

Introduction to Nature and Biodiversity and the TNFD Framework

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Introduction to Nature and Biodiversity and the TNFD Framework

Executive Summary

- The European Leveraged Finance Association (ELFA) recently held a webinar with Greenlit and Ochre Partners to introduce nature and biodiversity to investors. Key takeaways from the webinar are summarised in this report.
- Climate change and biodiversity should be viewed as two sides of the same coin. All organisations, including those committed to Net Zero targets and transitional pathways, need to consider this crucial topic.
- Investors are stepping up their commitment towards nature and biodiversity, due to four key drivers:
 - Nature and biodiversity are a business risk;
 - Increased stakeholder awareness and pressure;
 - Global regulation, policies and standards are tightening and;
 - There is increased consolidation around universally agreed frameworks to guide disclosure and measure progress.
- Investors can start to consider integrating nature and biodiversity into the investment process by building knowledge and expertise on nature and biodiversity, setting up appropriate governance structures; consider due diligence questionnaires such as ELFA's ESG Fact Sheets, creating a Nature and Biodiversity strategy for investments and starting to consider TNFD reporting.

Introduction

ELFA recently held a webinar with Greenlit and Ochre Partners to introduce nature and biodiversity to investors. Jackie Geisen from Greenlit and Vanessa Neill from Ochre Partners discussed how investors can approach nature and biodiversity and start to consider how portfolio companies are disclosing their nature-related dependencies, impacts, risks and opportunities guided by the Task Force for Nature-Related Financial Disclosures (TNFD). Practical steps and case studies were discussed to educate ELFA members on how companies from different sectors consider nature and biodiversity.

Why should investors care about nature and biodiversity?

There has been a growing interest in nature and biodiversity topics following the UN Biodiversity Conference in December 2022 (COP 15) where governments around the world agreed a new set of goals to guide global action by 2030 to halt and reverse nature loss.

Why corporates and investors need to take action:

- 1. Nature and biodiversity are a business risk:** from a macroeconomic perspective, according to the 2024 World Economic Forum (WEF) Global Risks Report, nature and biodiversity loss and ecosystem collapse

are predicted to be in the top five risks for businesses in 10 years' time. Businesses are subject to physical risk (such as loss of raw materials and disruption of operations), litigation risk, transition risk (e.g. policy shifts and changes to market preferences) and systemic risk (e.g. global pandemics). This could translate into business discontinuation because of the decrease in revenue and the increase in cost linked to the loss of access to raw materials.

- 2. Increased stakeholder awareness and pressure:** Regulators, investors, NGOs, consumers, clients and employees are all demanding greater transparency from companies on their impacts and dependency on nature. Investors are stepping up their commitment to nature and biodiversity, and engagement with their portfolio companies. At the time of COP 15, 154 financial institutions supported the adoption of the biodiversity framework.¹ These investor signatories not only committed to integrating nature and biodiversity within their investment process with the expectation of appropriate disclosure of the investment process but also require appropriate disclosure from portfolio companies in which they are invested. Consumer behaviour is also changing, incorporating sustainable criteria in their purchasing decisions, as shown by a study by PwC in 2023, where more than 70% of respondents said they are willing to pay for sustainable goods and 53% said that supporting biodiversity was important to their decision-making.² NGOs increasingly publish reports

¹COP15: Final text of Kunming-Montreal Global Biodiversity Framework | Convention on Biological Diversity (cbd.int)

²Global Consumer Insights Pulse Survey June 2023 | PwC



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on nature and biodiversity which are being tracked by financial analysts, such as the ESG Spotlight research note on 'Biodiversity in the Balance' by Morningstar Sustainalytics where it was reported that the number of companies linked to land use and biodiversity incidents have increased from 50 firms in 2012 to more than 150 firms in 2022.³

3. Global regulation, policies and voluntary standards are tightening:

The main driver for these regulations is coming out of Europe, guided by the Global Biodiversity Framework, agreed at COP 15, which includes four goals and 23 targets to be achieved by 2030. Target 15 expects "large and transnational companies and financial institutions to monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity through their operations, supply and value chains and portfolios". The global biodiversity framework alongside other key EU regulations such as the EU Taxonomy, the SFDR and the EU regulation on deforestation and the CSRD all influence the business community to act on biodiversity.

4. There is increased consolidation around universally agreed frameworks to guide disclosure and measure progress:

In May 2023, the Science Based Targets Network⁴ announced the first release of their science-based targets for nature to help companies understand their environmental impact and prepare to set targets. The TNFD also issued its final recommendations (Version 1.0) in September 2023.

Defining Nature and Biodiversity and the major drivers of biodiversity loss

In this section, we set out the definitions of nature and biodiversity and major drivers of biodiversity loss, all of which were discussed during the workshop.

Natural capital: The stock of natural resources (e.g. plants, animals, air, water, soils, minerals), some of which are renewable and some of which are finite, which combine to yield a flow of benefits to people.

Biodiversity: The variability among living organisms from all sources, including inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part, including diversity within species, between species and of ecosystems.

Ecosystem Services: The contribution of ecosystems to the benefits that are used in economic and other human activity. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) identified 18 ecosystem services that constitute Nature's Contributions to People (NCP), categorised under three types of services: regulating services, supply services and intangible inputs.⁵

The IPBES defined⁶ the major drivers of biodiversity loss as:

1. Changes to land and sea loss;
2. Direct exploitation of animals, plants and ecosystems;
3. Climate change;
4. Pollution of soil, water and air and;
5. Spread of invasive species.

Deforestation: The loss of natural forest as a result of i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; iii) severe and sustained degradation. Deforestation is at the nexus of climate and nature and addressing climate change and protecting nature are now understood to be mutually supportive. According to the Global Commission on Adaptation,⁷ forest restoration and avoiding deforestation could provide the necessary climate mitigation needed to keep global warming below 2 degrees Celsius.⁸

The TNFD Framework

TNFD⁹ is a market-led, science-based, and government-supported global initiative, established as a response to the growing imperative to factor nature into business decisions. It offers guidance on disclosures and implementation to help shift the capital flows to nature-positive outcomes. TNFD launched its final recommendations in September 2023. It is led by 40 members, and 240 global institutions participated in a 2-year pilot.

As of January 2024, 320 organisations including publicly listed companies and financial institutions have committed to TNFD aligned disclosures in their annual reports. The TNFD is aligned with the Taskforce for Climate-related Financial Disclosures' (TCFD) four disclosure pillars of Governance, Strategy, Risk Management and Metrics and Targets and is aligned with the Global Biodiversity Framework Target's 15 requirements to disclose dependencies, impacts and risks. It is consistent with the International Sustainability Standards Board (ISSB), Corporate Sustainability Reporting Directive (CSRD) and the Global Reporting Initiative (GRI) disclosures and standards. The TNFD will be globally relevant, regardless of territory and is designed to be adapted to local regulatory requirements and intended to be used across all sectors. It is currently voluntary, but it is expected to be adopted by regulators across countries.

TNFD Disclosures

It is important to note that of the 14 disclosures, 11 are aligned to TCFD and there are three additional disclosures for financial institutions (engagement under governance; sensitive locations under strategy; and value chains under risks).

The four disclosure pillars are:

³Morningstar Sustainalytics, "ESG Spotlight: Biodiversity in the Balance" by Martin Vezér, PhD and Qi Sang, January 2024

⁴The first science-based targets for nature - Science Based Targets Network

⁵Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat

⁶Global_assessment_primer_english.pdf (ipbes.net)

⁷<https://gca.org/>

⁸How reforestation can be used to its full potential as a climate solution - Global Centre on Adaptation (gca.org)

⁹<https://tnfd.global/>



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- **Governance** – Disclose the organisation’s governance of nature-related dependencies, impacts, risks, and opportunities.
- **Strategy** – Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation’s business model, strategy, and financial planning where such information is material.
- **Risk and Impact Management** – Used by the organisation to identify, assess, prioritise, and monitor nature-related dependencies, impacts, risks, and opportunities.
- **Metrics and Targets** – Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks, and opportunities.

How to integrate nature and biodiversity into the investment process

- The ELFA ESG Fact Sheets now include biodiversity questions which serve as an excellent starting point for investors to engage on biodiversity topics, such as deforestation, water and pollution.
- Bring in external experts on nature and biodiversity to help support you with the creation of a Nature and Biodiversity policy and strategy, set up the appropriate governance structures to drive action, support senior management and wider employees with training.
- Consider third-party data providers for identification of high impact sectors or controversies.
- Consider third-party tools to assist with impacts and dependencies e.g. ENCORE and IBAT.

Conclusion:

Climate change and biodiversity should be viewed as two sides of the same coin. All organisations, including those committed to Net Zero targets and transitional pathways, need to consider this crucial topic. Companies should view ‘Net Zero by 2050’ and ‘Nature Net Positive by 2030’ as complementary goals. Given the four drivers for action outlined above, particularly increased regulation and policy, this is no longer a topic that can be ignored.

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About ELFA:

ELFA is a professional trade association comprised of European leveraged finance investors from over 60 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information please visit ELFA's website: www.elfainvestors.com.

About Ochre Partners:

[Ochre Partners](#) was formed by Vanessa Neill and Lucy Carver, to provide experienced, senior, expert guidance on sustainability and ESG strategies, operations, and communications at all stages of a company's sustainability maturity.

They have worked with clients in both the public and private markets and across all industry sectors including financial services and private equity.

Ochre Partners' highly complementary skills and expertise in sustainability result in considered and impactful advice to investors, boards, and senior executive teams either as fractional Chief Sustainable Officers or in an advisory capacity.

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About Greenlit

[Greenlit](#) is a boutique, Luxembourg incorporated consultancy focusing on support services for the Sustainable Finance Market. Services include assistance with Green Bond certification, post-issuance verification agent services for sustainability linked securities/loans in line with The ICMA Principles, acting as a ESG Committee member. In the Private Equity sector, Greenlit provides in-house services to support portfolio companies on specific projects to achieve their value creation objectives.

Greenlit in its capacity as Sustainability Co-ordinator assist with defining a CLO sustainable investment strategy, performing periodic review of the CLO portfolio as to adherence to the latter or ad hoc projects related to implementing sustainability best practices.

Greenlit was founded in 2015 by Jackie Geisen who has more than 30+years in financial sector working for major Corporate Trust and Agency services providers both in Luxembourg and London.

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