

European policy briefing:

Why companies need to improve their biodiversity-related disclosures

To date, reporting of biodiversity-related risks and opportunities by corporates remains insufficient to meet the needs of investors and financial stakeholders in making informed financial decisions. As a response to the current move towards mandatory disclosures and harmonised reporting standards in Europe and globally, CDSB has developed a Biodiversity Application Guidance to the CDSB Framework to assist companies in the disclosure of biodiversity-related financial information in the mainstream report.¹

The business case for biodiversity and biodiversity-related disclosures

Biodiversity is crucial because it underpins the resources and benefits that nature provides to businesses and people (known as ecosystem services). Human and economic activities have caused severe loss of biodiversity, resulting in a decline of the world's ecosystems in size and condition by 47% compared to estimated baselines.²

As a result, there has been growing awareness among businesses, regulators and supervisors on the need to tackle the risks related to biodiversity loss, also in connection to climate change. This was recently recognised in the Glasgow Climate Pact concluding COP26, which highlighted “the interlinked global crises of climate change and biodiversity loss, and the critical role of protecting, conserving and restoring nature and ecosystems in delivering benefits for climate adaptation and mitigation.”³ This recognition builds on a number of reports showing the reliance of human activities on nature and ecosystems services,⁴ and the exposure of the financial sector to biodiversity-related risks.⁵

This is why biodiversity-related issues need to be further embedded into business decision-making. At the same time, disclosures on how businesses are incorporating biodiversity-related risks and opportunities into core business strategy and risk modelling must improve.

Biodiversity-related disclosures: current state of play and remaining challenges

Biodiversity information remains the weakest area of corporate disclosures

In its latest report on the implementation of the European Non-Financial Reporting Directive (NFRD),⁶ CDSB analysed the biodiversity-related information provided by European companies as part of their mainstream disclosures.

¹ CDSB (2021), Application Guidance for biodiversity-related disclosures. Available from : <https://www.cdsb.net/biodiversity>

² UN Environment Programme, UNEP Finance Initiative and Global Canopy (2020). Beyond 'Business as Usual': Biodiversity targets and finance. Managing biodiversity risks across business sectors. UNEP-WCMC, Cambridge, UK. Available from: <https://www.unepfi.org/wordpress/wp-content/uploads/2020/06/Beyond-Business-As-Usual-Full-Report.pdf>

³ UNFCCC (2021), Glasgow Climate Pact. Available from: https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf

⁴ Dasgupta, P. (2021). The Economics of Biodiversity: The Dasgupta Review. (London: HM Treasury). Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf.

⁵ De Nederlandsche Bank, PBL Netherlands Environmental Assessment Agency (2020). Indebted to nature - Exploring biodiversity risks for the Dutch financial sector. Available from: <https://www.dnb.nl/media/4c3fgawd/indebted-to-nature.pdf>

⁶ CDSB (2020), The State of EU Environmental Disclosure in 2020. Available from : <https://www.cdsb.net/nfrd2020>

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Despite the clear business case for biodiversity to be at the top of the corporate agenda and the threat to financial stability arising from environmental risks, only 46% of companies provided some information on biodiversity in their reporting, compared to 94% for water and 100% for climate change.

The report found that 1 company out of 10 reported some biodiversity metrics, while an overwhelming majority only provided generic management approaches and high-level commitments showing a lack of maturity of biodiversity-related disclosures.⁷

How can we explain the current state of biodiversity information?

The cause of this inadequacy could be attributed to a number of things, including:

- The specific characteristics of biodiversity and associated challenges;
- The lack of widely accepted definitions for key concepts and terms within existing guidance, frameworks and standards for biodiversity reporting; and
- The current lack of harmonisation of indicators and methodologies, especially related to measurement, assessment, and disclosures.

Further improvements on biodiversity reporting can be expected, based on existing good practices from companies in response to investor demand, and as regulations are moving towards mandatory corporate reporting, including on biodiversity.

The CDSB Framework Application guidance for biodiversity-related disclosures

Launched in November 2021, the Guidance aims to assist companies in disclosing material biodiversity-related information in their mainstream report in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

The Guidance will therefore help companies to:

- Understand the significance of biodiversity to their business, as well as the specific characteristics of biodiversity and associated financial-related risks and opportunities;
- Report their biodiversity-related risks and opportunities with the same rigour as financial information into their mainstream report building on existing standards, frameworks and practices;
- Meet the information needs of investors and help an effective capital allocation to drive the transition to a sustainable economy; and
- Prepare and comply with existing and upcoming mandatory corporate disclosure requirements, such as the Corporate Sustainability Reporting Directive (CSRD) in Europe (the CDSB Framework and related application guidance being of voluntary use).

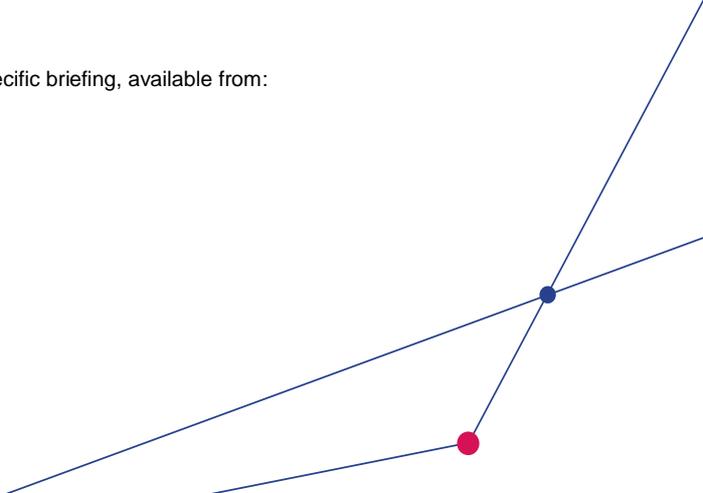
Understand the significance of biodiversity for businesses

Despite the interconnectedness between biodiversity, climate change and other environmental issues, biodiversity-related issues have specific characteristics that businesses must appropriately consider. This will help them understand biodiversity-related risks and opportunities and select the material biodiversity-related information to include in their mainstream report.

⁷ For more information, please refer to CDSB's specific biodiversity-related specific briefing, available from: https://www.cdsb.net/sites/default/files/nfrd2020_briefing_biodiversity_v2.pdf

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The Guidance highlights the following key characteristics:

- Location-specific nature of biodiversity dependencies, impacts, risks and opportunities;
- Time variability of biodiversity impacts due to natural dynamics;
- Multi-faceted qualities of biodiversity issues (dimensions, e.g., from species to ecosystems, geographical scales and impact groups);
- Interconnected nature of biodiversity with other natural capital changes;
- Importance of engagement of and collaboration among stakeholders (e.g., along the value chain);and
- Complexity and diversity of measurement methodologies.

Report biodiversity-related information into the mainstream report

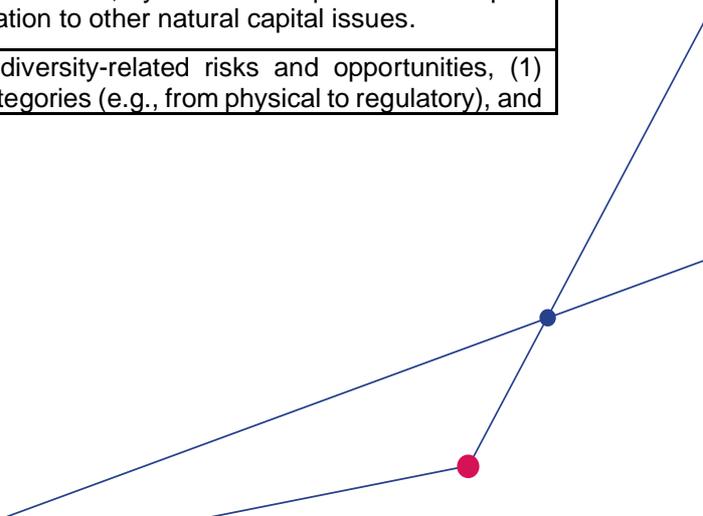
Building on the requirements of the CDSB Framework as well as existing standards and frameworks to report on biodiversity, the Guidance provides a step-by-step approach to businesses on how to start or improve their biodiversity-related disclosures with detailed practical reporting suggestions on:

- Governance;
- Management’s environmental policies, strategies and targets ;
- Risks and opportunities;
- Sources of environmental impact;
- Performance and comparative analysis; and
- Outlook

For each of the above reporting areas, it includes a disclosure checklist, reporting suggestions, useful external resources and examples of good practices in mainstream biodiversity reporting.

Considering the remaining challenges in terms of biodiversity measurement and disclosure, the guidance advises companies to take a phased approach, reporting on elements that they have information for currently and setting out a plan to address additional elements in future periods.

<p>Governance</p>	<p>Disclose governance mechanisms for biodiversity policies, strategies and disclosure, including the persons or committee responsible on biodiversity issues (at the Board and management level) as well as existing accountability and incentivisation systems, with a specific attention on (1) priority geographical areas and priority products or services identified by the company in relation to biodiversity, and on (2) stakeholder engagement.</p>
<p>Management’s environmental policies, strategies and targets</p>	<p>Disclose biodiversity strategies, policies and related science-based and time bound targets in relation to identified biodiversity dependencies and impacts, and related risks and opportunities for the reporting organisation. Provide detail on management responses, including stakeholder engagement activities performed, as well as resources put in place to deliver on these policies and strategies.</p> <p>To contextualise strategies, policies and targets, provide details on biodiversity dependencies and impacts related to priority species, ecosystems, geographical areas, by value chain phases and impact drivers as well as in relation to other natural capital issues.</p>
<p>Risks and opportunities</p>	<p>Disclose significant biodiversity-related risks and opportunities, (1) considering different categories (e.g., from physical to regulatory), and</p>



	links with other environmental and social issues (e.g., climate change), and (2) describing the related (financial) implications specific for the business, value chain, products and services as well as risk management systems and processes to assess, identify and monitor such risks. Specify geographical locations and time horizons in which risks and opportunities will materialise.
Sources of environmental impact	Disclose different metrics and indicators for sources of significant biodiversity impact drivers, changes to the state of biodiversity, and valuation of impacts, including (1) relevant baselines and reference states (2) sources of impact and (3) description of methodologies, including levels of uncertainty and appropriate narrative to assist the understanding of the results.
Performance and comparative analysis	Disclose historical data, contextual information and major trends on biodiversity performance, and provide link with biodiversity-related targets to allow the reader to assess progress and drivers of change over time.
Outlook	Disclose information regarding the likely effects of future biodiversity-related risks and opportunities and strategy on company performance and resilience, providing methodological details on time horizons used for reporting on corporate outlook and specific techniques such as scenario analysis used to inform such outlook.

Prepare and comply with mandatory corporate disclosure requirements

The CDSB Biodiversity Guidance was written with consideration of existing global reporting standards, including the TCFD, as well as the evolving reporting landscape. It builds on the concept of dynamic materiality, introduced in 2020 in a shared vision for sustainability reporting by the five leading framework and standard-setting organisations. This joint vision addressed the dynamic nature of materiality and its focus on enterprise value creation, which serves as the basis for the International Sustainability Standards Board (ISSB) under the leadership of the IFRS Foundation, whose establishment was announced in November 2021 at COP26.

The CDSB Biodiversity application guidance comes at a turning point for sustainability reporting, as many jurisdictions, including Europe, are moving towards mandatory sustainability disclosures. As such, it provides a useful tool for both businesses but also for standard setters and policy makers.

The guidance was developed as part of four-year EU-funded LIFE project whose aim is to enhance nature-related financial disclosures in mainstream reports across Europe to support the transition to a low carbon and environmentally sustainable financial system. It forms part of a package of guidance to the CDSB Framework, alongside a Climate Application Guidance⁸ and a Water Application Guidance⁹, reflecting the interconnected nature of environmental matters.



With the contribution of the LIFE programme of the European Union.

⁸ CDSB (2020), Application Guidance for climate-related disclosures. Available from : <https://www.cdsb.net/climateguidance>

⁹ CDSB (2020), Application Guidance for water-related disclosures. Available from: <https://www.cdsb.net/water>

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