust's 'Save the Bees and Pollinators' campaign, there has been less attention to date about how to calculate and report on the risks posed by biodiversity decline. However, as a result of increasing market pressure to develop a framework for calculating and disclosing on biodiversity-related risk, the Taskforce on Nature-related Financial Disclosures (TNFD) has been developed to bridge this gap.

The TNFD recently published its Beta 0.2 draft disclosure framework, which provides much needed definitions of key concepts for talking about nature as well as disclosure recommendations and voluntary guidance for conducting nature risk and opportunity assessments. The final recommendations are expected to be released in 2023. As suggested by corresponding acronyms, the TNFD takes its inspiration from the well-established Taskforce on Climate-related Financial Disclosure, or TCFD. In response to complaints that the increasing number of disclosure frameworks require greater simplification and harmonisation, the TNFD has been developed to be complementary to the recommendations which have already seen successful uptake by the TCFD, with a hope that climate and biodiversity reporting can be harmonised in the future.

The TNFD is not the only framework looking to develop nature-related disclosure. Many existing climate disclosure frameworks and standards, such as the International Sustainability Standards Board (ISSB) and the EU's Corporate Sustainability Reporting Directive (CSRD), are also expanding the scope of current requirements to include reporting on nature. But whilst multiple disclosure frameworks are looking to address nature-related risks, the TNFD has the potential be used as a global baseline for biodiversity disclosure, and in time could come to be mandated as has been seen with the TCFD.



However, whilst significant progress has been made in the evolution of nature disclosure frameworks, challenges remain. Methods of calculating the impact of biodiversity loss and the subsequent financial risk are still in their infancy and the practicalities of translating the complexity of nature into an accessible, scalable framework still poses questions. Furthermore, concerns have already been raised about the need for proliferating nature disclosure frameworks and legislation to be harmonised across different geographies to provide comparable data for making informed investment decisions. Whilst the ISSB has expressed intentions to harmonise its recommendations with those of the TNFD, the extent to which other nature-disclosure frameworks plan to align remains unknown. There is also a potential that these recommendations will need to be adapted to accommodate biodiversity targets and metrics which are expected to come out of the Global Biodiversity Summit, taking place later this year.

Whilst further clarity on many of these issues is needed, corporates and financial institutions would be advised to keep an eye on the reporting space as well as the progression of the TNFD as it blazes the trail for nature to become the next frontier in disclosure.