

Summary of Business Rebalance for Nature

Are nature-based disclosures a gamechanger for businesses in Scotland?

An event from the Scottish Forum on Natural Capital held on Wednesday, 26 October 2022, 10:00 – 15:00 BST at the Business School, The University of Edinburgh and online

Part of the Global Dialogues Series organised by the Capitals Coalition

Key points from the keynote address

Richard Mattison President, S&P Global Sustainable1

- Stopping degradation of nature is one of the IPCC top 5 mitigation options
- The current emphasis is on climate but COP15, COP27 and TNFD will bring in the nature agenda
- Nature positive investments generate new business opportunities to the scale of \$10trn per year and 395 million jobs by 2030 (Source: WEF)
- The impact of biodiversity loss is equivalent to 4% GDP in UK

“Carbon markets are going to explode and nature should be part of that”

Momentum is increasing on understanding risk

This will come through carbon markets. Some governments are making it impossible to purchase their carbon credits outside the country. Investments are seen as ‘good for nature’ without an expectation of a return – a one way investment to achieve a goal.

“Nature can be an investable part of the carbon codes”

Banks and fund managers are under pressure to look at nature risks to financial stability. The Dutch and French central banks are stress-testing what happens to their economies when there is massive nature risk.

“There’s an opportunity for companies to attract funding through resilient business models”

“You cannot be net zero without being nature positive”

- Climate change impacts are locally tangible and should be a concern to governments, investors, banks and companies
- Governments transition plans address an increase in nature and adaptation, but measurement of progress will be key
- Mandatory in UK for large companies to produce transition plans and mandatory for big pension funds to report on TCFD
- FCA have addressed green washing and ‘nature fund’ labelling
- Advertising Standards Authority have heightened scrutiny for businesses, more transparency on responsibilities to address risks

- EU Nature Restoration law is launching, including Agricultural practices and nature-based solutions, EU Forestry strategy, Green Deal
- Corporate Sustainability Reporting Directive Regulation in Europe is forcing organisations to report on sustainability

Scottish Government Policy Perspective on disclosure and the role of TNFD

Phelim Usher-Purves

Team Leader, Green Finance, Directorate for International Trade and Investment

A major intention for the Scottish Government and the National Strategy for Economic Transformation (NSET) is an increased focus on nature and climate.

At COP26 the First Minister signed the Leaders Pledge for Nature, aimed at creating a nature positive society by 2030. Climate targets include:

- Net Zero emissions by 2045
- The restoration of at least 250,000 hectares of degraded peatland by 2030
- Expansion of woodlands to cover 21% of Scotland's land area by 2032

“The TNFD framework brings consensus to the market”

Scotland is a country of immense natural wealth, and we're clear on the need to consider our impact on and understand our inextricable link with nature.

It's key that the Taskforce on Nature-Related Financial Disclosures (TNFD) is market led, and important that consensus is brought to the market to give investors clarity on the impact of their investments.

“As adoption of TNFD framework spreads we'll see a shift in companies asset allocation which creates huge potential for Scotland's natural assets, and offers a strategic advantage for Scotland as a destination for natural capital investment.”

Phelim Usher-Purves
Team Leader, Green Finance
Scottish Government

The TNFD framework, alongside the Interim Principles on Responsible Investment, underpin the high integrity investments needed in Scotland and internationally to meet the challenges and opportunities of reaching net zero and protecting nature.

Scotland is the second largest financial sector in the UK, managing 11% of UK ESG funds, which represents a significant opportunity to contribute to global solutions.

Advisory firms can drive and profit from empowering institutions to understand and identify their nature-related risks.

This will be a big step change for the next few years, and the Scottish Government looks forward to continuing to work with businesses, including through the Scottish Taskforce for Green and Sustainable Financial Services, to help to diversify and differentiate Scotland's sustainability services offer.

Introduction to TNFD

Tom McKenna, Senior Manager, Capitals Coalition

Please see also the presentation slides available

TNFD identifies:

- Impact pathways and what this means for your business i.e. transition risk is inevitable, but consider youth market impact, systemic risk, government strategy and impact on raw materials
- A monetary value to apply to ecosystem services, such as flood prevention
- Financial opportunities and benefits to organisations in the long term

“Nature-related risk assessment should sit at CEO and Board level, not just within the Sustainability Team”

TIFD and TSFD – (Inclusivity and Social) financial disclosures are frameworks in development

LEAP approach considers:

- Scope - in consultation with stakeholders and is an iterative process
- Scenarios - to judge when risk will take place
- Assessment – metrics and indicators of success, which can be qualitative
- Disclosure – to compare between companies

LEAP FI – for financial institutions, is in development

“TNFD can be a gamechanger if applied well, attracts buy-in and avoids loopholes.

The framework should consider varied interests and priorities and should be affordable”

ACT-D framework: The process for understanding risks and opportunities, and commitments to action

Infinity loop: Is iterative and feeds back into business, finance and government

From impacts to dependencies: A first global assessment of corporate biodiversity risk exposure and responses

Theodor Cojoianu, Associate Professor, University of Edinburgh Business School & EU Platform on Sustainable Finance

Please see also the presentation slides available

Link to full paper: <https://onlinelibrary.wiley.com/doi/full/10.1002/bse.3142>

The EU Platform on Sustainable Finance Green Taxonomy defines how companies impact environmental objectives, and includes technical screening criteria for biodiversity for different sectors.

The study identifies:

- Global equity markets, listed companies worldwide
- How many are concerned about biodiversity loss and classify types of impacts, dependencies and risks they are exposed to, and how these transfer into financial risks
 - The need to map conceptual feedback loops – when data is mapped to ecosystem service dependencies e.g. direct inputs, enabling processes and mitigating direct impacts
 - The need to build cognitive awareness and build pressure points in investor action to understand who finances which particular operation that might do damage
- The need to build the data infrastructure to monitor and understand the impacts at scale

ENCORE – a materiality view adopted for the banking sector adapted to different business to map dependencies and subindustries

“To whom are the risks really relevant?”

“The financial sector cares least about biodiversity, lending without types of criteria attached.

The hope is that the TNFD and other initiatives will spur this kind of action”

55% of globally listed companies don't have a biodiversity policy, which equates to \$7trn of equity markets oblivious to the biodiversity agenda

30% are starting to articulate biodiversity risks

10% of large globally listed companies are exposed to impact on biodiversity

5% are exposed to dependency risk which equates to \$5.2trn enterprise value

20% are exposed to financial risk

Key findings

Ideas from the Breakout Session

Answers, solutions and actions

What will change for businesses and organisations in Scotland with the outcome of COP15?

- Outcomes are dependent on COP15 and the success of the [#MakeItMandatory](#) campaign
- Mandatory reporting creates an even playing field, but it's important to also provide agency to businesses by incentivising behaviours that enable an understanding of benefits i.e. land management subsidies
- Change in materiality and accounting practices - transparency and accountability, the need for data and metrics and upskilling staff
- As finance flows increase into Scotland for biodiversity and natural capital, the Scottish Government needs to be ahead of the curve in terms of regulation
- There could be Scottish certification on disclosure
- Will there be enough change? Momentum is building at the intersection with policy, financial markets, business sectors, the media and the legal system but COP15 is vital for these to come together.

“Land is an emotive subject, but it can be to the benefit of everybody if we manage it properly”

Peter Douglas, NFUS

What must we do to raise nature-related disclosure up the agenda for businesses?

- Finance and sustainability teams working together – move the discussions into the Boardroom
- Each company to have a named executive director for natural capital - as their day-to-day job
- Incentivise early movers by maximising competitive opportunities, differentiate between peers and give space to develop
- Professional institutions to insist on CPD awareness e.g. for accountants and lawyers
- Target sectors not already aware – portfolio disclosure, trickle down through value chain
 - Scottish and UK Governments driving the agenda – important role for national policy, working with private sector and lobbying to get the right information to the right people
 - Link SDGs and TNFD
 - Spatial data should be a public good

“Storytelling skills are important to reframe arguments and tell positive stories of the benefits gained from nature-based solutions”

Alex Baillie, a2bmaps

Ideas from the Breakout Session

Answers, solutions and actions

“Recognise the emergency and agree on a common approach or a consolidation of approaches”

Tom McKenna, Capitals Coalition

How do we remain agile and still make progress as metrics evolve?

- How much will metrics change? 10/15% difference
- Harmonise mechanisms to show basic concept of positive or negative to make it easier to communicate and allow the average farmer, for example, to add to their workload
- Coordinate between businesses to apply a new approach and avoid double counting risk at national accounting level
- Help SMEs train on data methods, simple disclosures with clear timelines (e.g. 3 or 5 globally applicable)
- Open innovation – share learning from case studies and peer to peer knowledge exchange
- How much complexity? Need to navigate the fine line between too simple and non-suitable spacial data vs enough data to make an impact
- Bespoke metrics for each sector

Is it the right time, for small businesses in particular, to get involved if the TNFD framework is still in Beta?

- Remaining agile means staying competitive
- Be prepared for new regulation - understand metrics and ensure readiness to feed data up the supply chain
- Position your business as a reputable ‘supplier of choice’ for larger organisations, as customers demand evidence and rigour in reporting, to prove where products come from
- Recognise interdependencies - reputational risk and sustainability as a business depends on a wide range of stakeholders
- It’s a bigger risk not to make a start – join events/courses, upskill, get familiar with the language, navigate multiple frameworks and select which metrics are relevant
- Access funding more easily – grants are conditional on net zero plans in place

“The risk not to do it its bigger in the longer term”

Julia Clough,
Scottish Forum on Natural Capital

Q&A with Tonia Plakhotniuk

Vice President, Climate and ESG Capital Markets, NatWest

How will the TNFD impact NatWest and what might the opportunities and challenges be?

NatWest has begun a process to assess and establish structures and governance that would be necessary to create products and solutions to support customers with biodiversity financing

There is appetite for biodiversity focused investment opportunities by investors, especially in equity markets; NatWest is more present in the debts capital market, helping customers underwrite green and social sustainability, and sustainability-linked bonds and loans in public and private markets; Our focus would thus naturally be on deploying more debt financing towards projects helping preserve and restore biodiversity and ecosystems

“Once the market participants become more comfortable with biodiversity KPIs, and are able to identify the most material ones, they will be able to engage with and advise their clients”

We are expecting the TNFD to eventually become mandatory across sectors and jurisdictions, as the TCFD has

There is an emphasis on the complexity of the subject of biodiversity and how it could translate into financing solutions; it’s important to recognise that it will take time to build knowledge and capacity in the same way we have for climate disclosure. The application of the “do no significant harm” principle may need to come first.

Is it good that people are getting concerned about this, will it help drive more urgent action?

The more we discuss and engage on the risks from biodiversity loss that, as a consequence, may affect bank balance sheets and investment portfolio valuations, the quicker financial service professionals will educate customers accordingly.

We, as an industry, are still grappling with the climate agenda; companies are starting to mainstream their TCFD reporting, and most are not yet focusing on the subject of biodiversity, including reporting;

“Yet we are seeing the regulators turning their attention to applying supervisory practices to banking institutions in the area of risk management associated with biodiversity loss”

Aside from the TNFD, which is a disclosure a reporting framework, there is national and regional legislation, and more is expected to be developed, that helps to directly mitigate negative impacts on biodiversity. Additionally, the EU Taxonomy on biodiversity and ecosystem protection and restoration objective is due to be published next year, and the UK is set to adopt a similar taxonomy. As a result, we are likely to see more biodiversity focused finance coming from investors and lenders as the market has a chance to digest the criteria.

What will be the biggest change as a result of regulatory requirements?

A big focus area is agriculture. The team at NatWest will seek to bring insight and educate customers on the importance of biodiversity and the forthcoming legislation; as with the climate agenda, it will be critical to maintain dialogue on risks associated with biodiversity loss and opportunities from the loss mitigation.

“Whilst there is still a lot to do for the financial services industry to incorporate biodiversity into their corporate strategies, and whilst the space is very dynamic and evolves constantly, the journey has definitely begun”.

Open discussion

“Be wiser to deal with green washing, do we err on the side of commercial interest or the planet?”

Theodor Cojoianu, University of Edinburgh Business School

What are the critical milestones for the next 5 years to achieve the SDGs?

1. Education is vital to justify decisions and political agenda
2. A formal process to decide in favour of nature
3. Data infrastructure is essential to back up general principles

Considering the urgency, who do we need to educate most quickly?

- Each industry must provide tailored responses for all areas of work
- Lobbyists – Influence Map report shows 89% of corporate lobbying is blocking policies addressing biodiversity loss
- Those with vested interests in the current system – whose pay cheque relies on the status quo and how do we manage that?

Resources

- [The Wallacea Trust](#) – right metrics for the right place
- [TNFD](#) and [Science Based Targets Network](#) both released in 2023
- Coursera – [Natural Capital Project toolbox](#) -online free course
- SRUC [MSc Ecological Economics](#)
- [Influence map](#) – Corporate lobbying and progress on climate

Speakers and facilitators (7)

Jo	Pike	CEO	Scottish Wildlife Trust
Richard	Mattison	President	S&P Global Sustainable1
Philem	Usher-Purves	Team Leader, Green Finance	Directorate for International Trade and Investment, Scottish Government
Tom	McKenna	Senior Manager	Capitals Coalition
Theodor	Cojoianu	Associate Professor	University of Edinburgh Business School
Tonia	Plakhotniuk	VP, Climate and ESG Capital Markets	NatWest
Julia	Clough	Development Officer	Scottish Forum on Natural Capital

Attendees (32)

Elle	Adams	Scotland CAN B
Alex	Baillie	a2b maps
Jenny	Britton	University of Edinburgh
Esther	Carmen	The James Hutton Institute
Catherine	Chisem	University of Edinburgh Business School
Hannah	Collier	Capitals Coalition
Jean	Curran	Atmos Consulting
Peter	Douglas	National Farmers Union Scotland
Rony	Epelbaum	GEO Foundation for Sustainable Golf
Jaime	Gonzalez Masip	Polytechnic University of Madrid
Eck	Gordon	Forest Carbon Ltd
Matthew	Hay	Bidwells
Josephine	Hazard	University of Edinburgh
Patrick	Jean-Martel	NatureScot
Nathalie	Kwok	AECOM
Jeremy	Leggett	Highlands Rewilding
Fraser	Maxwell	Arup
Jim	McRoberts	Scottish Enterprise
Alexis	Moyer	Space Intelligence
Georgie	Nelson	Abrdn
Malcolm	Newson	Newcastle University
Ann	Packard	RSA
Sixto	Palacios	Agroasesorias de Colombia
Fred	Pilkington	Vp plc
Catherine	Preston	SEPA
Cameron	Reid	Crown Estate Scotland
Ruchir	Shah	Scottish Wildlife Trust
Samantha	Sinclair	SSEN
Rie	Tanaja	Japan Economic Research Institute
Paul	Watkinson	SLR Consulting
Kerry	Waylen	James Hutton Institute
Lesley	Wilson	IEMA

Attendee List

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26 October 2022
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