Biodiversity and finance: Managing the double materiality

Frankfurt School of Finance & Management – UNEP Centre
WWF Germany
Climate & Company

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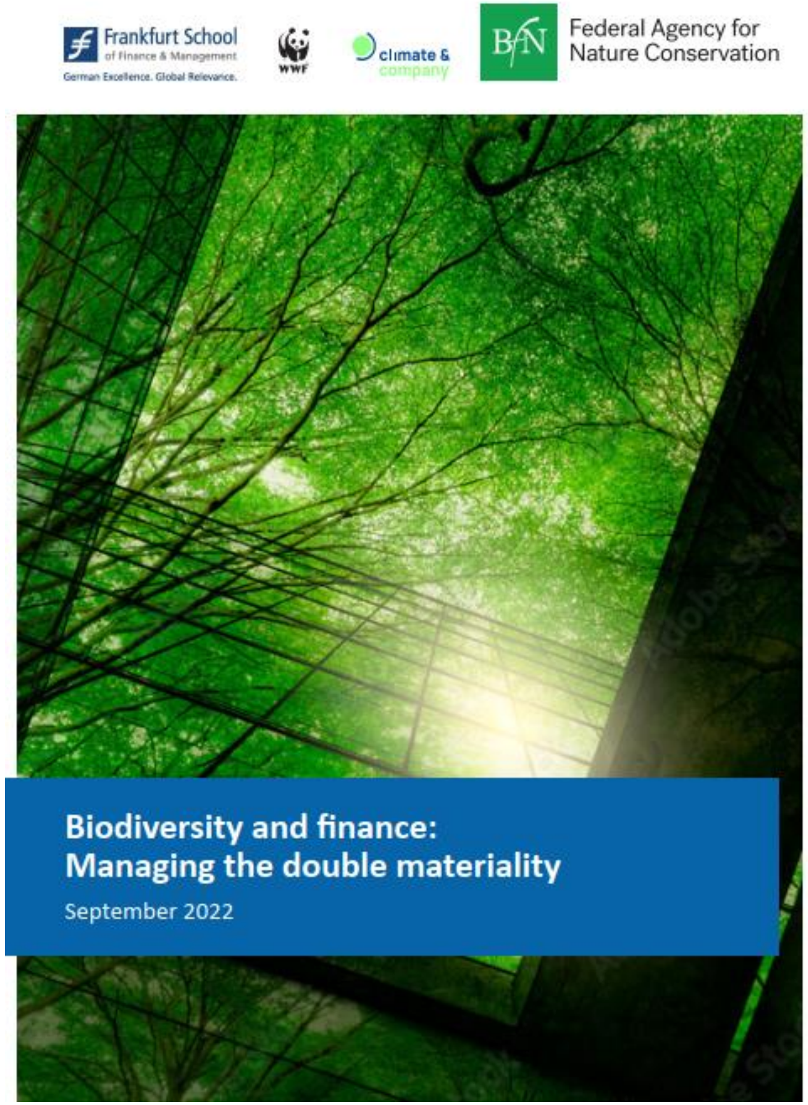
AGENDA

Zeit	Agenda
10:00-10:10	Einführung (Projektkonsortium & Christa Ratte)
10:10-10:40	Vorstellung des Berichts „Biodiversity and Finance: Managing the double materiality“ – Regulierung zu Sustainable Finance und Vorschläge zur Umsetzung - Malte Hessenius (Climate&Company), Philippe Diaz (WWF), Elizabeth Tamayo (Frankfurt School)
10:40-10:55	Einblicke in die Arbeiten des Sustainable Finance Beirats zur Biodiversität - Matthias Kopp, WWF
10:55-11:10	Praktische Umsetzung und Herausforderungen - Karsten Löffler, Frankfurt School
11:10-11:30	Frage & Antwort

DIE GUIDELINE



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KAPITEL 1 : EU REGULIERUNG

CSRD and ESRS

EU Taxonomie

SFDR

EU Deforestation-free products regulation

CSDDD

MiFID II

EU Green Bond Standard

European Single Access Point

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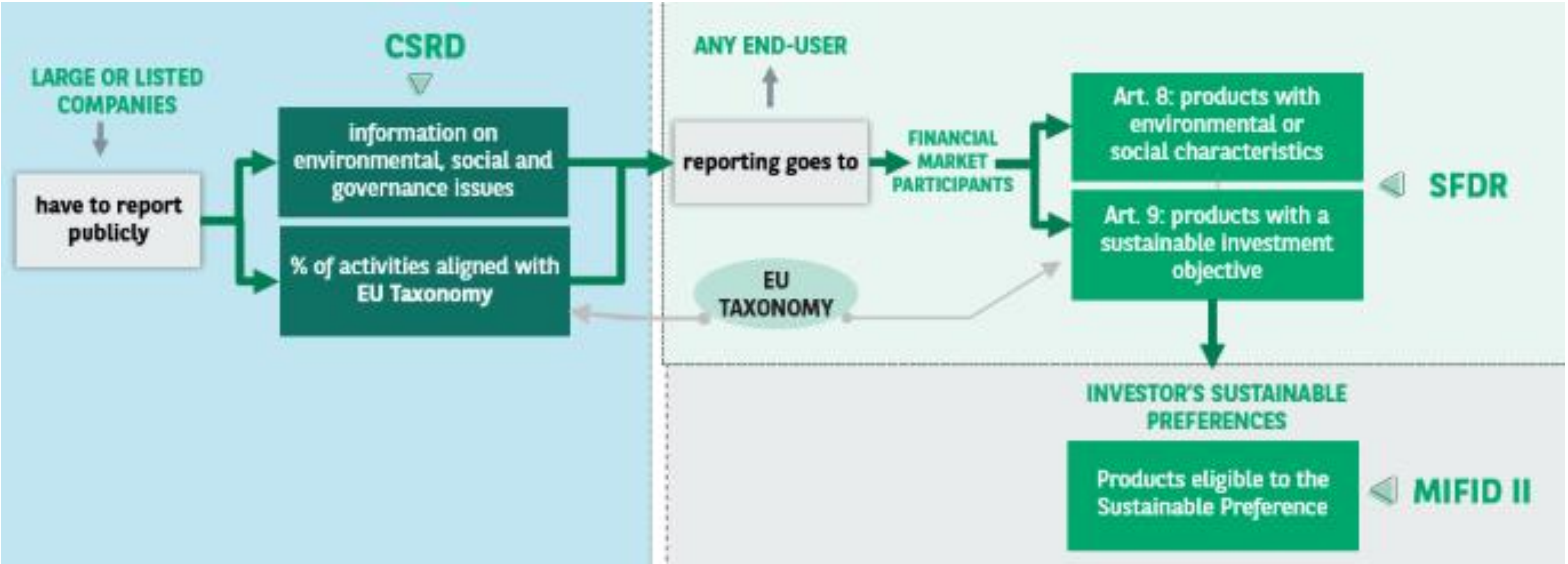
ZUSAMMENHANG DER FILES



Source: BNP Paribas Asset Management, April 2022

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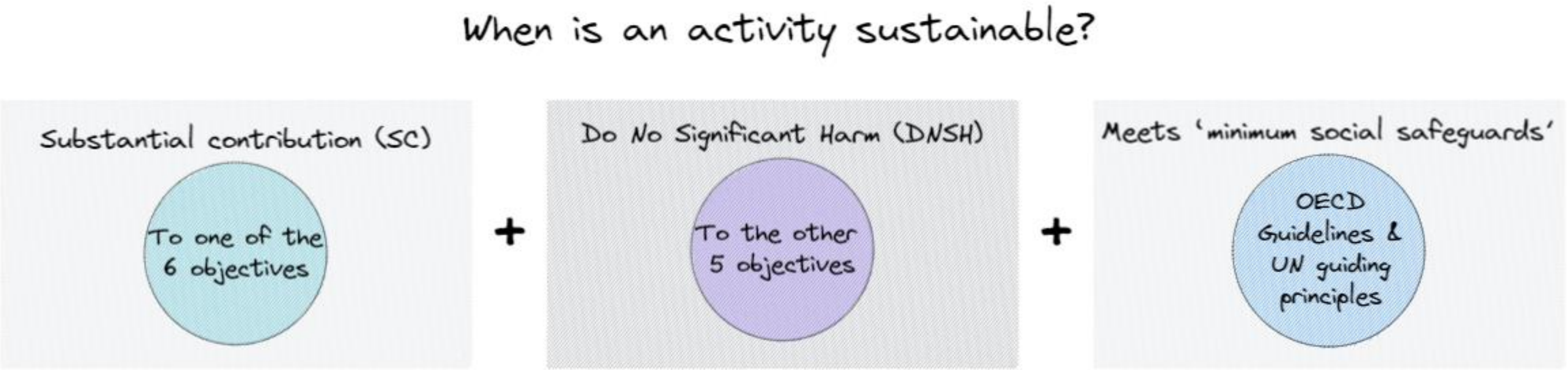
KURZE VORSTELLUNG EU TAXONOMIE

Was?

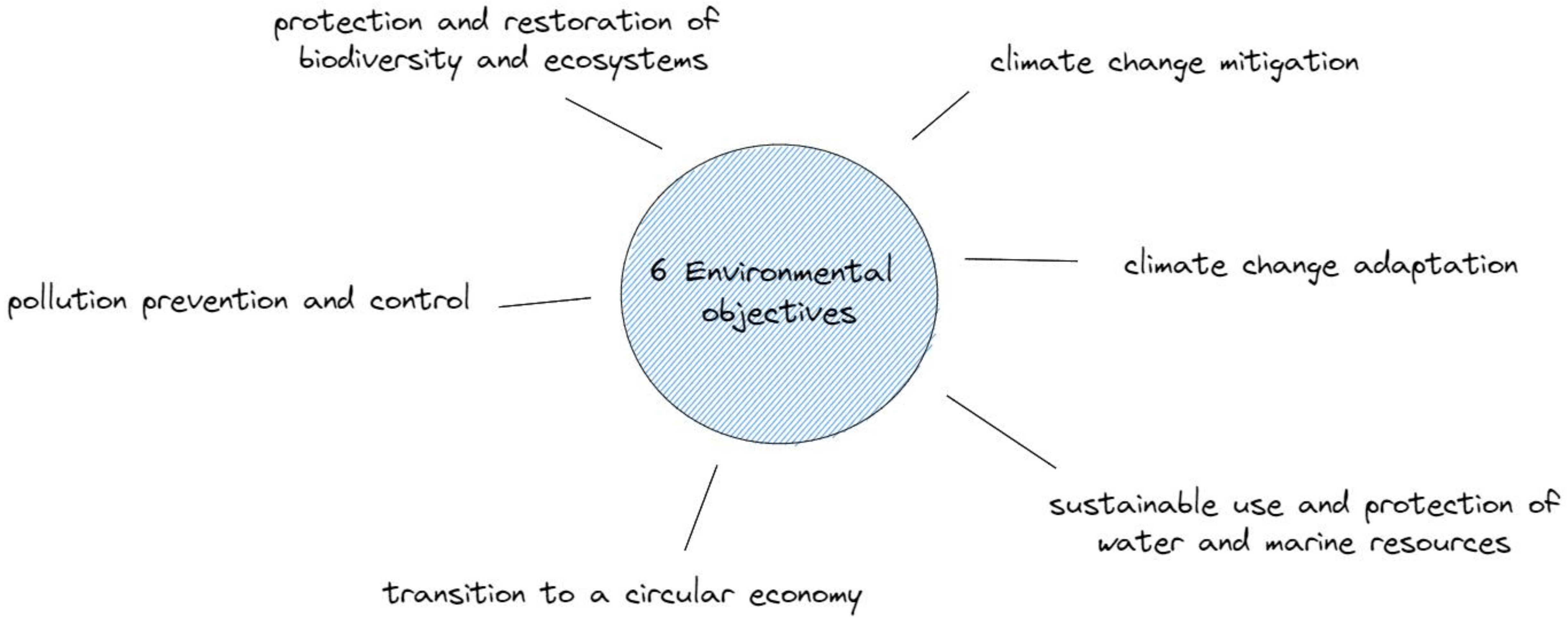
- Ein Klassifizierungssystem zur Definition einer ökologisch nachhaltigen Wirtschaftstätigkeit
- Förderung der Transparenz durch Schaffung eines Bezugsrahmens für die Offenlegung

Wie?



Quelle: Climate & Company

DIE 6 UMWELTZIELE



Quelle: Climate & Company

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TIMELINE

Entry into force of EU Taxonomy Regulation — June 2020

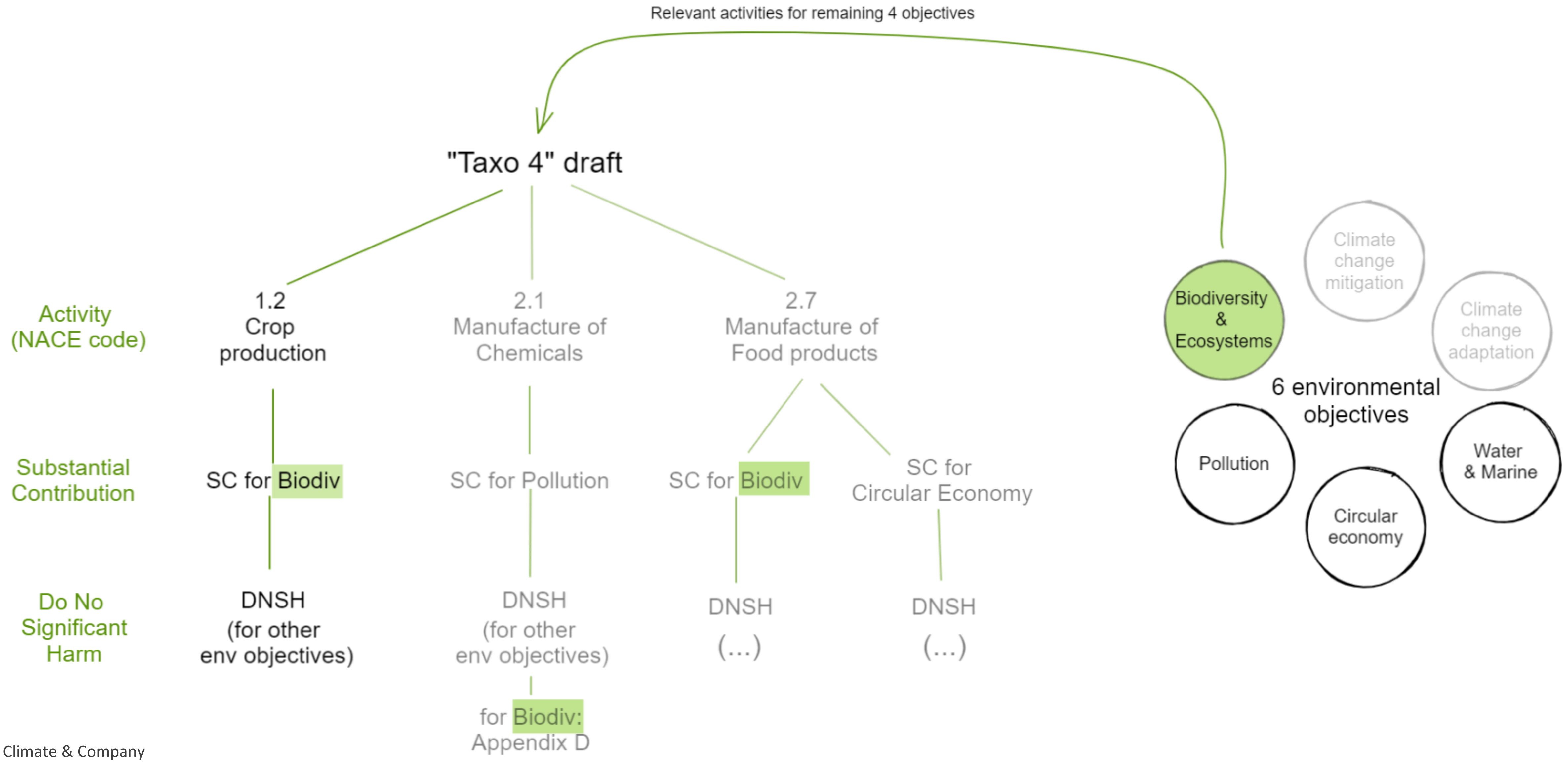
Climate Delegated Act — December 2021

Taxo4 report by EU Platform on SF — March 2022

COM drafting Delegated Act for Taxo4 — Ongoing

Quelle: Climate & Company

BEISPIEL ZU BIODIVERSITÄT IN DER TAXONOMIE



Quelle: Climate & Company

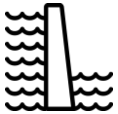
FÜR WELCHE SEKTOREN GIBT ES BEREITS KRITERIEN?


Crop production


Animal production


Fishing


Food products and beverages


Environmental refurbishment of electricity generation facilities (hydropower)


Restoration, conservation and remediation

+ Forestry

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BEISPIEL LEBENSMITTELPRODUKTION

Crop production

Animal production

Fishing

Food products and beverages

Environmental refurbishment of electricity generation facilities (hydropower)

Restoration, conservation and remediation

Option A: Auswahl von Rohstoffen, deren primäre Produktionsverfahren die biologische Vielfalt verbessern (95 % der bezogenen Rohstoffe müssen die Kriterien unter 1.1 und 1.2 erfüllen)

Option B: Auswahl besonders eiweißreicher Zutaten, die den Druck auf die biologische Vielfalt verringern (z. B. durch Zutaten mit einer kombinierten direkten und indirekten Landnutzung von weniger als 10m2 pro 100 g Eiweiß)

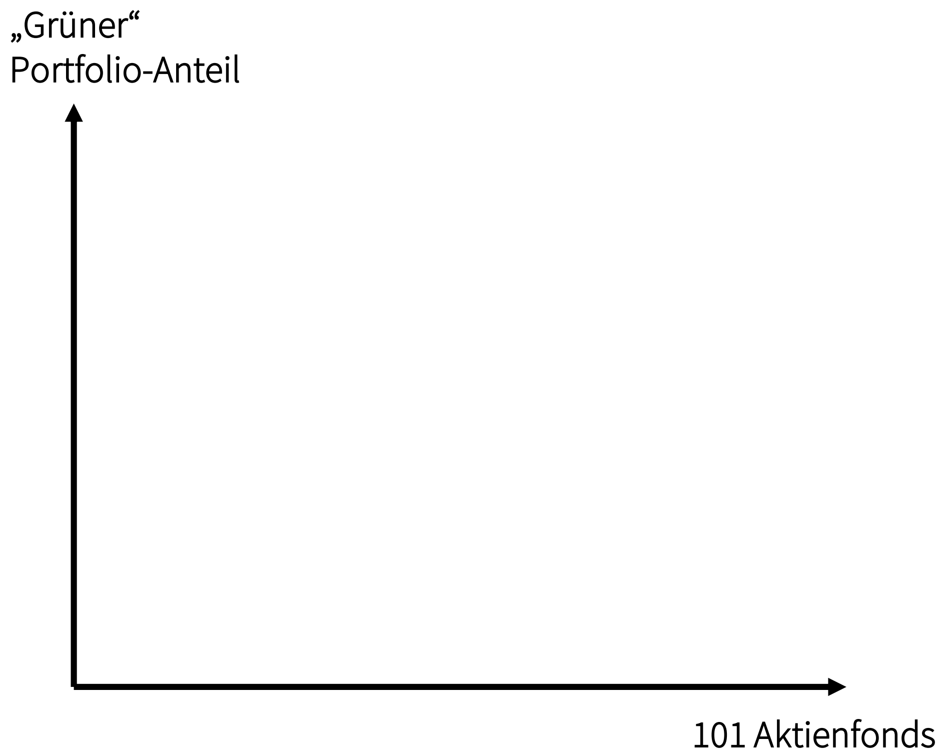
Option C: Auswahl von Zutaten, die zur Bestandserhaltung und genetischen Vielfalt beitragen..

ANWENDUNGSBEISPIEL FINANZPRODUKTE

Ecolabel für Finanzprodukte – Vorschlag der EU Kommission[1]

Auszeichnung u.a. basierend auf Taxonomie-Kriterien

Vergleich von 100 Fonds aus der grünen Nische (50 Fonds mit bestehenden Label, 50 Fonds die als „grün“ vermarktet werden)



1) https://susproc.jrc.ec.europa.eu/product-bureau//product-groups/432/documents

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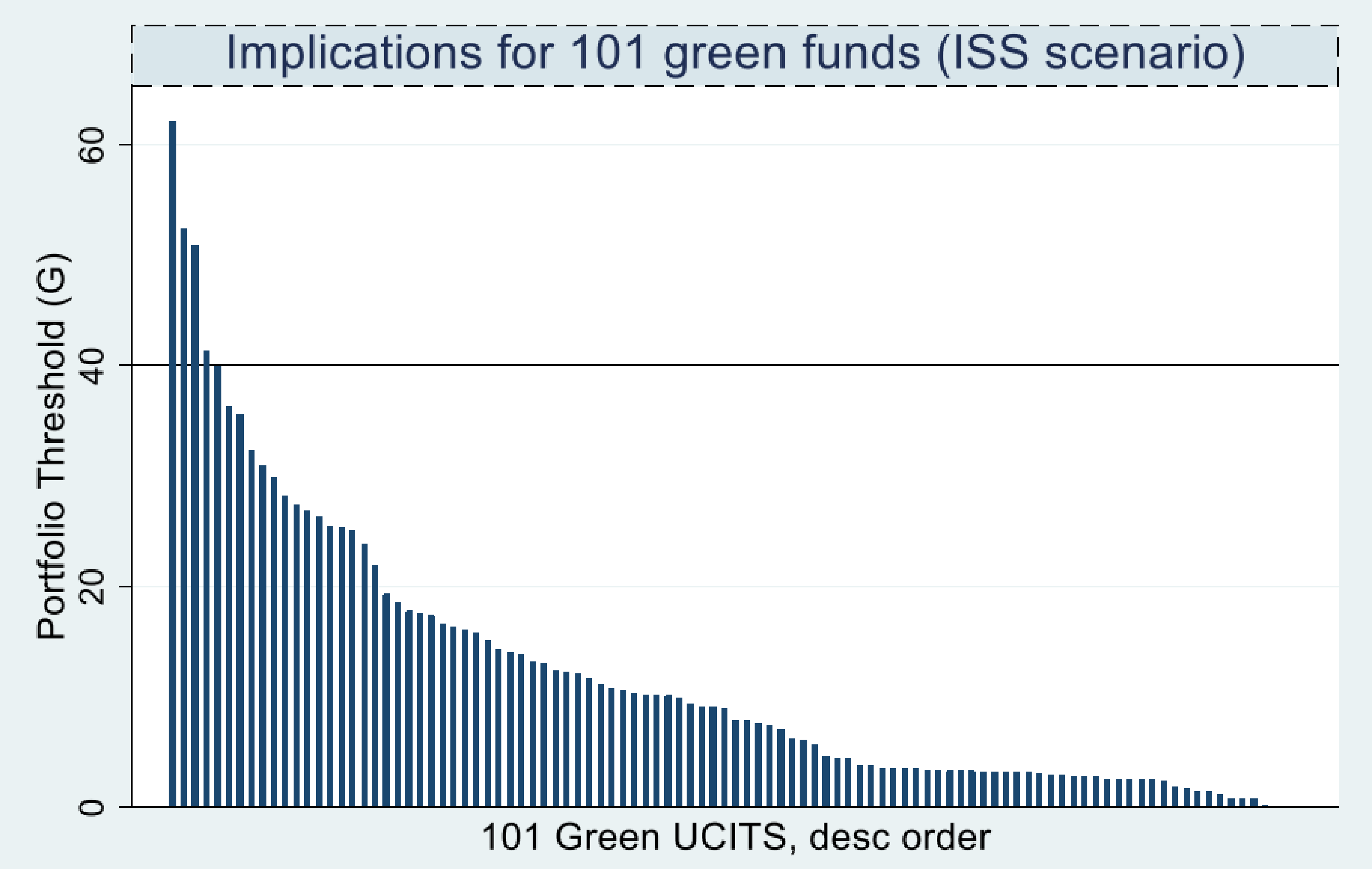
ANWENDUNGSBEISPIEL FINANZPRODUKTE

Formel aus den EU Ecolabel-Kriterien definiert die “portfolio greenness” (definiert durch Taxonomie)

Enorme Streuung!

Dies heißt nicht zwingend, dass einige Fonds schlechter sind als andere → aber dass das Verständnis von Nachhaltigkeit enorm unterschiedlich ist!



Quelle: Abbildung von Malte Hessenius (Climate & Company) und Maurice Dumrose (Uni Kassel). Analyse in Ansätzen zu finden in EUEL financial products - Draft Technical Report 4 FINAL (link)

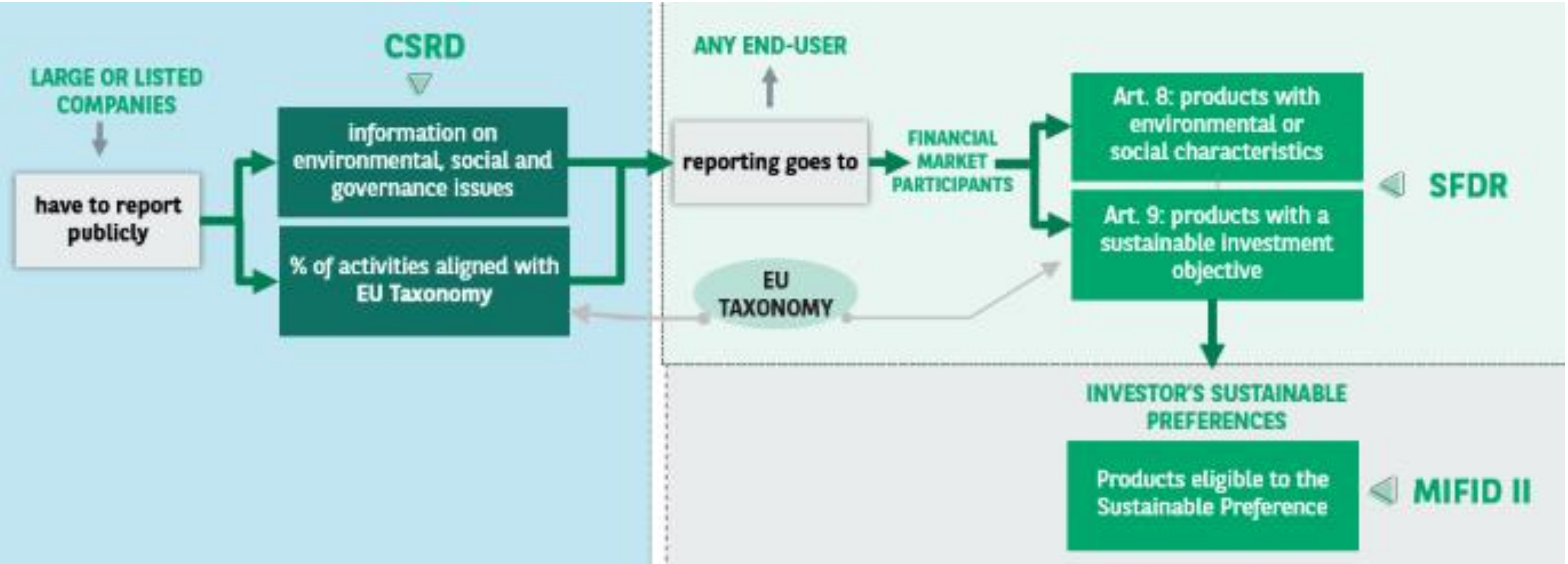
Biodiversity in SFDR and CSRD

Glimpse into SFDR and CSRD

	SFDR	CSRD
Purpose	Understand sustainability profile of certain investment products Disclose against principle adverse impacts	Require large companies to publish regular reports on the social and environmental impacts of their activities Generate relevant, comparable, reliable backward and forward-looking data on sustainability performance of corporations
Scope	Asset and portfolio managers, insurers and financial advisors	Eventually around 50.000 firms (incl. listed SMEs)
In effect	since 2022	Phased in implementation with firms subject to NFRD to disclose against ESRS in 2025 on 2024 data Other large companies in 2026 on 2025 data Later listed SMEs and non-EU firms for EU activities*

Source: ASCG Briefing Paper on CSRD (in German) includes list of when phase-in of CSRD applies

Data flows from issuers to end-investors via asset managers and distributors



Source: BNP Paribas Asset Management, April 2022

Environmental ESRS mapped against aspects of nature listed by TNFD

	E1 Climate	E2 Pollution	E3 Water & Mar.	E4 Biod. & Ecos.	E5 Circular Ec.
General classification	Driver of nature change	Driver of nature change	Driver of nature change Env. assets (UN-SEEA)	Driver of nature change Env. assets (UN-SEEA)	Drivers of nature change Business response
Dependencies	No	No	Yes	Yes	No
Impact drivers	Climate change	Pollution	Resource use (water)	Land use-change Freshwater use change Sea use change Resource use Invasive species	Resource use Pollution (Solid waste)
State of nature				Ecosystems	
Ecosystem services			Provisioning Regulation	Provisioning (e.g. biomass) Regulation (e.g. soil quality regulation) Pollination, pest / disease control	

*Source: EFRAG and TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.3

ESRS E4 (proposal by EFRAG to EC)

- Transition plan: mandatory for sectors considered priority by TNFD. Asks on alignment with Planetary Boundaries, CBD goals and EU Biodiversity Strategy.
- Materiality assessment including, e.g. IPBES drivers of biodiversity loss.
- Reporting on whether targets are science-based, incl. on thresholds and allocations with reference to Science Based Targets for Nature (SBTN), among others.
- SFDR-indicators
- Principle-based approach to metrics with reference to the recommendations from Align recommendations on biodiversity measurement and valuation.

Next steps ESRS

- 41 sector-specific standards to be developed
- In Set 2 focus is on high impact sectors:
  - Agriculture & Farming; Food & Beverages
  - Mining; Coal mining
  - Oil & gas (upstream and downstream); Energy Production & Utilities
  - Textiles, Accessories, Jewelry, Footwear
  - Road Transport; Motor Vehicles
- Set 3 & 4 includes FI's

Biodiversity-related SFDR-indicators

	Adverse Sustainability Impact	Metric
Table 1	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
Table 2	10. Land degradation, desertification, soil sealing Share of investments in investee companies the activities of which cause	Share of investments in investee companies the activities of which cause land degradation, desertification or soil sealing
	11. Investments in companies without sustainable land/agriculture practices	Share of investments in investee companies without sustainable land/agriculture practices or policies

Biodiversity-related SFDR-indicators

	Adverse Sustainability Impact	Metric
Table 2	12. Investments in companies without sustainable oceans/seas practices	Share of investments in investee companies without sustainable oceans/seas practices or policies
	14. Natural species and protected areas	1. Share of investments in investee companies whose operations affect threatened species 2. Share of investments in investee companies without a biodiversity protection policy covering operational sites owned, leased, managed in, or adjacent to, a protected area or an area of high biodiversity value outside protected areas
	15. Deforestation	Share of investments in companies without a policy to address deforestation
	22. Land artificialisation	Share of non-vegetated surface area (surfaces that have not been vegetated in ground, as well as on roofs, terraces and walls) compared to the total surface area of the plots of all assets*

*Not included in ESRS E4,. Will be part of sector-specific standards on Real Estate.

*Source: Sustainable Finance Disclosure Regulation

Next steps SFDR

- Unclear terminology (e.g. What is „near“ biodiversity-sensitive areas?)
- Missing definitions (e.g. sustainable agricultural / oceans practices)
- Room for improvement (e.g. swap “areas of high water stress” with “areas of high water risk”?)
- Update planned 2023. ESMA collecting feedback on indicators, definitions etc.

SFDR update will impact ESRS

- Appendix A: Definitions of ESRS E4 contains missing definitions
- Agreement with ESMA to leave them it in with dash and subject to update of the SFDR

Sustainable land practices	-
Sustainable agriculture practices	-
Sustainable ocean practices	-
Sustainable seas practices	-

Source: ESRS E4

Frankfurt School

Kapitel 2: Going beyond EU Regulation

Elizabeth Tamayo Tabares

STRUCTURE OF OUR RECOMMNEDATIONS

Assess

1) Understand the context, the framing, and the logic

2) Assess status quo

3) Conduct a gap analysis

Plan

4) Develop a strategy

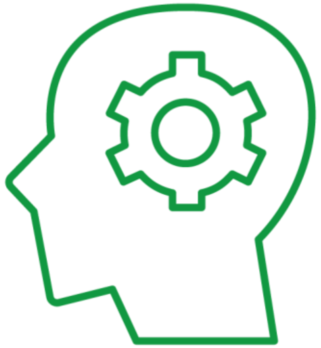
Act

5) Implement the strategy

6) Report

7) Advocate and join forces

1) UNDERSTAND THE CONTEXT, THE FRAMING, AND THE LOGIC



Stay up-to-date with the information produced by authoritative institutions addressing biodiversity issues

2) ASSESS STATUS QUO

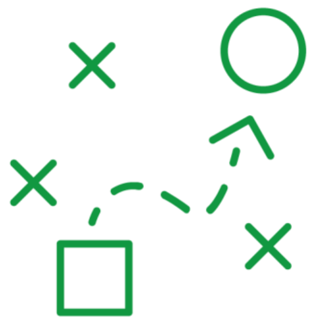
- Assessment of the relevant regulatory framework as well as the requirements and recommendations of supervisory authorities.
- Analysis of impacts and dependencies .

1. **Select and apply suitable assessment tools**
2. **Analyse exposure to priority sub-industries**
3. **Consider value chain impacts and dependencies**
4. **Identify red flags (high-risk areas) and windows of opportunity**

3) CONDUCT A GAP ANALYSIS

Having analysed the regulatory framework, thematic context, and the impacts and dependencies of the financial portfolios, FIs can proceed to evaluate what is required for compliance, and the corresponding gap between committing and acting in line with a science-based approach and the corresponding EU and UN 2030 and 2050 targets (as set in the upcoming GBF (CBD, 2022)).

4) DEVELOP A STRATEGY



1. Ensure top management commitment and support
2. Allocate responsibilities and resources
3. Identify and procure relevant data
4. Develop a policy or strategy to manage biodiversity-related risks and have positive impacts on biodiversity.
5. Integrate biodiversity indicators into existing risk management and sustainability (ESG) procedures.
6. Set ambitious, science-based, and SMART targets as part of the strategy

5) IMPLEMENT THE STRATEGY

1. Train employees
2. Restructure portfolios
3. Engage with client companies to drive change along their supply chains
4. Develop nature-positive products
5. Strategically identify opportunities to address climate and biodiversity risks and other environmental impacts together
6. Apply a sound mitigation hierarchy

6) REPORT

1. Gather information
2. Periodically track performance on strategy and targets achievement
3. Prepare and disclose annual financial reports with biodiversity content (external reporting)
4. Develop or adopt metrics, indicators, and reporting directives
5. Track upcoming voluntary standards

Taskforce for Nature-Related Financial Disclosures (TNFD)

7) ADVOCATE AND JOIN FORCES

… in parallel to the internal transformation as a means of shortening learning curves… joining one or more of the available initiatives, for instance:

- Finance for Biodiversity Foundation → four working groups (engagement with companies, impact assessment, public policy advocacy, target Setting

- Partnership for Biodiversity Accounting Financials (PBAF)
- TNFD

Support advocacy groups, environmental activists, and conservation activities.

Beirat SF und Biodiversität

Überblick Aufstellung Beirat

- Struktur: Arbeitsgruppen, Steuerungsgruppe, Vorsitz und Sekretariat
- Komposition:
  - 34 Mitglieder
  - ca. 50 Beobachter:innen
  - Zusätzlicher Expertenpool

Arbeitsgruppen

- AG Rahmensetzung national/international
- ESG Skala
- Engagement Plattform
- Berichtswesen, Prüfen
- Daten/infrastrukturen
- Transformationsfinanzierung

+ UnterAGs nach Schwerpunkten

Themenschwerpunkt Biodiversität

- Anknüpfungspunkte zu Biodiversität in praktisch jeder AG
- Explizite Überlegungen in Rahmensetzung (national/EU)
- Vorgehen noch in Abstimmung

Was ist Ihre Erwartungshaltung zum Beirat Sustainable Finance?

ⓘ Start presenting to display the poll results on this slide.

slido

Welche thematischen / zeitlichen Schwerpunkte soll der Beirat SF setzen?

ⓘ Start presenting to display the poll results on this slide.

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Welche Empfehlungen haben Sie für den Beirat SF zu Prozessen, methodischen Schwerpunkten, anderes?

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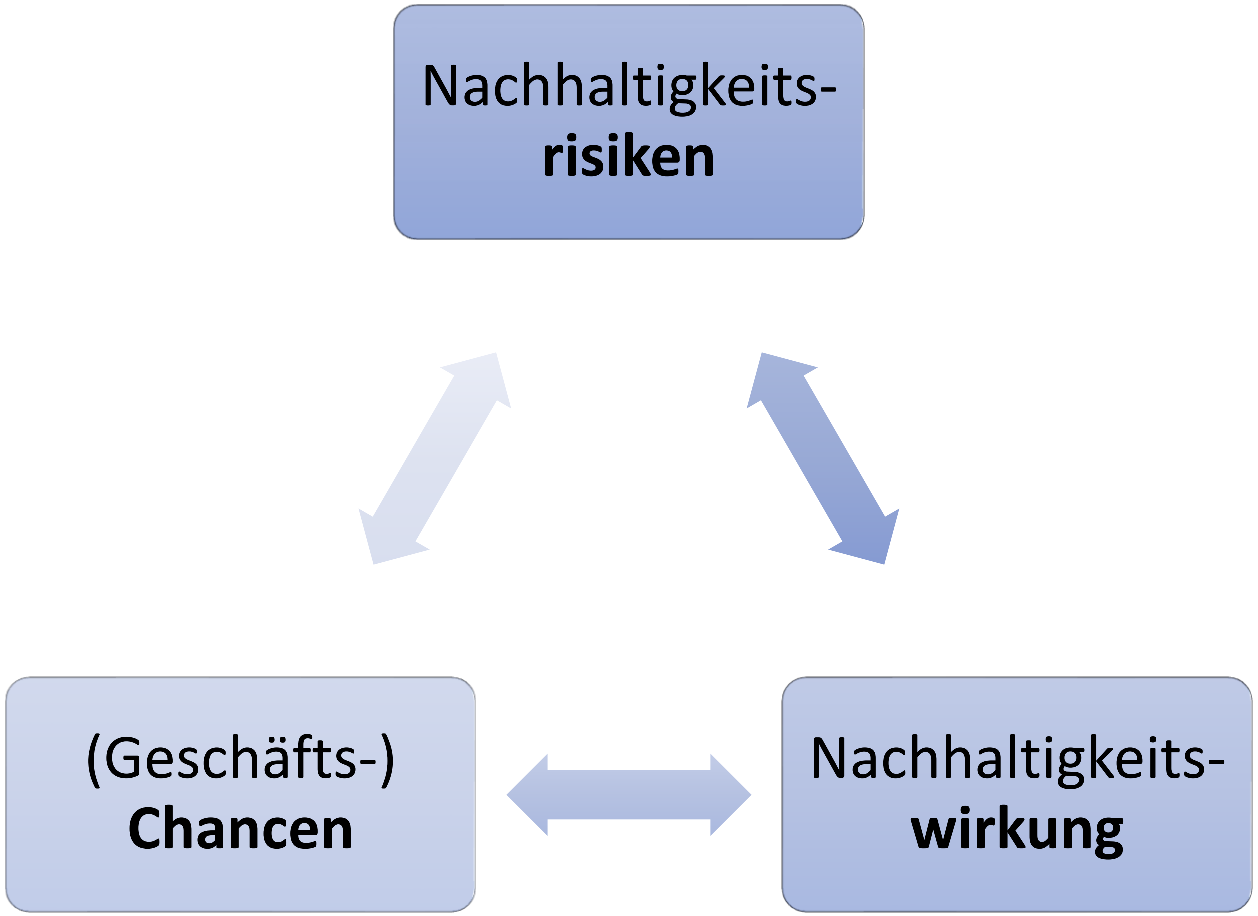
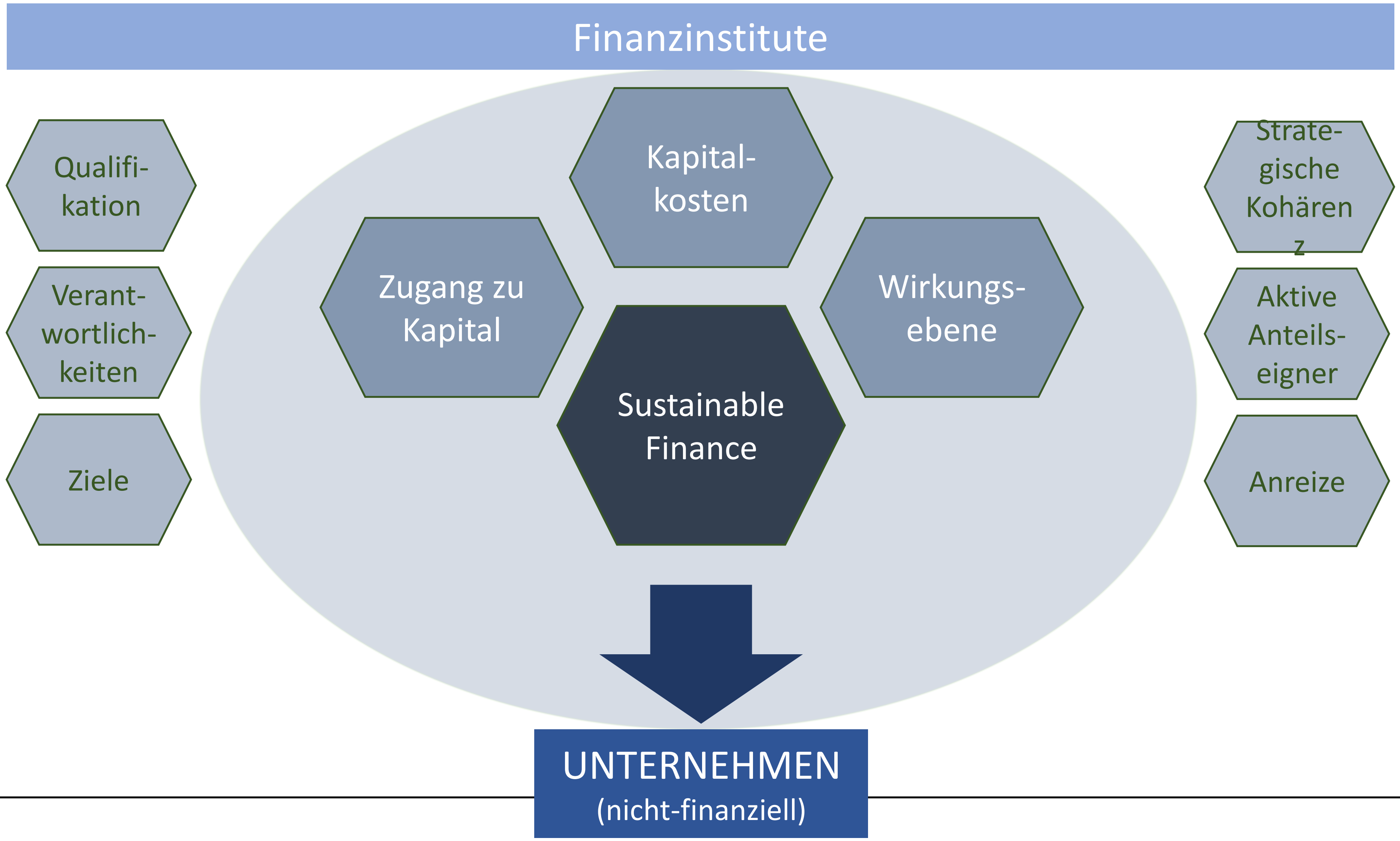
Sustainable Finance und Biodiversität – Praktische Umsetzung und Herausforderungen

Karsten Löffler

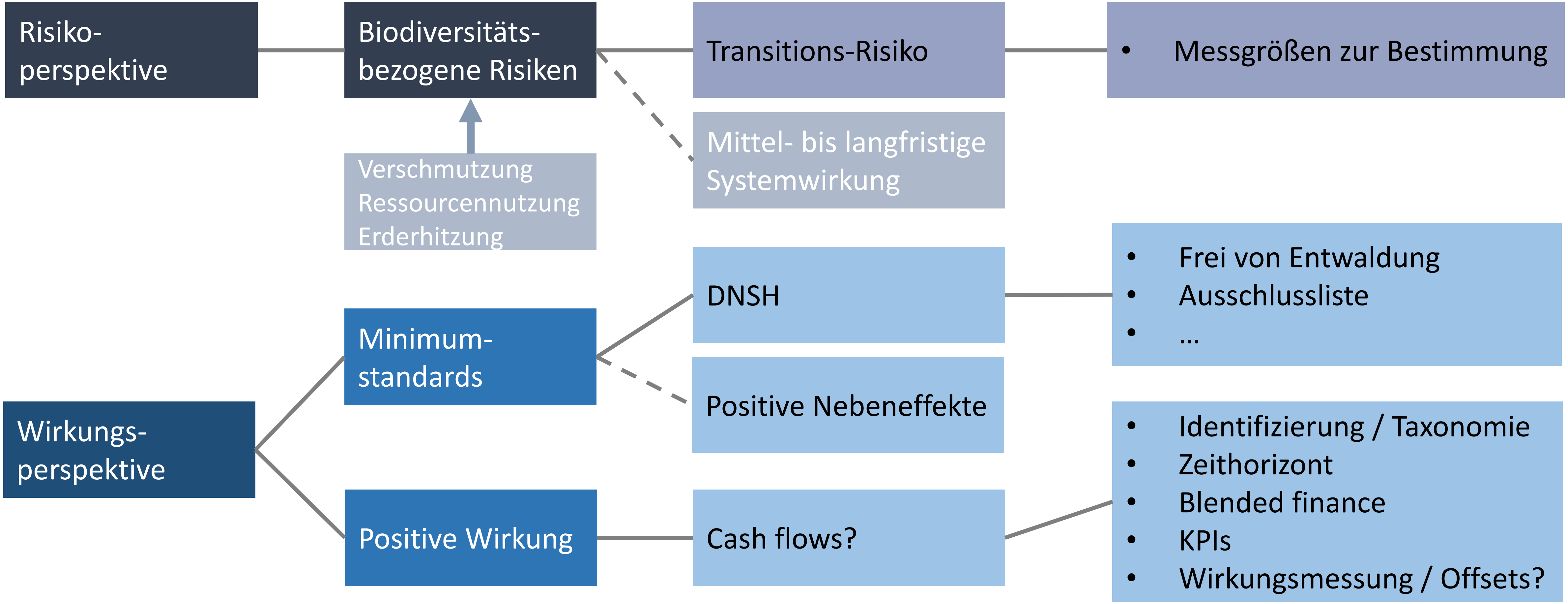
Drei wesentliche Betrachtungsebenen



Transmissionsriemen für ein nachhaltiges Finanzsystem



Ansatzpunkte zur Integration von Biodiversität



Beispiele

Leuchtturmprodukte existieren typischerweise für große und etablierte Organisationen, bei denen ein Cash-Flow erwirtschaftet wird. Schwerpunkte sind der Landwirtschaftssektor und die Textilindustrie.

Corporate Bonds mit einem Fokus auf Natural Capital Aktivitäten:

- *The Starbucks Sustainability Bond* for verified coffee purchases, farmer support centres, loans to farmers (Root Capital, Fairtrade Access Fund)
- *The Sustainability Bond* by the Tropical Landscapes Finance Facility funds an Indonesian joint venture between France's Michelin & Indonesia's Barito Pacific Group, for climate-smart, wildlife friendly and socially inclusive production of natural rubber on heavily degraded land in Indonesia

Andere Emittenten wie z. B. Finanzinstitute und Sovereigns

Fondsprodukte einiger großer Anbieter

Photo-source: THAWISAK/stock.adobe.com

Fazit

Instrumente zur **Messung** des Biodiv-Fußabdrucks stehen zunehmend zur Verfügung

- Auf Portfolio- und Produktebene (z. B. Encore)
- Initiativen wie z. B. TNFD als Orientierung und zur Erhöhung der Transparenz

Aber:

1. Datenqualität und -verfügbarkeit sind grundsätzlich besser geworden
   To-dos: Geolocation von Vermögenswerten und Integration bei ESG Datenanbietern
2. Vergleichbarkeit häufig eine Herausforderung
3. Noch Fokus auf die Bemessung negativer Wirkungen –
   Folge: Shift zu Finanzierungen an Orten und zu Aktivitäten mit geringerer negativer Wirkung
4. Finanzierungen mit dezidiert positiver Wirkung (Additionality!) häufig eine Herausforderung
   (kein Preis für die Systemleistung, kein Cash flow!)

FRAGE & ANTWORT

VIELEN DANK FÜR IHRE AUFMERKSAMKEIT