

Sustainable Finance and Biodiversity Regulation on a global, European, and national level

Berlin, 1 February 2024

Ingmar Juergens



In Kooperation mit



Wissenschaftsplattform
Sustainable Finance



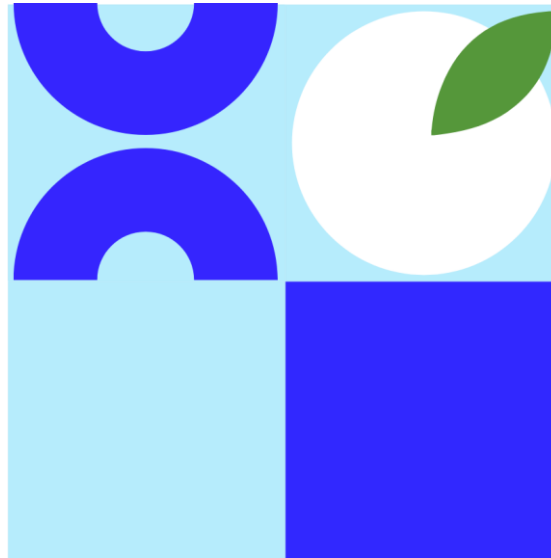
Sustainable Finance Think Tank

IF WE ARE SERIOUS ABOUT SUSTAINABLE
DEVELOPMENT, WE NEED TO GET THE
FINANCING RIGHT.



climateandcompany.org
hello@climcom.org

In co-operation with the Research Platform Sustainable Finance



Regulation harmonises and standardises data and closes data gaps

Company-specific "biodiversity governance"

Risks in the value chain of portfolio companies

Site-specific data

Structured availability of data at company level

How do companies deal with the risks?

→ Part of ESRS-E4 but also globally (Target 15, CBD).

Both aspects are extremely difficult for financial institutions to grasp → Regulatory task of closing gaps (alignment with TNFD!)

ESAP (European Single Access Point) could play a helpful role here!

What did we aim for?

Political Objectives & Strategies

1. SDGs (2015)
2. EU Biodiversity Strategy (2020)
3. COP 15 (2022)
4. German „National Strategy on Biological Diversity 2030 (adoption planned for 2024)

Political Objectives and Strategies

Global

UN SDGs (2015)



SDG 14

Life below water: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

SDG 15

Life on land: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss

COP15 – CBD/GBF (2022)



Target 14

Alignment of taxed and financial flows with the goals and targets of this framework

Target 15

Biodiversity disclosure for companies and financial institutions

Target 18

Reduce biodiversity-damaging subsidies by at least 500 billion USD per year

Target 19

Increase biodiversity-related funding by at least 200 billion USD per year

Goal D

Financial resources for implementation, including the adaptation of flows to Vision 2050

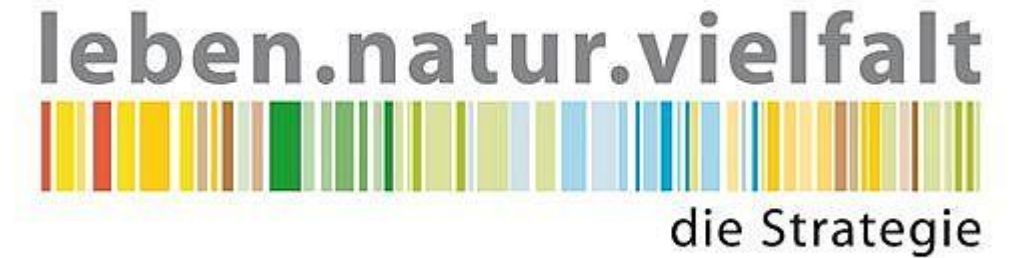
Political Objectives and Strategies

EU and Germany

EU biodiversity strategy (2020)



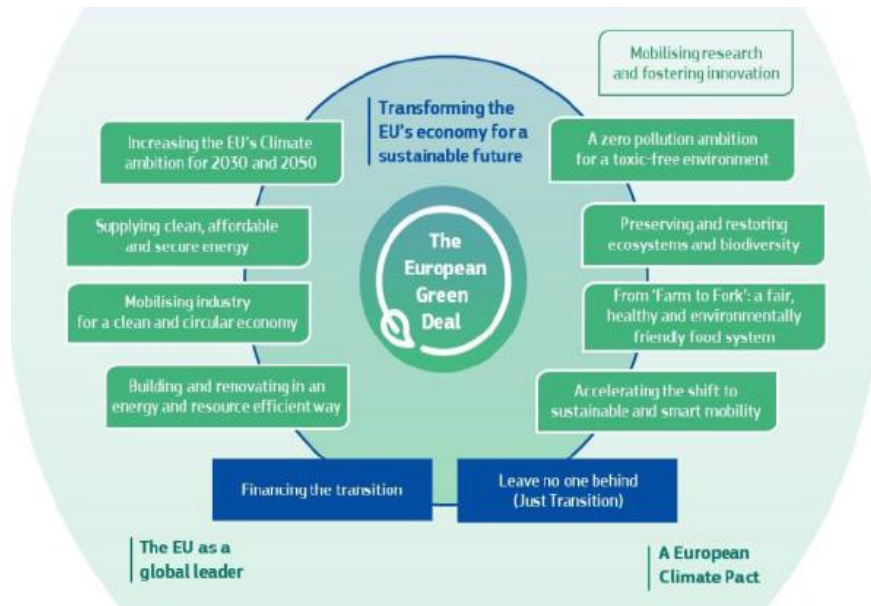
National Strategy on Biological Diversity
(New edition in development since 2022)



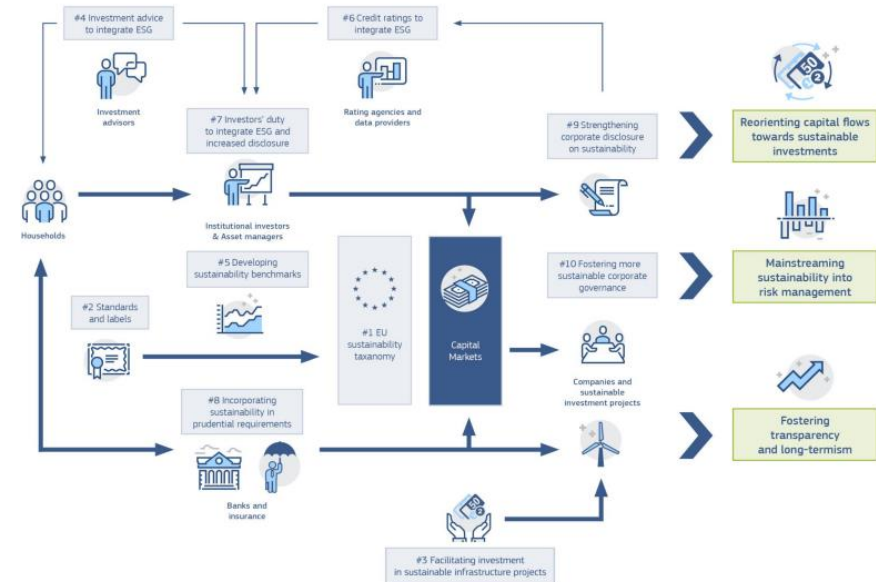
Political Objectives and Strategies

European Union

EU Green Deal (2019)



EU Action Plan Financing Sustainable Growth (2018)



What has been put in place so far?

Regulations & Standards

Key Regulations – an overview

CSRD and ESRS

EU-Taxonomie

SFDR

EU Deforestation-
free products
regulation

Nature
Restoration Law

CSDDD

MiFID II

EU Green Bond
Standard

European Single
Access Point

Sustainable Finance Regulation

SFDR / Disclosure Regulation (2019) & RTS (2022) & DAs

- Negative effects of a company or an investment
- Principal Adverse Impact (PAI) Statement on biodiversity, among other things

Taxonomy Regulation (2020) & DAs

- Sustainable economic activities (significant contribution / no significant impairment)
- Report for environmental goal 6 (protection and restoration of biodiversity and ecosystems)

CSRD (2022) & DAs

- Sustainability impacts (double materiality: risks/dependencies & effects)
- Non-financial report in stages from 2024
- ESRS 4 adopted but watered down

MiFID II (2022)

- Sustainability preference query

EU GBS (2023/24)

- Bonds that comply with this standard fulfil special conditions linked to environmental sustainability criteria (from the taxonomy)

Related Regulation

CSDDD, Corporate Sustainability Due Diligence Directive (2023)

- Comprehensive due diligence obligations with regard to environmental protection and biodiversity
- However, until further notice, without due diligence obligations for the financial sector.

EUDR, Deforestation Directive (2023)

- Including a ban on importing certain goods and products into the EU, exporting them from the EU or making them available in the EU if they have not been produced without deforestation
- FIs could be held responsible if their services support activities that lead directly or indirectly to deforestation or forest degradation

EU nature restoration law (2023)









- Objective: Legal anchoring of the EU Biodiversity Strategy and the GBF of COP15
- The world's first law on the extensive restoration of ecosystems such as moors and forests
- but greatly weakened compared to the original version

Setbacks and missed opportunities

- EU Commission has extended the EU authorisation for the use of glyphosate, a highly controversial herbicide, for a further 10 years
- EU law on the restoration of nature ("Restoration Law") has been considerably weakened
- Sustainable Use Regulation was rejected
- Important taxonomy criteria for key sectors from a biodiversity perspective are being withheld
- CSRD / ESRS E 4 (Standard for Biological Diversity) was watered down compared to the proposal by EFRAG

EU Taxonomy and State of Play on Biodiversity

Technical screening criteria suggested by EU Platform

	Crop production
	Animal production
	Forestry
	Fishing
	Food products and beverages
	Environmental refurbishment of electricity generation facilities (hydropower)
	Restoration, conservation and remediation
	Tourism

Part of the delegated act



 PLATFORM ON SUSTAINABLE FINANCE



What is most important for our discussion about DE/EU Regulations & Standards?

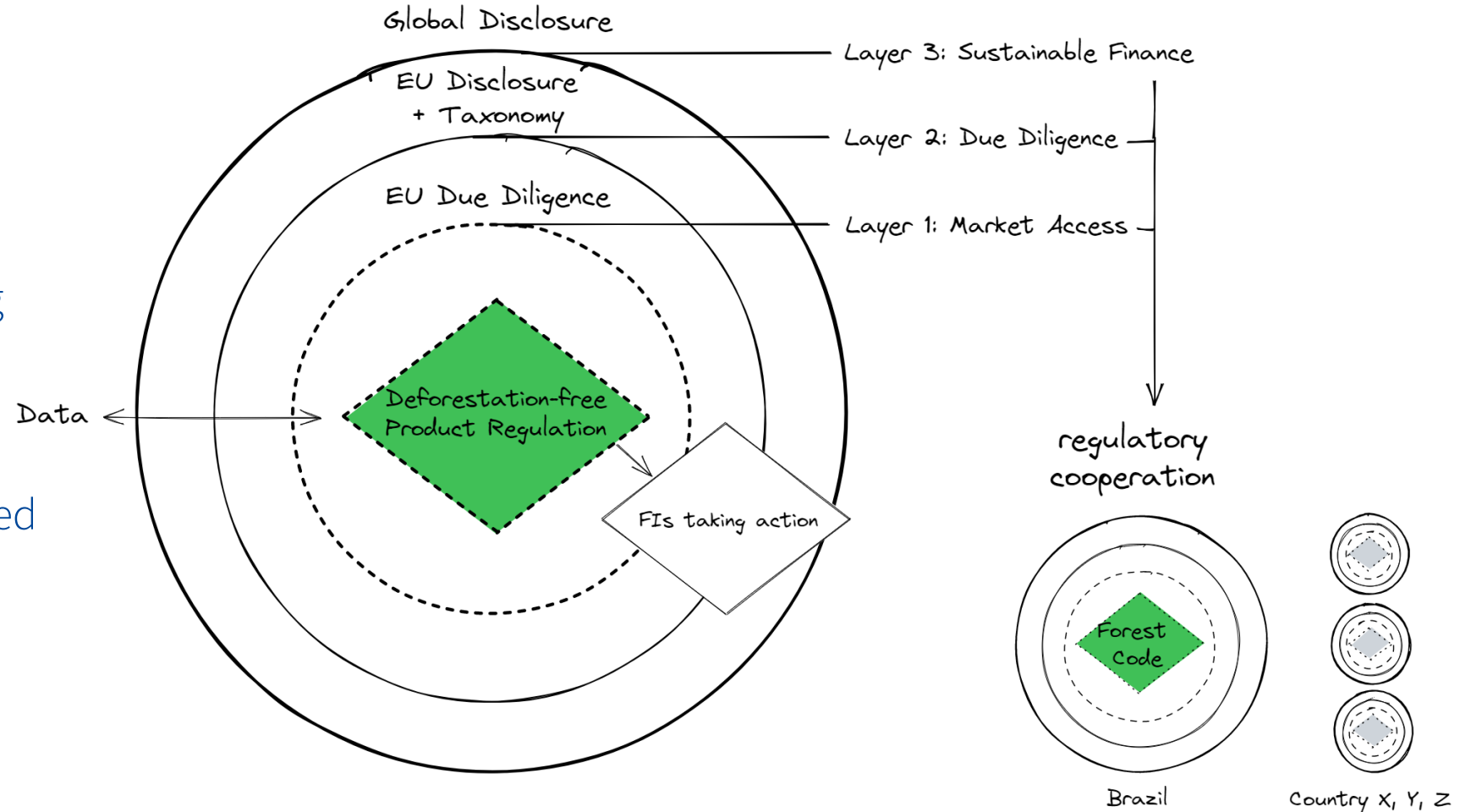
- **Policy coherence and complementarity**
- **“Interaction” between regulation and market standards**
- **International developments**

Complementarity of different regulations

Understanding complementarity, synergies and gaps ...

... within the complex and evolving regulatory framework...

... is the key to achieving policy coherence and avoiding unintended inefficiencies or loopholes!



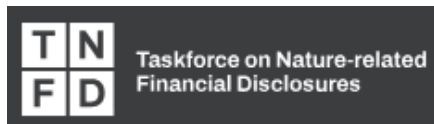
Important: the link between regulation and market standards



PBAF (2022/3): **Standard** for financial institutions to assess and disclose impact and dependencies on biodiversity of loans and investments



SBTN (2023): **Science-based targets for nature** provide guidance for companies to assess and prioritize environmental impacts, and to set targets



TNFD (2023): **Disclosure recommendations and guidance** for organisations to report and act on nature-related dependencies, impacts, risks and opportunities



GRI (2024): Updated **101 Biodiversity standard** to support organizations to disclose impacts on biodiversity, throughout their operations and value chain

More voluntary Frameworks and Guidance with nature-related disclosure requirements

Natural Capital Protocol principles and framework

WEF Measuring Stakeholder Capitalism common metrics and consistent reporting

- Land use and ecological sensitivity (i.e., the number and area of sites owned, leased, or managed in or adjacent to protected areas and/or key biodiversity areas)

Carbon Disclosure Project (CDP)

- Climate change questionnaire, Module C15 - Biodiversity (i.e., C15.2 - Has your organization made a public commitment and/or endorsed any initiatives related to biodiversity?)
- Forest questionnaire
- Water security questionnaire

IFRS' International Sustainability Standards Board (ISSB)

- Exposure Draft IFRS S1 – General Requirements for Disclosure
- Exposure Draft IFRS S2 Climate-related Disclosures

Sustainability Accounting Standards Board (SASB)

- Biodiversity impacts (i.e., EM-MM-160a.1, CG-HP-140a.1)

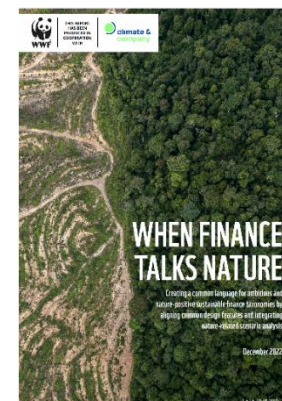
Important: progress on regulation internationally

- Transparency (GBF Goal 15) - Progress on disclosure (CDP Report 2023)
 - 72 Stock exchanges with ESG guidelines (but only 4 countries with mandatory high quality biodiversity disclosure (EU, Brazil, Indonesia and Singapore));
 - "Biodiversity disclosure in the G20+ is still in its infancy"
- 11 taxonomies have been adopted and a further 30 are under development; countries striving for ambition and alignment (ex: taxonomy Rwanda/EU)
- Synergies with COP28 and climate protection

How are nature-related aspects integrated into taxonomies?

How are nature-related aspects integrated into sustainable finance taxonomies?		Jurisdictions											
		G20						Others					
		Developing phase			Adopted			Developing phase			Adopted		
		United Kingdom	China	EU	Russia	South Africa	South Korea	ASEAN	Bangladesh	Singapore	Colombia	Mongolia	Sri Lanka
1. By focusing on nature-relevant environmental objectives:	Water conservation												
	Pollution prevention												
	Biodiversity and ecosystem protection												
2. By developing environmental performance metrics and thresholds for:	Priority sectors* substantially contributing to the nature-relevant environmental objectives		<ul style="list-style-type: none"> Agriculture Alternative energy Construction materials Food and beverages Forestry Marine transportation Water and electricity utilities 	<ul style="list-style-type: none"> Agriculture Chemicals Construction materials Food and beverages Forestry Marine transportation Pharmaceuticals Textiles Water utilities 	<ul style="list-style-type: none"> Agriculture Alternative energy Construction materials Gas Marine transportation Metals and mining Water and electricity utilities 	<i>No criteria for economic activities contributing to the nature-relevant environmental objectives published yet.</i>	<ul style="list-style-type: none"> Water utilities 	<i>No criteria for economic activities contributing to the nature-relevant environmental objectives published yet.</i>	<i>No criteria for economic activities contributing to the nature-relevant environmental objectives published yet.</i>	<i>No criteria for economic activities contributing to the nature-relevant environmental objectives published yet.</i>	<ul style="list-style-type: none"> Agriculture Forestry Livestock 	<ul style="list-style-type: none"> Agriculture Alternative energy Construction materials Forestry Infrastructure Water utilities 	<ul style="list-style-type: none"> Agriculture Construction materials Food and Beverages Paper Textiles Water utilities
	Other sectors contributing to the nature-relevant environmental objectives	<i>No information available yet.</i>	<ul style="list-style-type: none"> Fishery Land transportation Product manufacturing Restoration & remediation Waste management 	<ul style="list-style-type: none"> Air and land transportation Disaster risk management Fishery Product manufacturing Forestry Restoration and remediation Waste management 	<ul style="list-style-type: none"> Air and land transportation Packaging manufacturing Restoration and remediation 		<ul style="list-style-type: none"> Restoration and remediation 	<i>No other sectors contributing to the nature-relevant environmental objectives included.</i>	<ul style="list-style-type: none"> Tourism 	<ul style="list-style-type: none"> Fishery ICT Product manufacturing 			
	Nature-relevant DNSH criteria		<i>Not applicable</i>	<i>Nature-relevant DNSH criteria developed for included economic activities.</i>	<i>Included economic activities must comply with Russia's environmental protection laws.</i>	<i>Nature-relevant DNSH criteria developed for some economic activities contributing to the climate change objectives.</i>	<i>Nature-relevant DNSH criteria developed for included economic activities.</i>		<i>No nature-relevant DNSH criteria published yet.</i>	<i>No nature-relevant DNSH criteria published yet.</i>	<i>No nature-relevant DNSH criteria published yet.</i>	<i>Economic activities included in the three priority sectors must adopt an environmental management plan and comply with applicable Colombian laws.</i>	<i>Not applicable</i>

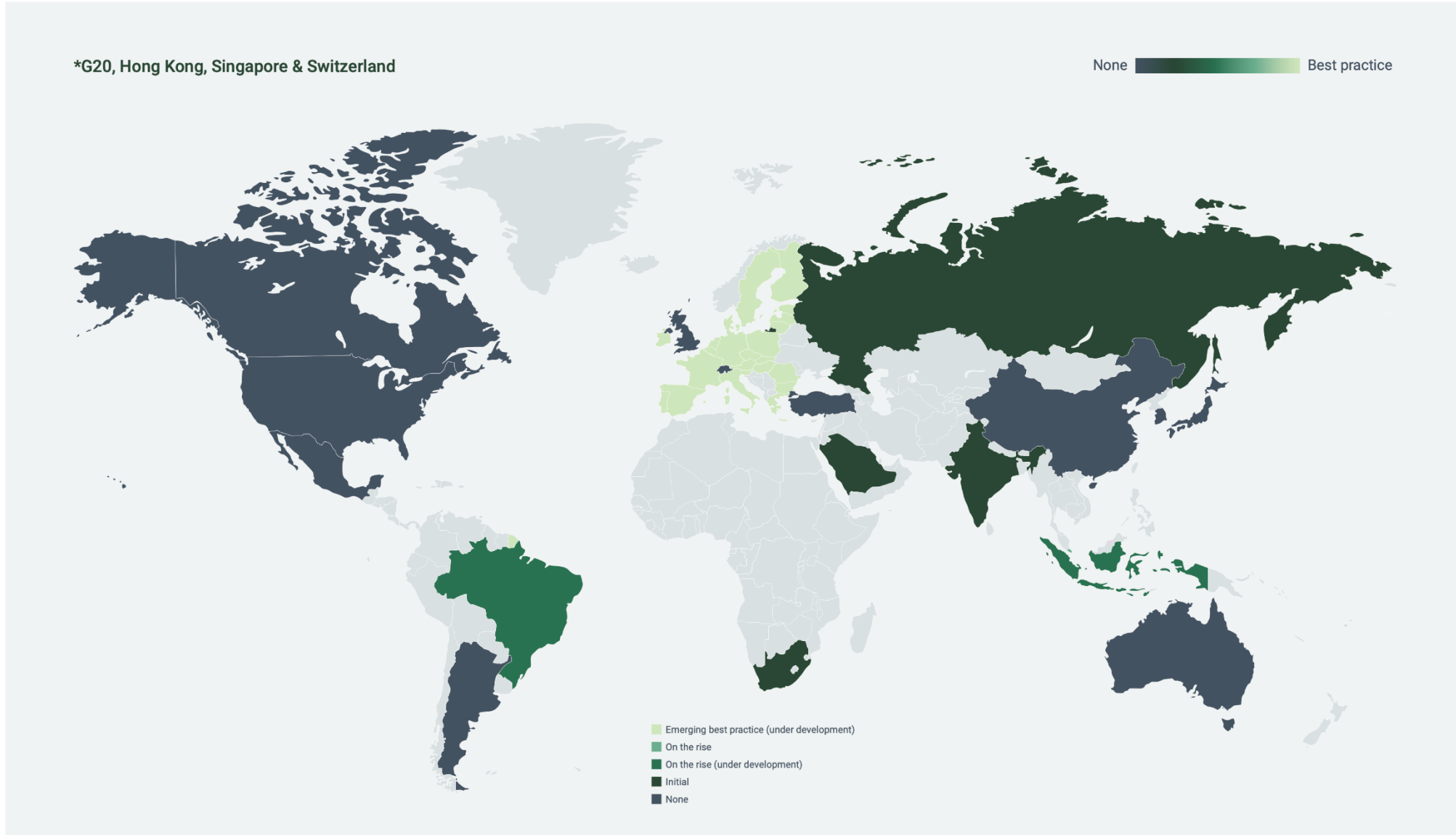
Only **15 out of 41 taxonomies** (ASEAN, Bangladesh, China, Colombia, EU, Georgia, Mexico, Mongolia, Peru, Russia, Singapore, South Africa, South Korea, Sri Lanka, UK) **consider nature-relevant aspects** in their **environmental objectives** and **environmental performance metrics and thresholds** to various degrees.



Source: When Finance Talks Nature, WWF and Climate & Company, 2022.

* The TNFD has identified 13 nature-relevant priority sectors: agriculture; food and beverage retail; forestry and paper; alternative energy; infrastructure; water and electricity utilities;

Biodiversity-related disclosure requirements in the G20+



Mandatory Biodiversity Disclosure Regulations

Year	Country	Law	Content
2021	France	Article 29	Companies will have to disclose strategies and targets to reduce biodiversity impacts and align with international biodiversity goals.
2021	India	Business Responsibility and Sustainability Reporting (BRSR) framework	Requires top 1,000 companies listed in India (by market capitalization) to report on their material issues, such as deforestation and biodiversity and a range of sustainability indicators from water usage to waste generation to supply chain management
2023	Germany	German Supply Chain Act (GSCA)	Requires disclosure on environmental protections within global supply chain activities, including supply chain risks such as in the areas of unlawful breaching of water bodies, lands and forests.
2023	Europe	Corporate Sustainability Reporting Directive (CSRD)	<p>The ESRS standards (E2, E3, E4, E5) include multiple nature-related sub-topics, such as:</p> <ul style="list-style-type: none"> • Direct impact drivers of biodiversity loss • Impacts on the state of species • Impacts on the extent and condition of ecosystems • Impacts and dependencies on ecosystem services

What needs to be done?

1. Scope and impact of regulation: supply chain
2. Incentives and support go hand in hand
3. Level playing field, also internationally

1. Scope and impact of regulation: supply chain

80% of the EU's footprint in terms of the destruction of nature (and the associated risks) takes place outside the EU. Regulation must address this - and in some cases does:

1. EUDR - Market access
2. CSDDD - Due diligence obligations
3. Reporting obligations

For financial institutions it is important that companies report significant impacts here or are obliged to exercise due diligence: Transparency allows risks to be better assessed and due diligence obligations reduce risks.

2. Incentives and support go hand in hand

The market alone does not provide sufficient incentives and price signals to prevent the financing of biodiversity destruction: this is demonstrated by the billions in investments that are still being channelled into this area. A well-coordinated regulatory framework is needed.

- a. (Complementary) regulatory framework for transparency and incentives related regulation
- b. Complementarity: Regulation and market initiatives: TNFD, SBTN, Finance for Biodiversity, Business for Nature's, It's now for nature; testing standards; TNFD mapped in ESRS; SBTN shows how scope 3 can work (not yet mandatory in ESRS)

Support for the implementation – make policy work in practice!

- a. **Coherence:** regulation currently not sufficiently well coordinated in parallel, improvements are needed; more recent projects already better, example CSDDD: reporting obligations 100% harmonised with CSRD;
- b. Realistic transition periods
- c. Support programmes, especially for SMEs in DE/EU;

3. Level playing field, also internationally

Harmonisation in the EU and beyond is extremely important, especially for trading nations like Germany; sufficient experience with voluntary formats, standardisation and alignment is urgently needed for reasons of efficiency and to reduce transaction costs:

- **Cooperation** with partner countries (the Commission cannot always do everything - Member States have a role in this, but in a coordinated manner, together!)
- **Support for the implementation** of our standards for those we need to provide us with data on our supply chains so that we can better understand the corresponding risks
- **A lot is already happening** in other countries, especially in the area of biodiversity. This provides extremely relevant learning opportunities for the German market.

Why again?

European Central Bank + Add to myFT

ECB flags stark economic risks from biodiversity loss

Board member Frank Elderson warns that destroying nature will 'destroy the economy'



"This is not some kind of a flower power, tree-hugging exercise . . . this is core economics."

Thank you!



Ingmar Juergens
CEO & Co-Founder

ingmar@climcom.org



www.climateandcompany.org



linkedin.com/company/climate-and-company

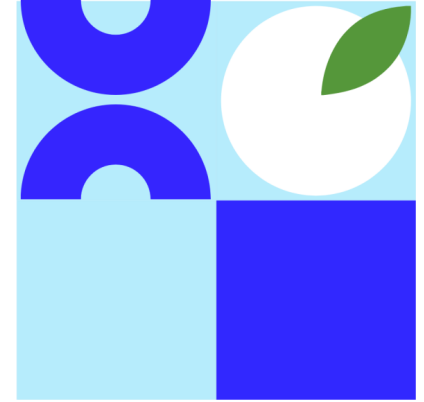


**climate &
company**

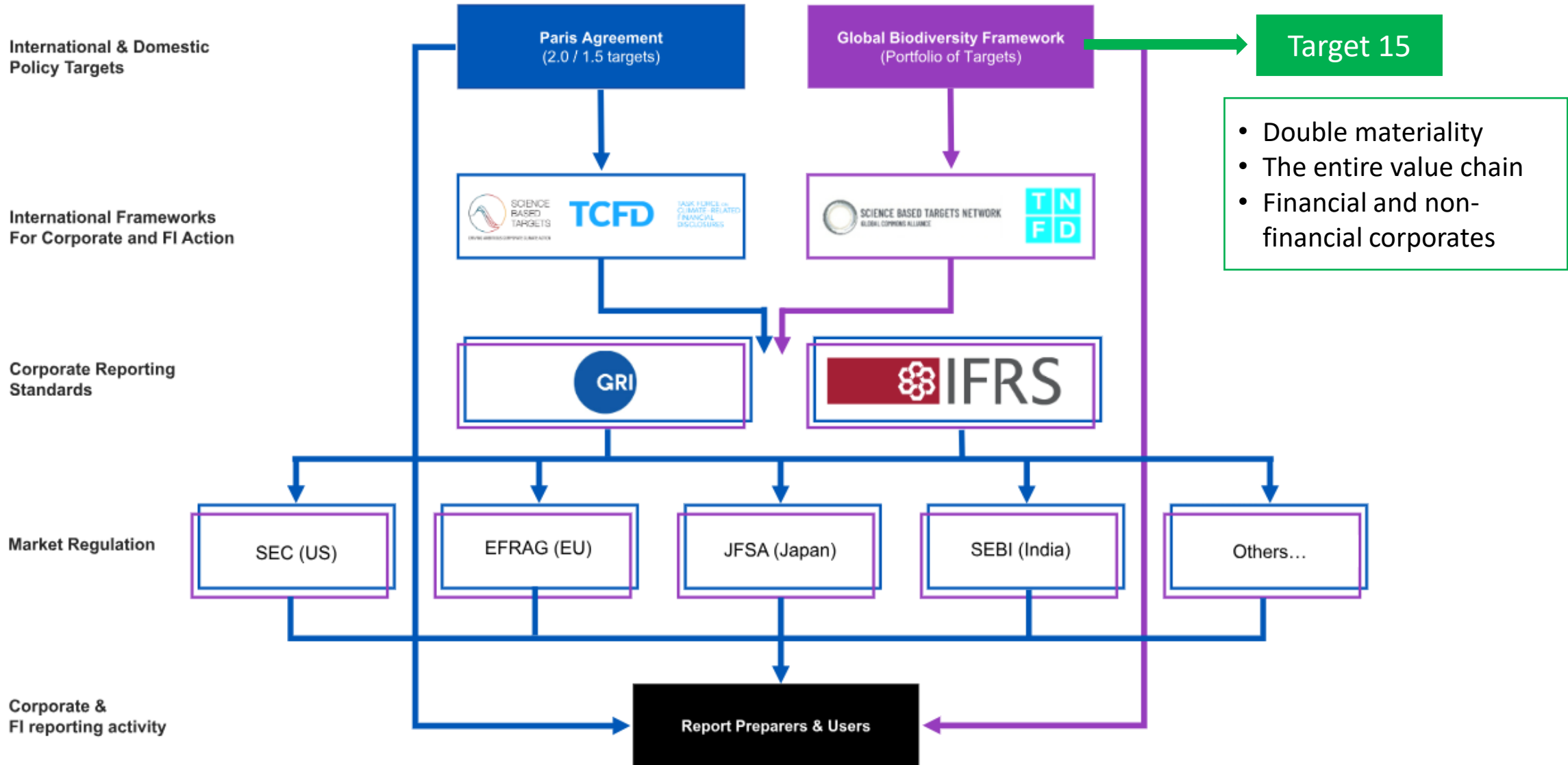
About the research platform sustainable finance

- The Sustainable Finance Research Platform is a joint project between leading German research institutions conducting research on different aspects of Sustainable Finance, e.g. sustainable investments, sustainability risks and chances, and sustainability reporting. The platform is funded by the Foundation Mercator.
- With their independent research, the project partners aim to support stakeholders in politics, the financial sector, and the real economy in understanding and shaping the central role of capital markets in achieving a net-zero economy.
- The researchers involved answer social, political, and business-related questions, provide established and new research findings, and participate in political and public debate. They also want to establish sustainable finance as a topic in the German research landscape and secure connections with international institutes and processes.

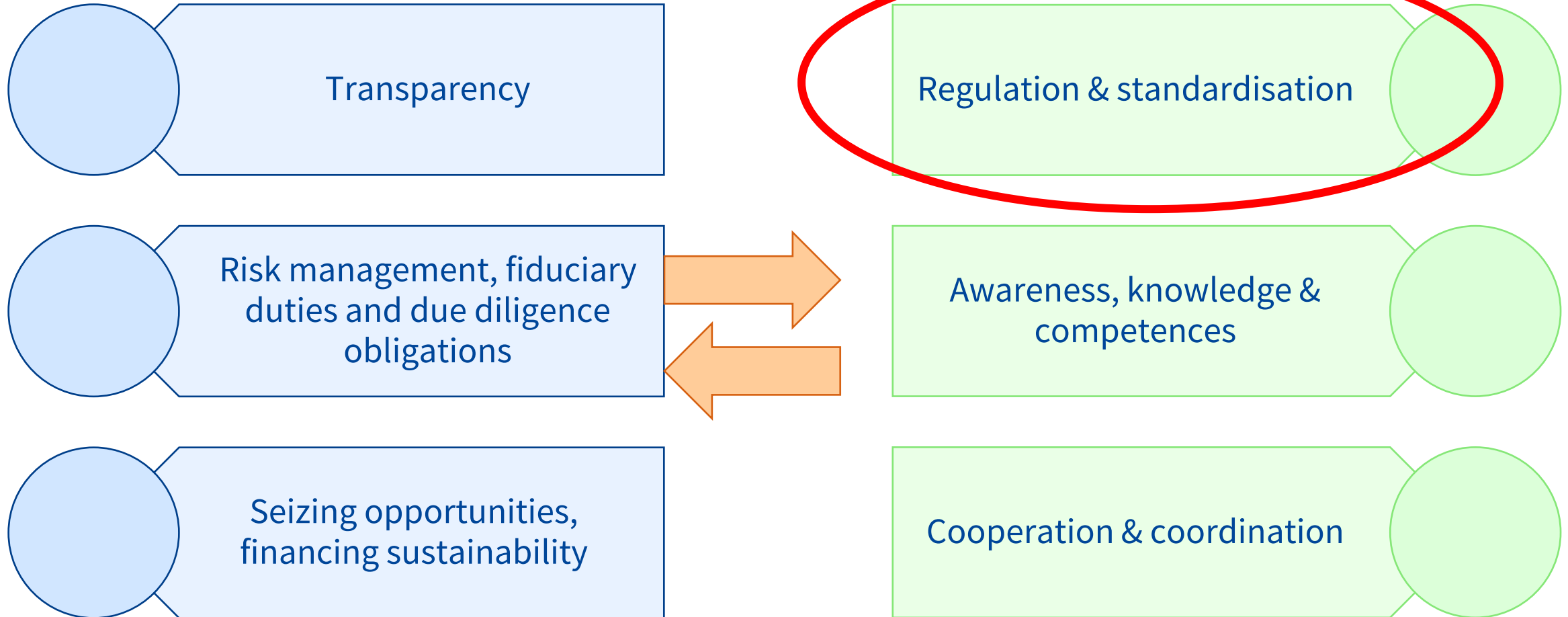
More information can be found on the project's website www.wpsf.de/en/



Disclosure Initiatives – an overview



How can sustainable finance have an impact?



Global sustainable finance taxonomy developments (2024)

Region	Number of adopted taxonomies	Number of planned/developing taxonomies
Africa	1 (South Africa)	3 (Egypt, Rwanda, Senegal)
Americas and the Caribbean	2 (Colombia, Mexico)	9 (Argentina, Brazil, Canada, Central America, Chile, Dominican Republic, Ecuador, Panama, Peru)
Asia	6 (China, Israel, Malaysia, Mongolia, South Korea, Sri Lanka)	14 (ASEAN, Bangladesh, Georgia, Hong Kong SAR, India, Indonesia, Kazakhstan, Nepal, Philippines, Singapore, Thailand, Turkey, United Arab Emirates, Vietnam)
Europe	2 (EU, Russia)	1 (UK)
Oceania	0	3 (Australia, Fiji, New Zealand)
Subtotal per category:	11	30
Total number of taxonomies:	41	