POSITION PAPER

BUILDING BIODIVERSITY FUNDS REQUIRES COMPANY-SPECIFIC DATA AND THIS CAN BE ACHIEVED WITH ECOSYSTEM INTEGRITY METRICS

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CDC BIODIVERSITÉ

The biodiversity fund market has surged to nearly EUR 1.5 billion by the end of 2023 and financial regulators have justly started monitoring market practices more closely, considering the need for greater scrutiny to avoid greenwashing. We welcome such increased scrutiny and share the concerns of regulators regarding potential risks of greenwashing in existing and emerging so-called biodiversity funds. We believe a clear framework on what can qualify as a biodiversity fund is required for investors.

This position paper seeks to address two common confusions related to biodiversity impact measurement with regards to biodiversity funds: (i) the multi-faceted aspects of biodiversity are sometimes taken to imply that aggregated metrics summarising impacts on ecosystem conditions are not relevant, and (ii) the limitations of current biodiversity impact databases are confused with limitations of the underlying metrics.

In response to these two points, we argue that **(i) a number of biodiversity elements** (detailed below) **have to be taken into account to build a biodiversity fund and aggregated ecosystem condition metrics do cover well the *ecosystem* element** and **(ii) impacts on ecosystems can be assessed accurately with aggregated ecosystem condition[1] metrics and they should not be "tainted" by the limitations of existing databases since approaches using them in more accurate ways can be deployed to build biodiversity funds** (now and in the future). We hope this can support regulators and other stakeholders in building an environment favourable to biodiversity funds genuinely generating reductions of losses and increases of gains of biodiversity.

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[1] Ecosystem condition is defined in UNEP-WCMC, Capitals Coalition, Arcadis, ICF, and WCMC Europe. 2023. 'Measuring Ecosystem Condition- a Primer for Business, Aligning Accounting Approaches for Nature'. https://capitalscoalition.org/wp-content/uploads/2023/10/Align_eco_condition_primer.pdf.

Building biodiversity funds requires company specific data and coverage of all the aspects of biodiversity

In order to build biodiversity funds including only the best in class within an economic activity in terms of biodiversity impacts, first it is necessary to cover all the aspects of biodiversity: ecosystems (through ecosystem condition and extent), genes (though this element might be difficult to properly cover for financial assets) and **species as well as ecosystem services. Impacts on spatial designations of importance such as protected areas and Key Biodiversity Areas, are also important to evaluate.**[2] Secondly, it is important **to use company specific data** reflecting (quantitatively as much as possible) the actual pressures a company generates, taking into account its specific mitigation & conservation policies and actions.

Tools (such as the GBS) or off-the-shelf databases (like BFFI, BIA-GBS, BIAT, CBF, GID) may provide company specific quantitative assessments of impacts and dependencies and are thus very useful in building biodiversity funds.

Qualitative analyses of the investees should for instance include an evaluation of their policies on biodiversity pressures, such as deforestation or water stress. Proper coverage of protected areas, Key Biodiversity Areas or sensitive locations (*e.g.* high integrity locations or areas of rapid decline of ecosystem integrity) for instance require to analyse the overlap of such elements with the sites and supply chain of investees (*e.g.* using tools like Integrated Biodiversity Assessment Tool, or IBAT, which covers Protected Areas, KBA and species extinction risk).

Limitations of metrics themselves should be evaluated separately from limitations of current tools and databases that apply them

Metrics like the Ecosystem Integrity Index (EII), Mean Species Abundance (MSA) or Potentially Disappeared Fraction (PDF) are flexible and can in theory be used for any business applications related to ecosystem integrity assessments. **These metrics should be distinguished from the tools and databases which apply these metrics to link business activities to impacts on ecosystem integrity. The tools and databases' limitations are not necessarily the metrics' limitation.** Tools (such as the GBS), off-the-shelf databases (like BFFI, BIA-GBS, BIAT, CBF, GID) and specific analyses conducted using those tools combined with other data sources have their own limitations, independently of metrics.

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[2] The different aspects of biodiversity to be considered are presented in more detail in CDC Biodiversité. 2024. 'Bridging finance and nature: the role of BIA-GBS and GBSFI in measuring biodiversity-related financial risks'. https://www.cdc-biodiversite.fr/wp-content/uploads/2024/03/DOSSIER-MEB-50-GBS-FINANCE-MD.pdf

Current databases measure exposure to potential impacts and are useful for hotspot screening

A wide range of data is used in off-the-shelf databases and the following paragraphs do not seek to generalise. **Current off-the-shelf databases may for instance include company-specific data while others are driven by more or less granular sector averages**. It is important to highlight that a sector may be very granular, *e.g.* at its finest level, NACE rev 2 distinguishes between "Manufacture of ice cream" and "Operation of dairies and cheese making".

Off-the-shelf databases relying on sector averages can be used for sector-level impact hotspot screening, and they help compare **exposure to impact and risks** for companies. Yet, at their finest level of sector classification, they can be limited in their accuracy if they do not rely on exhaustive physical data. **Such databases mostly cannot be used to identify best-in-class within their finest sector level[3]. In most cases, they thus need to be complemented to build biodiversity funds**.

Similarly, it is necessary to cover the realms or pressures (*e.g.* marine ecosystems, invasive alien species) and elements of biodiversity (*e.g.* species risk of extinction, biodiversity importance) through complementary data sources if they are not covered by existing databases.

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[3] A number of existing databases rely to a large extent on financial data (*e.g.* breakdown of sales by sector and country) to evaluate the impacts caused by companies on biodiversity. Some databases also include company-specific data, and those data can for instance be company-specific greenhouse gas (GHG) emissions and sometimes a few additional datasets for some industries (*e.g.* water withdrawals), covering a limited number of pressures such as the Climate change pressure. Consequently, within the same sector, the differences in impacts between companies will mainly come from the breakdown of the turnover by sub-sector and country. Use cases of companies that share the same breakdown of turnover by sub-sector and country exist but remain uncommon. For databases covering GHG emissions, differences will also stem from Scope 1, 2 and 3 greenhouse gas emissions (and other indicators collected at the company level).

As a side note and independently of the data used in the databases currently available, it is important to understand that **the accuracy and reliability of potential impacts are much greater when they are assessed based on pressure data** (such as land occupation by land use type) **or inventory data** (*e.g.* emissions or water use) **rather than financial data** associated to global or national averages. Pressure and inventory data can be available at the company level, meaning company-specific data instead of sector averages can be used.

In spite of these impact differentiation mechanisms, some of the databases can be **limited for refined intra-sector comparisons** in the sense that two companies that share the same sub-sector and the same countries of activity will mostly have the same impacts for this sub-sector and, only in the cases of databases including specific GHG emissions, be differentiated by their climate performance (and the performance of pressures covered by the other indicators collected at the company level).

Conclusion: raising the bar for biodiversity funds should distinguish metrics (always useful) and tools & databases (limited to some uses), and foster the complementary use of databases, tools and qualitative analyses together

Most current off-the-shelf databases on biodiversity impacts require complementary approaches and analyses to increase their granularity and coverage to allow building biodiversity funds (their improvement in the future may allow them to be used on their own to build funds). For now, they may be considered relevant to be used for the building of biodiversity funds together with other tools and qualitative analyses that ensure satisfying coverage. Current off-the-shelf databases also have other uses such as estimating exposure to impacts for disclosure and for company engagement and assessing transition and physical risks arising from biodiversity loss.

Conversely, **metrics such as Ecosystem Integrity Index (EII), Mean Species Abundance (MSA) or Potentially Disappeared Fraction (PDF) are conceptually sound to measure ecosystem condition and can be used, together with analyses of the other elements of biodiversity, to build thematic biodiversity funds if the impacts thus assessed are based on company-specific data generated for the funds** (and not only based on off-the-shelf databases).

Regulators could thus clarify that biodiversity funds require more quantitative & qualitative company-specific data (reflecting the impacts of their mitigation & conservation policies and actions) **and the coverage of most elements of biodiversity[4]**. The above-mentioned metrics have a key role to play in fulfilling those needs.

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[4] The collection of company-specific data should be prioritised for the most material impacts caused by each company, which can be identified using sector-level impact hotspot screening, among other tools.