Biodiversity.

How US Companies are Reporting Nature-Related Disclosures

September 2023

LABRADOR

Transparency by design

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Introduction

Biodiversity is the variety of life that exists on Earth—from the genetic diversity among animal, plant and other species to the diversity of ecosystems in which we live. But it is far from simple! Often referred to as nature, biodiversity is the intricate system of all organisms on Earth working together to support life.[1]

Responding to investor and other stakeholder demands for biodiversity-related information, companies are beginning to assess and disclose both how their business activities impact nature and how the destruction of nature in turn impacts their ability to do business in the short, medium and long term. More and more companies are striving not merely to lessen their footprint but to become "nature positive," and new nature-related disclosure regulations, along with voluntary targets and frameworks, have emerged to guide them in reporting on progress.

This thought piece examines why biodiversity is important, updates on new nature-related science-based targets and reporting frameworks, and examples of nature-related disclosures from companies across diverse industries.

Why should companies care about biodiversity?

According to the World Economic Forum, more than half of global gross domestic product (GDP)—about $44 trillion USD—relies on biodiversity, especially industry sectors like construction, agriculture, and food and beverages, forestry, mining, energy, and manufacturing sectors.[2] For example, industries such as food and beverage production need access to clean water, while agriculture needs not only clean water but also healthy soils. Destruction of natural resources can lead to increased business costs (from supply chain disruptions to increased regulatory compliance and fines), reduced productivity, loss of reputation and market share, and more. On the flip side, companies that manage their biodiversity risks and opportunities well can see reduced costs, increased productivity, improved reputation and market share, and other benefits.

Looking beyond the corporate sphere, biodiverse ecosystems provide services like pollination, water purification, pest control, healthy soils and climate regulation that are critical to meeting the UN Sustainable Development Goals. Reversing biodiversity loss helps combat climate change, lessen water and food insecurity, prevent future pandemics, and advance equitable development and rights and contributions of Indigenous Peoples.

[1] World Wildlife Fund. "What is Biodiversity?"
[2] Studer, Nick. (January 26, 2023). "Half of global GDP relies on nature—but it's being wiped out. Here's the business case for investing in biodiversity." *Fortune*.

It comes as no surprise that humans are the biggest threat to biodiversity as our consumption of natural resources increases. According to the World Wildlife Foundation[3,4]:

- We have lost 69% of global populations of mammals, birds, reptiles and amphibians since 1970.
- We have significantly altered three-quarters of the land-based environment and roughly 66% of the ocean environment.
- More than a third of the world's land surface and nearly 75% of freshwater resources are now devoted to crop or livestock production.
- Beyond losing direct access to these natural resources, their destruction creates negative cycles that make other problems worse. For example, the destruction of forests contributes more to global warming than aviation and cement production combined.

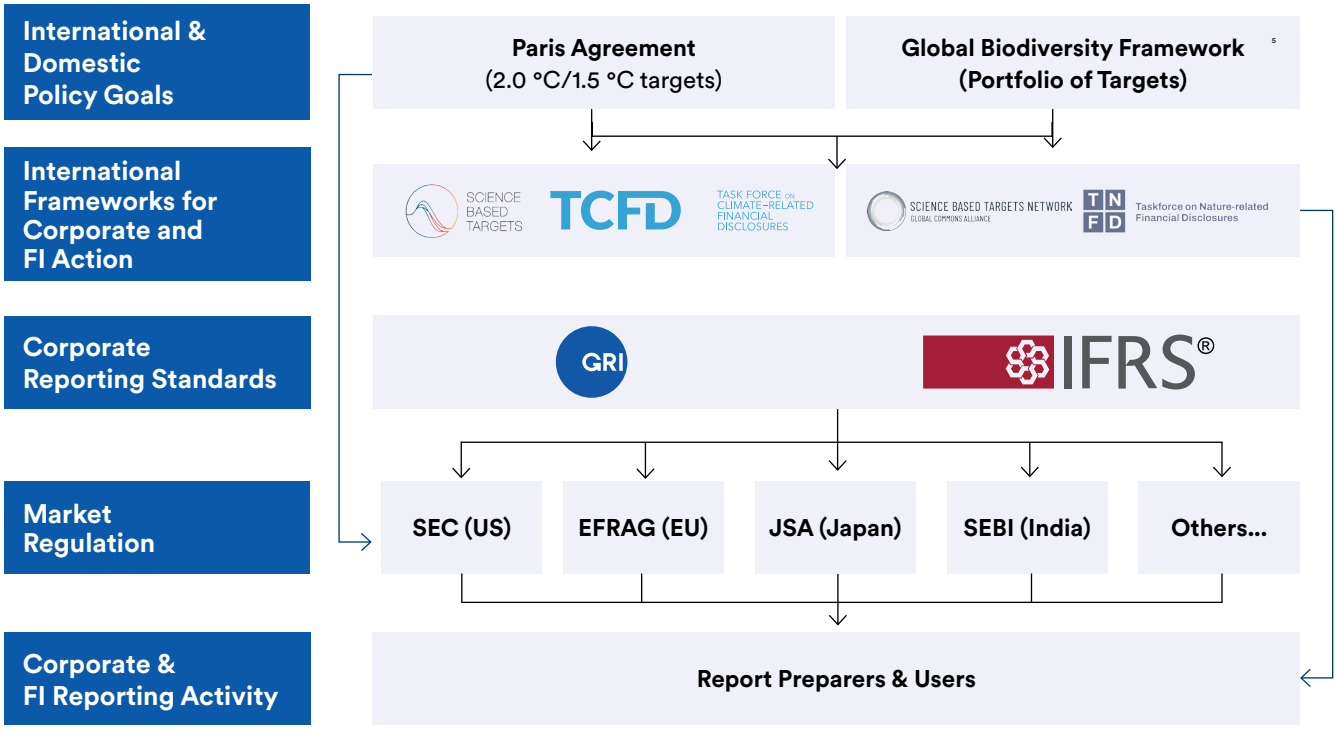
[3] Studer, Nick. (January 26, 2023). "Half of global GDP relies on nature—but it's being wiped out. Here's the business case for investing in biodiversity." *Fortune*.
[4] World Wildlife Fund. Living Planet Report 2022.

Recommendations from the Taskforce on Nature-related Financial Disclosures

Taskforce on Nature-related Financial Disclosures

In September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) released its final disclosure recommendations for corporate environmental, social and governance (ESG) or sustainability reporting.

TNFD is a global, market-led, science-based and government-supported initiative to help respond to the imperative to factor nature into financial and business decisions.[5] The recommendations are designed for companies and financial institutions of all sizes, across all sectors and along value chains, to identify and assess their nature-related risks and opportunities. The recommended frameworks is closely aligned with, and builds on, the Taskforce for Climate-Related Disclosure (TCFD), which has already been adopted by companies and regulators around the world and is now part of the voluntary standards of the International Sustainability Standards Board (ISSB).



[5] Taskforce on Nature-related Financial Disclosures. (September 2023). "Recommendations of the Taskforce on Nature-related Financial Disclosures."

The four pillars of TNFD are governance, strategy, risk/impact management, and metrics and targets. The TNFD expands on each of these pillars with 14 additional recommended disclosures.

TNFD Nature-related Disclosure Recommendations[5]

1 Governance

Disclose the organisation's governance around nature-related dependencies, impacts, risks and opportunities.

Recommended Disclosures

A. Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.

B. Describe management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities.

2 Strategy

Disclose the actual and potential impacts of nature-related dependencies, impacts, risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

Recommended Disclosures

A. Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium, and long term.

B. Describe the effect nature-related risks and opportunities have had and may have on the organisation's businesses, strategy, and financial planning.

C. Describe the resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios.

D. Disclose the locations where there are assets and/or activities in the organisation's direct operations, and upstream and/or downstream and/or financed where relevant, that are in priority areas.

3 Risk & Impact Management

Disclose how the organisation identifies, assesses and manages nature-related dependencies, impacts, risks and opportunities.

Recommended Disclosures

A. (i) Describe the organisation's processes for identifying and assessing nature-related dependencies, impacts, risks and opportunities in its direct operations.

A. (ii) Describe the organisation's approach to identifying nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s) and financed activities and assets.

B. Describe the organisation's processes for managing nature-related dependencies, impacts, risks and opportunities and actions taken in light of these processes.

C. Describe how processes for identifying, assessing and managing nature-related risks are integrated into the organisation's overall risk management.

D. Describe how affected stakeholders are engaged by the organisation in its assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.

4 Metrics & Targets

Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities where such information is material.

Recommended Disclosures

A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.

B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature.

C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

[5] Taskforce on Nature-related Financial Disclosures. (September 2023). "Recommendations of the Taskforce on Nature-related Financial Disclosures."

Using the TNFD recommendations will provide many benefits to companies, including:

- Identifying and managing nature-related risks and opportunities.
- Improving corporate reputation, thereby attracting more sustainability-focused investment.
- Assisting with compliance with the new EU Corporate Sustainability Reporting Directive (CSRD), which includes a biodiversity and ecosystems standard.

Overall, the TNFD recommendations are a valuable tool for companies that want to manage their nature-related risks and opportunities. They are expected to become increasingly popular in the years to come.

Other Biodiversity Developments

In addition to the release of the final TNFD recommendations, there have been other developments internationally to help companies improve their management and reporting related to biodiversity.

Definition of "nature positive by 2030"	In September 2023, 27 global nature conservation organizations, institutes, and business and finance coalitions launched the Nature Positive Initiative and a Global Goal for Nature. Aligned with the 2022 Kunming-Montreal Global Biodiversity Framework under the UN Convention on Biological Diversity—what some call the "Paris moment for nature"—the new "Nature positive by 2030"' goal refers to "halting and reversing biodiversity loss by 2030 from a 2020 baseline, through measurable gains in the health, abundance, diversity and resilience of species, ecosystems, and natural processes." With this common definition and goal in place, next steps include bringing business, financial institutions, governments, non-profits and other stakeholders together to create common metrics and standardized tools and practices for measurement and reporting on impacts and contributions.
Science-based targets for nature	In 2023, the Science Based Targets Network (SBTN) released the first three steps and related technical guidance to guide companies in setting, implementing and tracking progress on science-based targets for nature across freshwater, land, biodiversity, ocean and climate. The five-step process includes assessment, prioritization, setting targets, act and track progress. The SBTN is part of the global Commons Alliance, a network of organizations—including the Science-Based Targets Initiative (SBTi) and the TNFD—working together to positively transform the world's economic systems and protect the global commons. In 2024, guidance and tools will be released on the act and track steps of the process. The process for companies to get their targets validated is currently being piloted.

ESRS E4 Biodiversity and Ecosystems Standard	In July 2023, the European Union finalized the European Financial Reporting Standards (ESRS) called for under its new Corporate Sustainability Reporting Directive (CSRD). Should a company's double materiality assessment and other analysis determine that biodiversity is a material topic, companies that fall under the directive will be required to use ESRS E4 Biodiversity and Ecosystems to guide them in disclosing information like their transition plans in line with the targets of no net loss by 2030 and net gain by 2050, the resilience of their strategy and business model to biodiversity and ecosystem-related physical and transition risks (including financial exposure and opportunities), and the roles and responsibilities of governance bodies on public policy influence.
Updated GRI Biodiversity Topic Standard	In 2021, the Global Reporting Initiative (GRI) began updating its GRI 304: Biodiversity 2016 Topic Standard to better align with global best practices on biodiversity management, including with the 2022 UN Kunming-Montreal Global Biodiversity Framework. The updated standard should be released in late 2023.

Disclosure Examples

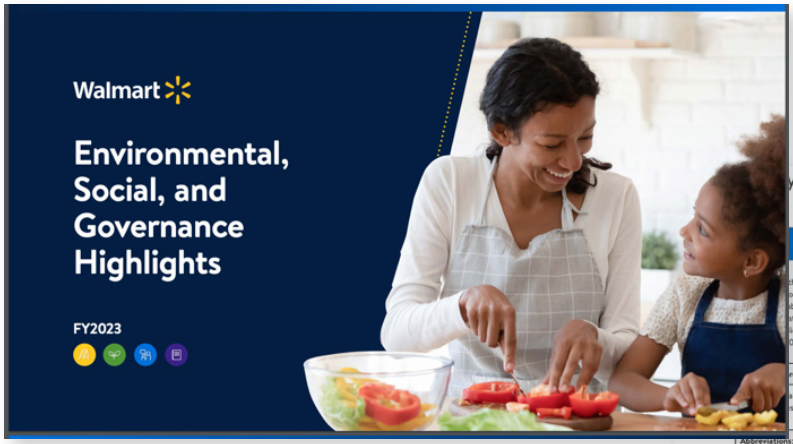
Many US companies in industries that rely heavily on nature are already assessing, managing and disclosing their biodiversity risks and opportunities in their annual ESG or sustainability reports. While such disclosure is not mandatory in the U.S., companies are striving to satisfy their stakeholders' demands for transparent reporting. Below are several examples of such disclosures.

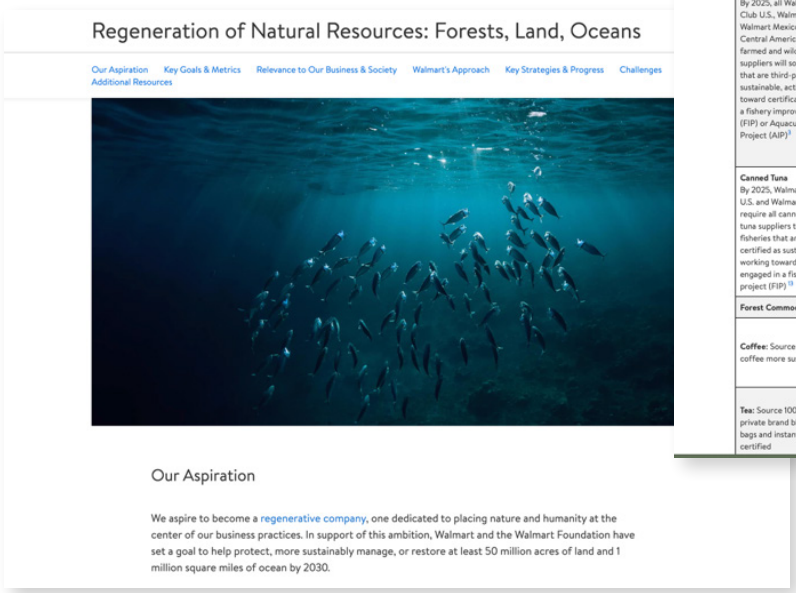
2022 ADM Corporate Sustainability Report

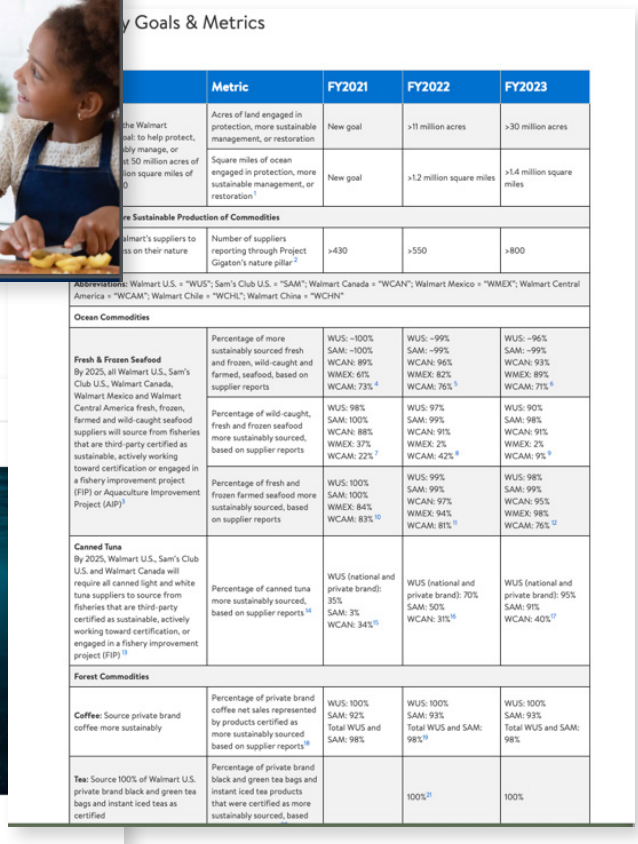
In addition to reporting according to the four pillars of TCFD, ADM expanded its 2022 biodiversity disclosures to closely align with the TNFD recommendations.

2022 Walmart ESG Report

Walmart, the world's largest retailer, is committed to becoming a regenerative company, setting biodiversity protection goals recognizing the TNFD recommendations.







2022-2023 McDonald's Corporation Our Purpose & Impact Report

McDonald's has long been under scrutiny for its food sourcing practices and their impact on lands and forests around the world, especially in South America. Today their goal is to eliminate deforestation from their global supply chains by the end of 2030.

2023 Ford Motor Company Integrated Sustainability and Financial Report

Ford earned a place on the CDP “A List” for protecting water security again in 2022. They have received an A score rating from CDP for water reduction for eight years in a row and are one of only 107 companies globally to earn such an award for water security.

Citations

Studer, Nick. (January 26, 2023). "Half of global GDP relies on nature—but it's being wiped out. Here's the business case for investing in biodiversity." *Fortune*.

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