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From Policy to Preservation

Why the UK Government should introduce mandatory reporting against the Taskforce on Nature-related Financial Disclosures

Executive summary

The Taskforce on Nature-related Financial Disclosures (TNFD) is a disclosure framework designed to help companies and financial institutions to identify their risks, impacts and dependencies on nature. The financial sector has a pivotal role to play in addressing the biodiversity crisis, but many institutions have failed to embed nature within their decision-making. Research conducted by ShareAction on 77 of the world's largest asset managers found that only 60 per cent of investors engaged with biodiversity targets, in comparison to 87 per cent engagement for climate targets.[i] Ambitious policy is urgently needed, and mandatory disclosures against the TNFD will encourage a shift in behaviour of the financial sector towards a nature-positive future. Voluntary disclosure is simply not enough; analysis by CDP (formerly known as Carbon Disclosure Project) found that voluntary reporting is not occurring at a fast enough rate to address and reverse nature degradation in line with global goals.[ii]

As a result of inaction, the UK is one of the world's most nature-depleted countries, with the lowest level of biodiversity of the G7 countries and almost 1800 species at risk of extinction.[iii] The Environmental Audit Committee has recommended the UK Government commit to making TNFD reporting mandatory within the next five years.[iv] This briefing shows the need for increased ambition in enshrining nature protection within UK policy, beginning with sector-wide mandatory disclosures against the TNFD, to align with the UK Government's preexisting commitment to Target 15 of the Global Biodiversity Framework and its ambition to become a global leader on nature conservation.

Recommendations for policy makers:

1. By end of 2027, introduce legislation to mandate reporting against theTNFD, aligned with global nature preservation and restoration targets. Continue to endorse the framework and publish a clear roadmap for execution by end of 2024.

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ShareAction is a registered charity working globally to define the highest standards for responsible investment and to drive change until these standards are adopted worldwide. Our vision is a world where the financial system serves our planet and its people.

2. Engage with financial institutions and regulators to develop clear guidance, incentives, and penalties to ensure effective implementation of the framework.

3. Recognise the devastating impacts on nature loss caused by financial institutions' current capital pricing and allocation within the economy, alongside the financial risk to profits. Enshrine due consideration of nature and biodiversity impacts in law, particularly concerning the financial sector.

Introduction

With our planet on course for a sixth mass extinction, the impact of human activity on nature has been devastating and profound.[v] Destruction of the natural world has occurred at a catastrophic rate with global wildlife populations declining by 69 per cent since 1970.[vi] Biodiversity loss and the destruction of ecosystem services result in decreased resilience to climate change, reduced food security, and major threats to global health.[iii] A healthy economy requires a healthy planet, yet many governments, corporates and financial institutions are consistently failing to address their impacts on nature.

Demand for products of ecosystem services such as fuel, food and pharmaceuticals has outstripped nature's capacity to supply, with short-term profit trumping the sustainable use of nature. Adverse changes in land use, such as agricultural and industrial expansion, are the largest drivers of biodiversity loss alongside climate change, pollution, and direct exploitation. Climate change, in turn, is inextricably linked to biodiversity loss - rising global temperatures and extreme weather events cause irreparable damage to ecosystems, leading to the loss of precious natural resources like forests, wetlands and coastal ecosystems that could otherwise mitigate the effects of climate change. These drivers have accelerated at an unprecedented pace over the last 50 years, exacerbated by changes in production and consumption patterns.[vii]

The financial sector provides huge investment into industries that can be harmful to nature, in order to maximise financial return, often overlooking the destruction inflicted on ecosystems. Analysis by the United Nations Environment Programme (UNEP) found that, globally, investments totalling US$7 trillion are made each year into industries that have a direct negative impact on nature – almost seven per cent of the world's GDP. Of this figure, US$5 trillion is provided by private financial flows. In comparison, investments of just US$35 billion are made by the same sector into nature-based solutions.[viii] Nature loss is complex to measure, with a multi-metric approach required, and the extent of damage is often underestimated. Alarmingly, analysis of almost 400 companies across a variety of sectors found that less than one per cent knew to what extent their operations depend on nature.[ix]

Awareness of the need for mandatory disclosure to tackle biodiversity loss is growing, fuelled by adoption of the Kunming-Montreal Global Biodiversity Framework (GBF) by almost 200 countries. The GBF sets out a pathway to halt and reverse nature loss worldwide over the next few decades through 23 targets to be reached by 2030. Target 15 of the GBF is particularly relevant to the regulation of the financial sector in respect to biodiversity as it focuses specifically on disclosure, recommending that governments implement 'legal, administrative or policy measures' to encourage widespread biodiversity disclosures.[x]

Over the last few years numerous disclosure initiatives have been developed, including the Taskforce on Nature-related Financial Disclosures which published final recommendations in 2023. The UK has been a significant supporter of the development and market adoption of the TNFD, announcing a further £2.8 million in funding for marketing the framework at COP28.[xi] Furthermore, businesses themselves are beginning to highlight the need for mandatory disclosures against nature. Over 330 companies and financial institutions called on governments to make disclosure mandatory through Target 15 of the GBF as part of Business for Nature's 'Make it Mandatory' campaign, showing clear demand from industry.[iii] This briefing calls for adoption of the framework by the private financial sector in the UK and calls on the UK Government to develop policy to mandate reporting against the framework.

Biodiversity, nature and 'nature positive':

It is important to note that although 'nature' and 'biodiversity' are often used interchangeably, they have separate meanings. This briefing will use the Convention on Biological Diversity's (CBD) definition of biodiversity, also used by the TNFD, as 'the variability among living organisms from all sources; genes, species and ecosystems,'[xii] and the TNFD's definition of nature as 'the natural world, with an emphasis on the diversity of living organisms.' When referring to a 'nature positive' future, the briefing uses the UK Government's definition of nature positive as 'aligning with the international goal to halt and reverse biodiversity loss by 2030, and the Global Biodiversity Framework.'[xiii] Use of the word 'reverse' is essential – simply halting nature loss would not produce a nature-positive future.

A financial case for nature

Economic activity and, hence, investments depend on nature and are at risk from nature loss. As the global degradation of nature continues, the value of assets and investments reliant on services provided by ecosystems are put at considerably higher risk. Research by PwC puts US$58 trillion – 55 per cent of the world's GDP - as moderately or highly dependent on nature, with all 163 economic sectors analysed by PwC being highly dependent on nature at some point in their supply chain.[xiv] Nature loss has ramifications for every business model, and all global GDP relies on a healthy, functioning planet. Financial institutions must recognise not just the financial materiality of nature on their business models, but the very real impacts that financial activities have on the planet. The TNFD has a crucial role to play in helping investors understand these impacts and dependencies. Through disclosures against the framework, institutions can start to better manage their risks from biodiversity loss, by factoring nature within decision-making and in turn reducing their negative impact on ecosystems.

Climate change and nature loss-related issues dominate the top four global risks likely to be faced over the next decade, ranked on severity by the World Economic Forum.[xv] The risks that nature loss pose to current business models cannot be overstated. For example, loss of ecosystem services such as flood mitigation can disrupt commodity supply chains, negatively impacting business operations and the ability to provide products and deliver projects on time.[xvi] In addition, the reputational risk can be severe: ESG (environmental, social and governance) research provider RepRisk found that public companies operating close to environmentally sensitive areas are 77 per cent more likely to see damage to business through exposure to ESG risk and criticism for negative environmental impact.[xvii] Organisations are repeatedly failing to recognise the severity of these risks to business and the framework provides an opportunity for these risks to be clearly identified and mitigated.

The financial and real sectors require a robust regulatory framework to standardize and upscale disclosures on nature. Investors are at different stages of addressing their risks and dependencies on climate, with many using frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD, published in 2015, provides guidance for the financial sector on disclosures of climate-related risks and dependencies and to encourage widespread consideration of the climate in financial decisions. In comparision, investors' approach to addressing biodiversity loss is severely lacking in both ambition and commitment. Shown by Fig 1., research by ShareAction found that 27 per cent of asset managers did not assess their biodiversity impacts and dependencies in any form, with only 17 per cent using such data to inform policies and targets. This highlights the disappointingly small number of investors taking action on disclosures, and points to the need for increased capacity within organisations and the need for legislation to drive this change.

Europe's largest banks are also falling short, with further ShareAction research finding that none of the 25 largest European banks were able to provide a clear example of a board initiating action on biodiversity-related strategy. xviii This shows a demonstrable lack of expertise on nature within the financial sector, and a lack of capacity across ESG teams beyond climate. It is critical that both crises are addressed together and with equal urgency for effective progress to be made. The TNFD, designed to complement the existing TCFD structure, provides a significant opportunity for investors to do so.

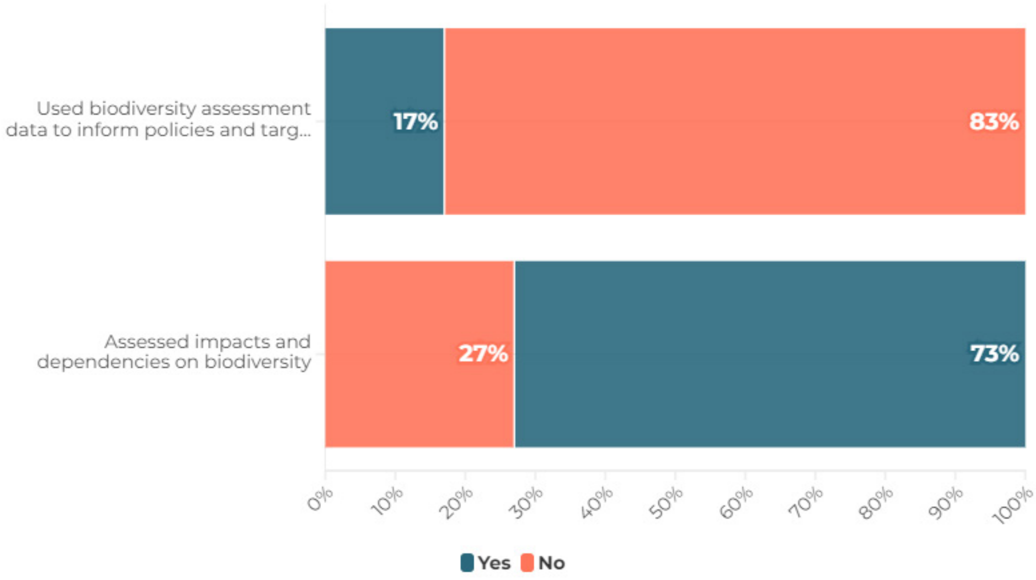

Figure 1: Performance of 77 of the world's largest asset managers on biodiversity risks.[i]

Through engagement with the financial sector, ShareAction has found that lack of regulation and an unambitious policy landscape remain significant obstacles to investors taking action on nature. Many asset managers are seeking guidance on biodiversity, particularly a clear indication from policy makers that they should act on disclosing their biodiversity impacts against frameworks such as the TNFD. This view has remained ubiquitous amongst investors over the last several years as nature begins to move up the global agenda.[xix] The financial stability of these organisations is highly dependent on effective risk management in the face of global biodiversity loss, and use of the framework will result in financial institutions improving the risk and opportunity assessment and management processes in place – and policy needs to lead the way.

Nature and policy in the UK

In his independent review on the economics of biodiversity, internationally renowned economist Professor Dasgupta highlights the risk of focusing on GDP as a measure of economic prosperity, with no consideration given to nature as an asset. The report, commissioned by the UK Government, argues that truly sustainable economic growth requires 'accounting fully for the impact of our interactions with nature and rebalancing our demand with nature's capacity to supply.'[xx]

Introducing mandatory reporting against the TNFD is an opportunity for the UK Government to make a significant commitment to addressing the nature crisis. Self-described as a 'leader on international nature conservation' yet sitting amongst the bottom ten per cent of nations for biodiversity intactness,[xxi,xxii] the UK is a particularly stark example of the devastating impacts of human activity on ecosystems and the consequences of unambitious policies on nature.

The Biodiversity Intactness Index (BII), developed by the Natural History Museum, is a metric designed to measure biodiversity loss in response to human intervention and pressures. Shown by Fig 2., the most recent data puts the UK at 53 per cent. This is below China, the US, and the majority of Western Europe – and far below the 90 per cent necessary to maintain ecological function.[xvii] Legislation to mandate nature-related financial disclosures is urgently needed to encourage a widespread change in behaviour from the financial industry. The UK Government needs to act now to address the nature crisis and meet global targets on nature protection

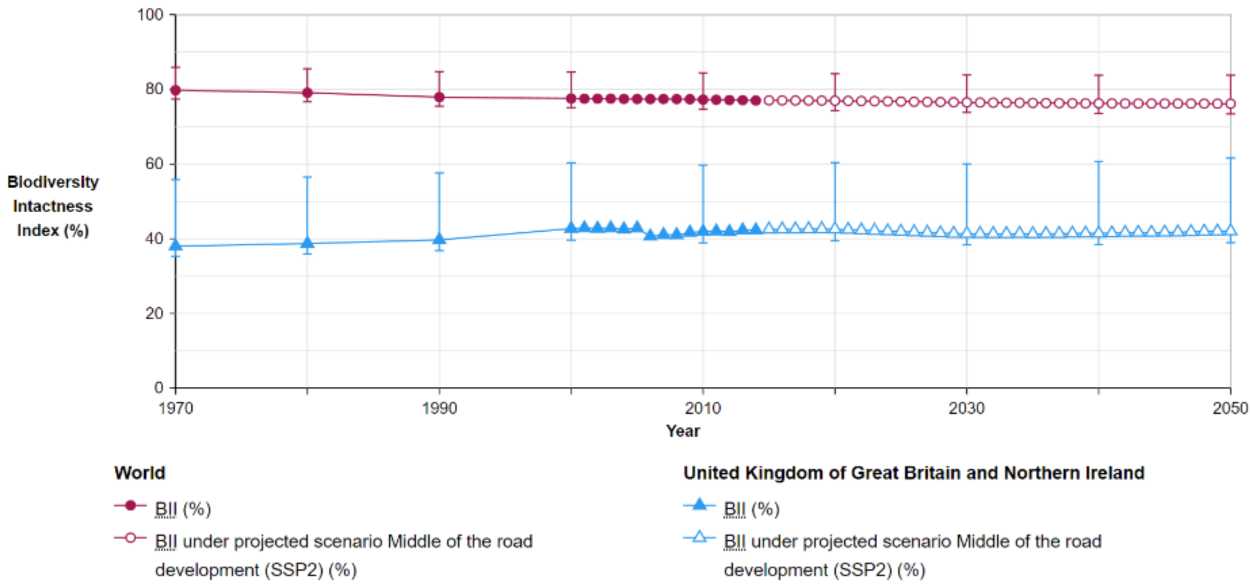

Figure 2: Biodiversity Intactness Index for the UK vs World, by the Natural History Museum.[xxiii]

Despite being vocal on nature, the UK government is failing to deliver at home. In 2020, a decade after committing to 20 nature protection ('Aichi') targets, the UK had made insufficient progress towards 14 of these targets,[xxiv] with research by the RSPB suggesting only three targets were in fact met.[xxv] Focus has now moved to meeting the targets of the GBF, where the Government risks a repeat of their failings. One year on from adoption, research found that none of the assessed targets had sufficient policies in place to ensure success, with the majority needing significant improvements.[xxvi] In addition, the Government has shown a painful lack of progress on its pledge to protect 30 per cent of UK land and sea for nature by 2030 - with under seven years to go until that deadline, just 3 to 6.5 per cent of land is sufficiently protected.[xxvii,xxviii] Most recently, research by the Office for Environmental Protection has found that of 40 individual environmental targets – including those that are legally binding - the UK Government is on track to meet just four.[xxix] The report cites a lack of leading policy as a major barrier to progress, showing the need for an ambitious legislative landscape for nature protection.

The UK Government has continued to be outspoken about its commitment to nature protection, describing the UK as "an international champion for the protection of our planet" in 2018 and commissioning the independent Dasgupta review on the Economics of Biodiversity in 2019.[xxx]

Furthermore, £10 million in funding has been provided by the UK towards implementation of the GBF fund.[xxxi] After leaving the EU, the Government committed to upholding the standards of EU law on nature and climate within the Environment Act, which became law in 2021 – this was described by then Environment Secretary George Eustice as "the most ambitious environmental programme of any country on Earth." In the Green Finance Strategy, the Government committed to 'explore how best the final TNFD framework should be incorporated into UK policy and legislative architecture, in line with Target 15.'[xxxii] Despite these ambitious public commitments and millions of pounds in funding, there is currently no legal requirement within the UK for companies to report their impacts on biodiversity.

The UK continues to lag behind its peers, despite the global leadership demonstrated by the introduction of mandatory TCFD reporting. The importance of non-financial disclosures on biodiversity is already recognised by the EU, with the Corporate Sustainability Reporting Directive (CSRD) entering into force in January 2023 and the first set of sector-agnostic European Sustainability Reporting Standards (ESRS) adopted in July 2023. The standards cover a range of ESG issues, including biodiversity and ecosystems (ESRS E4). Furthermore, the CSRD and ESRS recognise the importance of double materiality and organisations need to report on risks, impacts and dependencies from both a financial and impact standpoint, after related materiality assessment is performed.[xxxiii] The ESRS and TNFD are aligned, each citing the other's definitions and guidance. Given companies must comply with the CSRD if operating in the EU, and the significant overlap between the ESRS and TNFD requirements, the UK Government should introduce mandatory disclosures against the TNFD framework to ensure coherence with the EU's comprehensive requirements on biodiversity-specific reporting.

The UK Government showed that it can lead on non-financial disclosures when it became the first country to mandate reporting against the TCFD in 2022, with New Zealand and Japan both following soon after.[xxxiv] Public, large private and FCA-regulated companies were all included within that legislation and must explain any instances of non-compliance. ShareAction has found that 95 per cent of 77 of the world's largest asset managers have implemented, or intend to report against, the TCFD.[i] This shows clear ambition from the private finance sector to account for climate in their business models; however, a report released by the TCFD in 2023 showed that whilst the percentage of companies disclosing against the framework increased, only four per cent reported in line with all 11 disclosures, and only 15 per cent intended to disclose in line with the TNFD.[xxxv] This shows significant room for progress, particularly in relation to biodiversity, and the Government needs to set out clear expectations of disclosures through robust policy and supportive guidance. The intentional alignment of the TNFD with the existing TCFD allows companies to straightforwardly adapt their current disclosing practice to include nature, and the UK Government should urgently introduce legislation to mandate reporting on biodiversity risks, impacts and dependencies alongside the current requirements for climate.

Summary of the TNFD

The TNFD is a reporting and risk management framework enabling companies to identify their impacts, risks and dependencies on nature, that compliments other reporting standards such as the International Sustainability Standards Board (ISSB), Global Reporting Initiative (GRI) and the European Sustainability Reporting Standards (ESRS). The Taskforce is made up of representatives from 40 different organisations including corporates, financial services, firms and market service providers, representing a total of US$20 trillion of assets under management. Philanthropic foundations, the UN and governments provide funding alongside pro-bono support from Taskforce members and TNFD Forum organisations.

The International Financial Reporting Standards (IFRS) has welcomed the TNFD, noting the 'high-level of consistency within the finalized TNFD recommendations and the ISSB standards.' However, the TNFD is far from a silver bullet in addressing the financial sector's attitude to biodiversity loss and does not come without criticism, with the NGO Forests and Finance calling the exercise a 'circus.'[xxxvi] Following publication of the final recommendations in 2023, ShareAction described the TNFD as a 'step in the right direction' but acknowledged that 'there are still concerns to be addressed.'[xxxvii] The TNFD will require improvements to move from voluntary adoption to mandatory regulation, but adoption of meaningful disclosures on nature must be accelerated to address the global emergency.

Double materiality expands on the key concept of financial materiality, acknowledging that investment activity can have a significant impact on the economy, environment, and people. While the TNFD is flexible in its approach to materiality and supports a double materiality approach in theory, the recommendations of the framework instead encourage companies to use their jurisdictions' regulatory approach, and the definition of materiality varies across reporting standards. In 2023, the UK Government announced plans to adopt the ISSB disclosure standards, having been a significant supporter since its launch.[xxxviii] When referring to biodiversity-specific reporting, ISSB directs organisations to the Climate Disclosure Standards Board (CDSB). Guidance from the CDSB states that when assessing materiality, organisations 'should focus on biodiversity-related information that can affect the business model and execution of its strategy as a result of the risks and opportunities identified.' Furthermore, the language throughout the framework places an emphasis on the effects of nature loss towards the organization, focusing on single materiality. In comparison, GRI sets out clearer expectations for reporting on how an organization impacts on the environment.[xxxix] There have been calls for the Government to expand on the ISSB standards in order to align better with the EU's CSRD, with UKSIF calling for incorporation of the concept of 'double materiality' into the UK's reporting requirements.[xl] Given the UK Government aims to endorse the ISSB standards by mid-2024, the groundwork has been laid for an efficient introduction of mandatory reporting against the TNFD.

Rainforest Action Network described the framework as 'full of loopholes that can allow for rampant greenwashing,' echoing criticism from other civil society organisations that the TNFD is too business-friendly by serving the interests of the founding corporations and allowing for selfregulation. The framework relies on self-reported information regarding risks and impacts, based on a small set of 'core' metrics and a wider set of additional metrics. Sector-specific guidance has been published to provide additional context and detail for financial institutions, including notes on specific metrics and targets to be used, but these tend towards defining risk as 'bad for business,' when it should also refer to the risks posed to people and planet. The structure of the framework also provides significant flexibility for companies to selectively report and determine what is 'material' to their business. UK regulation should play a role here in setting out clearer expectations for investors and determining the scope of what is and is not expected to be disclosed. Furthermore, given the global nature of biodiversity loss, it is expected that the initial targets of the TNFD are large and international corporates. However, there is potential to expand the scope of the TNFD requirements to include other organisations with significant impacts and dependencies on nature. There are clear opportunities for the UK Government to address these ambiguities of the framework through stringent legislation, and in doing so place the UK at the forefront of nature protection.

Another significant concern of the TNFD centres on the fact that disclosing impacts and dependencies on nature does not mean a company is required to act to mitigate these impacts – whether that be damage to ecosystems, or harmful impacts on human rights. This 'comply or explain' basis for disclosures risks inertia from financial institutions on actively addressing their impacts through policies and targets, an already pressing issue demonstrated by Fig 1. Alongside driving uptake of the framework through mandatory reporting, the UK Government should consider providing incentives for organisations to reduce their impacts and penalise those not taking action.

Most importantly, there has a been a lack of reference to the rights of Indigenous Peoples and local communities (IPLC), as well as other stakeholders, throughout development of the framework, with recommendations to disclose policies and engagement on human rights issues included only in publication of the final draft. IPLC disproportionally bear the burden of conserving nature despite facing the most severe impacts of large-scale nature loss driven by high-income countries.[xli] Women's Earth and Climate Action Network commented that 'the real solutions for the biodiversity and extinction crises must be [...] founded in international human and Indigenous rights laws,' and that the TNFD 'does not align to these critical pillars.'

However, despite the shortcomings of the framework, the rate of biodiversity loss is accelerating and these concerns, although valid, should not prevent the framework from becoming mandatory. Furthermore, the framework intentionally mirrors the structure of the TCFD to facilitate easy uptake by companies already disclosing their climate dependencies and impacts. Action on halting and reversing nature loss needs to go further and faster than before, and mandating disclosures on organisations' impacts, risks and dependencies on nature is an important step in the right direction.

Recommendations for policy makers

1. By end of 2027, introduce legislation to mandate reporting against the Taskforce on Nature-related Financial Disclosures, aligned with global nature preservation and restoration targets. Continue to endorse the framework and publish a clear roadmap for execution by end of 2024.

These short timelines are crucial given the speed of action needed to address the rate of global biodiversity loss. In early 2024, 320 organisations indicated their intention to become early adopters and publish disclosures in line with the framework. The cohort includes over 100 financial institutions, including asset owners and managers, insurers, and banks.[xlii] This clearly demonstrates that some of the biggest players in the financial sector are in favour of such disclosures on nature - but as shown by CDP's research, voluntary action on nature is not sufficient.[ii]

In 2023, Baroness Penn acknowledged the need for disclosures on biodiversity to become mandatory at a much quicker pace than for climate, saying 'we recognise we need to move faster with TNFD.'[xliii] The severity of the nature crisis must be recognized and addressed through policy within the next few years, not only to prevent biodiversity loss but also to reverse it. It is critical that the UK Government endorses the TNFD and publishes a comprehensive roadmap of framework implementation.

An iterative approach should be taken for the TNFD, as was taken for the TCFD, acknowledging the increased burden on corporates and financial institutions in terms of capacity and biodiversity expertise. We recommend focusing on the UK's largest organisations initially, and requiring a set of 'core' disclosures, with the scope of both expanded over the next few years. The Government needs to send a strong message by consistently meeting robust policy aims, to live up to their ambitious statements and set global best practice. Mandatory adoption by 2027 is a clear and achievable goal if the Government acts now.

2. Engage with financial institutions and regulators to develop clear guidance, incentives, and penalties to ensure effective implementation of the framework.

Financial institutions already have the necessary tools to assess and measure their impacts, risks, and dependencies on biodiversity, but are often left paralysed by the range of options for them to do so and the risks of using flawed or incomplete data. Engaging with the UK financial sector on mandatory disclosures will allow for increased data sharing and collaboration on a national scale, steering behaviour on the nature crisis from inactive to proactive. It is important that organisations recognize that waiting until the data is perfect to start disclosing, or simply disclosing voluntarily, is not enough to address the global emergency of biodiversity loss. Sector-wide reporting is needed to ensure a change in behaviour. Unclear expectations on reporting means companies are not incentivised to embed nature within their decisions, and governments and regulators lack the necessary data to assess progress within the sector.

Allowing companies to compare disclosures with competitors encourages better performance in these areas, and making reporting against the TNFD mandatory avoids undermining the UK Government's commitment to global targets that protect the natural world. In addition, aligning guidance with existing disclosure standards will ensure compatibility with international standards and mandatory biodiversity-specific disclosures will bring the UK in line with the EU.

Appropriate incentives and penalties are urgently required to avoid TNFD disclosures becoming a box-ticking exercise, as shown by the small number of companies disclosing against all 11 recommendations of the TCFD. Companies should recognize that active engagement with the framework is a necessity to address the nature crisis and that non-compliance has consequences. Furthermore, providing incentives for best practice will encourage best practice and increase ambition amongst organisations.

3. Recognise the devastating impacts on nature loss caused by financial institutions' current capital pricing and allocation within the economy, alongside the financial risk to profits. Enshrine due consideration of nature and biodiversity impacts in law, particularly concerning the financial sector.

The UK Government and financial sector should urgently recognise the threats that degradation of nature poses to current business models, and more importantly the irreparable damage to ecosystems resulting from investment in sectors, such as agriculture, forestry, and mining, which significantly impact local biodiversity. The financial sector has a pivotal role to play in addressing biodiversity loss, but ambitious legislation needs to lead the way.

There has been marginal improvement as nature moves up the global agenda, and asset managers appear much more receptive to including nature within their financial decision making. However, these same asset managers have repeatedly cited lack of legislation and capacity as limiting factors to progress. In order to meet the targets of the GBF, and the UK's own legally binding environmental targets, nature protection policy needs to be scaled-up effectively and ambitiously. Furthermore, there is scope to explore the opportunities provided by nature - prioritising and protecting nature has the potential to create 395 million jobs worldwide by 2030.[xliv]

Special thanks to:

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