Response: CDSB Application Guidance for Biodiversity Related Disclosures

4 October 2021

WORLD FEDERATION OF EXCHANGES

Background

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent over 250 market-infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~20%). with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges are home to nearly 53,000 listed companies, and the market capitalisation of these entities is over $95 trillion, while the 50 distinct CCP clearing services (both vertically integrated and stand-alone) collectively ensure that traders put up $1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise financial stability, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Sana Awan, Manager, Regulatory Affairs: sawan@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org

CDSB Application Guidance for Biodiversity Related Disclosures

The WFE welcomes the timely involvement of the CDSB in preparing guidance on biodiversity related disclosures. We recognize the key role that the CDSB Framework has played in informing the recommendations of the Taskforce on Climate-related Disclosures (TCFD), which our membership broadly endorses. Whilst most of the focus on ESG to date has been on encouraging better reporting on climate related risk and opportunity, other aspects of the 'E' such as natural capital loss[1] have not been given the same level of attention. According to the World Economic Forum, the link between nature and finance could not be clearer, as more than half the world's output – $44tn of economic value generation – is moderately or highly dependent on nature. This represents more than 50% of global GDP[2].

To this end, climate related risks and opportunities should not be considered in isolation from one another. Climate change is indeed a cause of nature related risk, and protecting nature is one of the greatest strategies for tackling climate related risk. The financial sector can play an important role in conserving biodiversity, with some central banks and financial supervisors starting to recognize the potential of biodiversity loss as a threat to their core mandates for financial and monetary stability. This includes through transition risks (eg incompatibility between financial institutions' exposures and government measures) and physical risks (eg delivering performance of assets or economic activities that depend upon biodiversity).[3]

Our members are therefore pleased to see momentum picking up in this area through the publication of the Dasgupta Review of the Economics of Biodiversity Loss as well as the announcement of the Taskforce for Nature Related Disclosures (TNFD). We appreciate the unique challenges that lie ahead , specifically those relating to financial product innovation, data collection, measurement and methodologies. We would ask the CDSB to take note of the following innovations, including some from among our membership, to help mitigate these risks:

- In the run up to the biodiversity COP, our members have highlighted the importance of biodiversity as an investment risk and have brought nature-based solutions to the market. This includes: (i) incorporating biodiversity into ESG ratings and data services through norm-based research, corporate ratings or SDG impact ratings; (ii) the development of a new class of publicly listed assets called Natural Asset Companies which hold the rights to 'ecosystem services'[4] produced by natural, working or hybrid lands; and (iii) nature based offset futures to enable companies to meet emissions reductions targets.

- We recognize the dangers of creating a potential 'data gap' due to issues in measuring the geographic specificity of biodiversity related risks or the difficulty in tracking a singular, nature-related metric[5] (eg water pollution, degradation of land or species loss). The emerging field of Spatial Finance, when combined with artificial intelligence, has the potential to close this gap by allowing financial markets to collect greater amounts of geospatial data and to better measure and manage environmental related risks and opportunities.

Whilst the TNFD will not deliver its recommendations until 2023, we would encourage learning from and building upon the success of the TCFD. This could be done through harnessing this CDSB guidance, which will allow users of mainstream accounts and reports to assess material and decision-useful biodiversity related information, to inform effective capital-allocation decisions. Our members have increasingly supported ambitions to harmonize and standardize sustainability related reporting and would encourage the CDSB to use this guidance to inform the work of the International Financial Reporting Standards Foundation, as it establishes the International Sustainability Standards

[1] Natural capital refers to goods and services that assets such as water, forests and clean air can provide.
[2] World Economic Forum, Global Risks Report 2020
[3] NGFS Occasional Paper: Biodiversity and financial stability: exploring the case for action
[4] The benefits that the natural environment and ecosystems can provide to people.
[5] As identified by the Cambridge Institute for Sustainability Leaderships

Board. As biodiversity loss moves from a reputational to a financial risk, we fully support the shift in financial flows towards a ‘nature positive’ future and welcome further discussion on facilitating this transition at the forthcoming biodiversity COP at Kunming.