Principles for Responsible Banking:
Guidance for banks

UN environment programme | finance initiative

Principles for **Responsible Banking**

Biodiversity Target Setting

Disclaimer

This document is based on discussions and work undertaken in the Principles for Responsible Banking (PRB) Biodiversity working group. It is designed to address the needs of Signatories who have identified biodiversity as one of their significant impact areas within the PRB implementation process. Acknowledgment of contributions does not imply endorsement of this guidance nor of the materials referred to. Working group participation does not imply any liability or commitment to any particular policy or course of action.

Acknowledgments

The content of this document is based on discussions and work undertaken in the Principles for Responsible Banking (PRB) Biodiversity working group:

ABN·AMRO, access, asn bank, Grupo Financiero Banorte, Banque Socredo, BNDES, bradesco, BMO, BNP Paribas, Credit Suisse, Development Investment Bank of Turkey, FirstRand, GLS Bank, HSBC, ING, J. Safra Sarasin, Jyske Bank, Kasikornbank, Land Bank, National Australia Bank, Banque Nationale, NatWest Group, Natixis, Piraeus Bank, Rabobank, SEB, Shinhan Financial Group, Sudameris

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We also wish to acknowledge contributions made by the following contributors and reviewers:

Annelisa Grigg, Global Balance; Gemma James and Ana Lima, PRI; Joseph Power, Thomas Maddox, and Marcelo Lima, CDP; James Spurgeon, Sustain Value; Maxim Vergeichik, UNDP; Onno van den Heuvel, UNEP; Danielle Carreira, World Economic Forum; Nina Seega, Cambridge Institute for Sustainability Leadership (CISL); Niki Mardas, Sarah Rogerson, James Richens, and Helen Belfield, Global Canopy; Richard Lee, Elisa Vacherand, WWF; Samantha McCraine and Siobhan Cleary, Science-based Targets Network (SBTN); Chris Weber (formerly SBTN now Blackrock); Maki Shibatsuchi, Mitusuru Miyasaka, Hirokazu Ikebukuro, Tezuka and Yuuki Sugiyama, MUFG Bank; Chris Smith, Bankers without Boundaries; Helen Temple and Malcolm Starkey, The Biodiversity Consultancy; Odile Conchou, Convention on Biological Diversity (CBD) Secretariat; James Dalton, IUCN.

Suggested citation

UNEP FI and UNEP-WCMC (2021). Biodiversity Target-setting: Guidance for banks (Version 1: June 2021), Principles for Responsible Banking. UNEP Finance Initiative: Geneva.

Summary

The Principles for Responsible Banking (PRB) were developed by the banking industry in collaboration with the United Nations Environment Programme Finance Initiative (UNEP FI). In an era of increased expectations and scrutiny for banks to contribute to achieving the Sustainable Development Goals, Paris Agreement, and other norms and standards set by their customers, investors and society-at-large, the Principles define what it means to be a "responsible bank." There are more than 230 signatories with combined assets of USD $60 trillion from around the world as at publication.

This guidance primer is a resource for implementation to support PRB Signatories in preparing to set portfolio-level biodiversity targets. Version 1 is published (during June 2021), in anticipation of the finalisation of the Convention on Biological Diversity (CBD)'s post-2020 Global Biodiversity Framework later this year in Kunming, and in response to other related developments such as the convergence of 'nature positive' within definitions of 'net zero' ambition in the remaining months until the Glasgow UNFCCC COP.

> **It is expected that in the next 6–12 months there will be agreed global biodiversity goals that give clear targets and allow more harmonised metrics for 'nature positive' portfolios. In concert, in the climate space, a more detailed roadmap for deforestation and nature-based solutions is expected that will allow for banks to converge on this topic also within their 'net zero' strategies.**

Building on the Beyond Business as Usual report released in 2020, this guidance primer takes a practical approach to biodiversity target-setting and is based on the needs identified by PRB Working Group members, acknowledging biodiversity as a key impact area and providing examples, tips and approaches to areas that are absent from existing guidance materials. The specific novel elements are: a potential categorisation for use in a banking context, primed to align to science-based approaches; bank-specific case studies; bank-specific FAQs; sample positive Key Performance Indicators (KPIs); and potential exclusions.

This guidance primer will allow PRB Signatories to prepare to take a systematic approach to setting and achieving biodiversity targets in the context of the Principles, and move towards implementing their public commitment to managing their biodiversity impacts (as well as exposure to biodiversity-related risk, beyond the scope of PRBs). There are many complementary initiatives that will support banks over the coming months and years as well, including the Partnership for Biodiversity Accounting (PBAF), the Align project and the Taskforce on Nature-related Financial Disclosures (TNFD).

UNEP FI encourages continued collaboration by banking leaders to further develop Version 1 into a comprehensive set of guidance. Likely next steps include developing further case studies, defining the cash flows and KPIs in more detail (including real numbers and thresholds), showing the effect on bank returns, quantifying monetary values, and answering questions of whether there is a trade-off if a bank applies biodiversity criteria. UNEP FI will update this guidanceiversity goals are finalised, and as good practice in this space evolves and can be documented.

The Technical Annex is presented separately to allow for more rapid and frequent updating. All feedback on this primer guidance and its annex should be shared with jessica.smith@un.org.

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A. Introduction to the Biodiversity Challenge and Opportunity for Responsible Banks

Biodiversity underpins all economic activities through the provision of a range of ecosystem services, and it is experiencing dangerous and unprecedented declines due to the current model of economic development. The world's ecosystems have declined in size and condition by 47% globally compared to estimated baselines, and the continued degradation of ecosystem services represents an annual loss of at least US$479 billion per year. With recent estimates stating that more than half of the world's total Gross Domestic Product is moderately or highly dependent on ecosystem services, these declines in biodiversity are a signal that action needs to be taken to strengthen the global economy's resilience.

Banks are exposed to multiple types of biodiversity-related risk through their various activities, including risk of default by clients. Working with their client and/or customer base, banks can turn these risks into opportunities by mitigating impacts on and managing investments in biodiversity in a sustainable way, and transitioning to 'nature positive'[1] portfolios.

But what is biodiversity and how can the loss of biodiversity affect a bank's business activities? How can biodiversity be broken down, so that relevance to a bank can be easily identified? A number of terms are associated with the concept of biodiversity including: natural capital, nature, nature positive, ecosystems, and ecosystem services. The difference between each concept, however, is not always clear to the banking community. This guidance includes a detailed definitions section in the Technical Annex and aims to make these concepts more understandable and tangible with regards to banking activities, in the context of delivering on PRB commitments.

1 See section D. Frequently Asked Questions and Weber, C., Stevenson, M. and McCraine, S (2021). "Nature-positive"—an opportunity to get it right—Science Based Targets Network.

What is biodiversity?

Biodiversity is defined in the Convention on Biological Diversity (CBD) as the "variety of living organisms from all sources including, terrestrial, marine and aquatic ecosystems and the ecosystems they are part of. This includes diversity within species, between species and of ecosystems".

Biodiversity loss is inherently linked to climate change and achieving global goals for addressing one cannot go without achieving those for the other.[2] Healthy, biodiverse, and therefore resilient ecosystems play a key role in preventing disruption to society and the markets within which businesses operate. For example, tidal ecosystems like mangroves play a crucial role in mitigating the impacts on human society of extreme weather events such as floods and storms. Restoring and conserving biodiversity is critical for achieving climate mitigation and adaptation, economic welfare and societal well-being. Conversely, climate change impacts on biodiversity will affect its ability to provide crucial ecosystem services upon which many people and businesses depend, such as water and food. In addition, climate change will affect ecosystem stability and resilience, and this is already being seen in agricultural systems that are becoming less resilient to threats such as pests and diseases.[3] As a result, biodiversity loss has become a systemic risk of yet unknown magnitude and there is at present too little action aiming to tackle both the interlinked biodiversity and climate crises.

One way of categorizing nature to approach portfolio target-setting is laid out in the Science Based Targets for Nature Initial Guidance for Business. It looks at the state of nature (species, ecosystems and nature's contributions to people/ecosystem services), the pressures on nature (as defined by IPBES: land/water/sea use change, resource exploitation, climate change, pollution and invasive species) and proposes that these need to be considered across three realms: land, freshwater, and oceans (or terrestrial, marine and freshwater ecosystems). Subcategories of the latter such as Tropical or Temperate Forests, or Coasts provide further clarity to assist responsible banks in identifying key exposures and opportunities.

Other approaches may be appropriate, such as those building on the concepts of 'natural capital' or 'ecosystem services' (see Definitions in Technical Annex). For example, guidance by the Capitals Coalition and the Cambridge Conservation Initiative has been developed to support the integration of biodiversity in natural capital assessments by financial institutions and businesses.

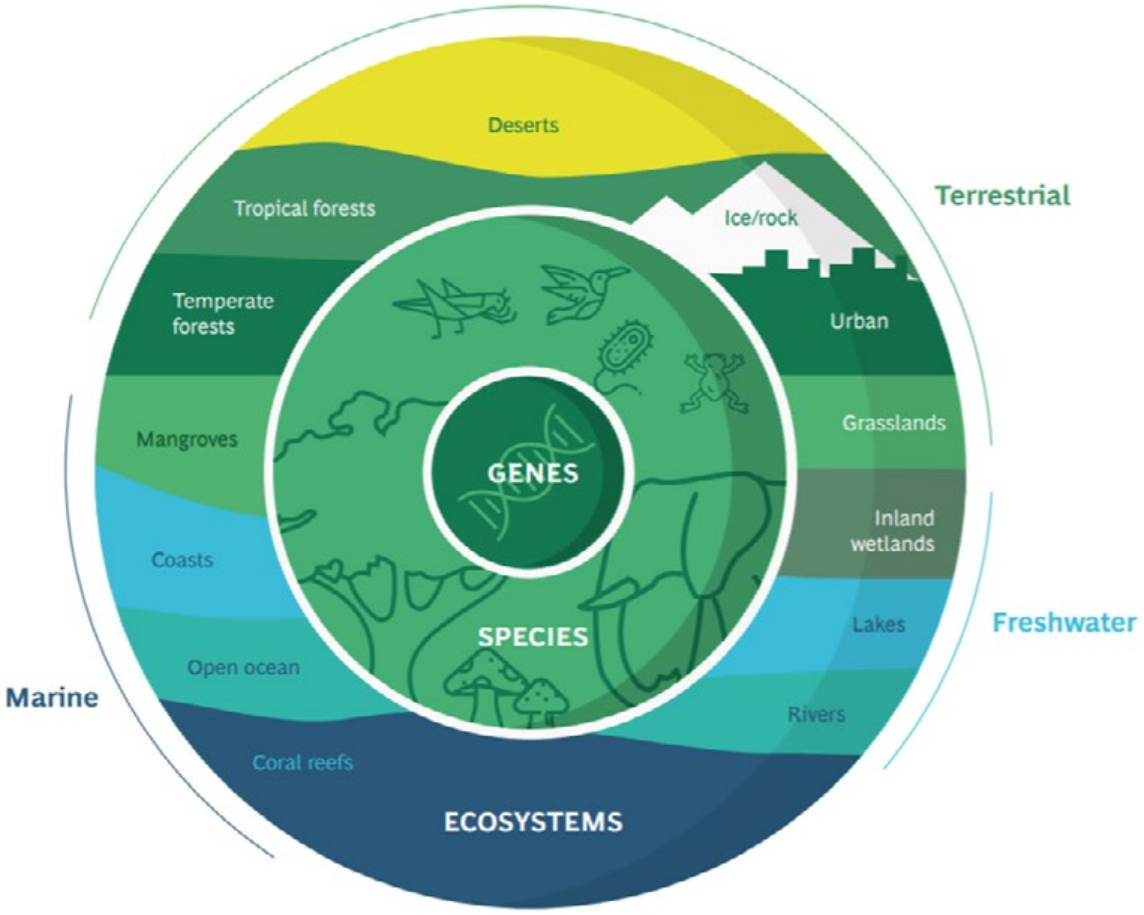
2 This is a key message of the Scientific Steering Committee assembled by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) and the Intergovernmental Panel on Climate Change (IPCC)—the first-ever collaboration between these two intergovernmental bodies. See IPBES (2021). IPBES-IPCC Co-Sponsored Workshop Report on Biodiversity and Climate Change.

3 See IPBES (2019). Global Assessment.

Are we talking about *nature* or *biodiversity*?

Throughout the guidance, the terms 'nature' and 'biodiversity' are both used. Many global efforts for biodiversity including the CBD are increasingly using the term nature or 'nature positive'. This may include consideration of the drivers of biodiversity loss such as climate change or pollution. The PRB impact area is specifically 'biodiversity', and the second version of the guidance will align with the framing of this per the post-2020 GBF. See also the Definitions section in the Technical Annex.

Exhibit 1: Biodiversity Is Defined by the Variability in Ecosystems, Species, and Genes[4]



4 Kurth, T., Wübbels, et al (2021). The Biodiversity Crisis Is a Business Crisis. Boston Consulting Group. Citing IPBES (2019) and other sources.

Role of the Principles for Responsible Banking

The Principles offer unparalleled opportunities for collaboration within the banking sector. Signatories benefit from the collective expertise of the largest community of sustainable bankers globally. By working collaboratively under the auspices of the United Nations, signatories jointly deliver tools, methodologies and practical guidance. These outputs are uniquely positioned to shape global best practice and influence emerging regional regulation.

To develop this guidance, a group of 30 geographically diverse PRB signatories (listed on page 2), collaborated with UNEP FI and UNEP-WCMC with input from the Science Based Targets Network (SBTN). The working group prioritised sample headline targets on important themes highlighting approaches and sectors where banking can make a difference.

Business case for biodiversity targets by responsible banks

The recent State of Finance for Nature report called for closing the USD 4.1 trillion financing gap in nature by 2050, and found currently only 14% of nature-related finance coming from the private sector. Based on data from 30 countries, global investment in biodiversity are estimated at USD 121 billion annually from 2008–2017.[5] Meanwhile, according to the OECD,[6] governments spend approximately USD 500 billion per year in support that is potentially harmful to biodiversity i.e. four times more than total spending for biodiversity. The total volume of finance flows that are harmful to biodiversity (i.e. encompassing all public and private expenditure) is likely to be many times larger. In an increasingly competitive environment, banks are constantly looking for new opportunities for product development and to differentiate themselves in the market to customers. Establishing clear principles and guidance for banks in the biodiversity space is critical to guide that new product development in a way which achieves material results, in line with achieving commitments under the PRB.

Yet so far the financial sector has failed to channel large scale capital into biodiversity (whether conservation, restoration, sustainable use or other objectives). There are several reasons hypothesised why this is the case, including lack of or limited:

- Understanding of biodiversity among banking professionals,
- Assessment of the materiality of biodiversity loss in the context of banking,
- Guidance and replicable practice banks to follow,
- Measurable and road-tested KPIs to be implement on bank and portfolio level, and
- Understanding of the business case behind biodiversity and ecosystem restoration with which to justify a more strategic approach.

5 Seidl, A. et al (2021). Finance for nature: A global estimate of public biodiversity investments.
6 OECD (2020). A Comprehensive Overview of Global Biodiversity Finance.

Part of the picture for implementing biodiversity targets is the establishment of robust measurement, reporting and verification (MRV) processes across the full bank value chain (see Technical Annex). There is also a strong need for streamlined biodiversity-related KPIs in the financial sector. Lessons need to be learnt on "aggregate confusion" around ESG ratings, where the aggregated correlation of ratings is as low as 61% on average.[7] It is not just the correlation, but there are differences in the number of KPIs and their interpretation when translated into a rating score. This creates confusion around the real sustainability score of companies and financial instruments, which can mis-align incentives. To avoid this situation, there is a need for ever clearer guidance for setting and delivering against biodiversity targets and KPIs by banks, even beyond the scope of the PRBs.

Reliable and robust biodiversity data, which is critical for setting strategy and targets, is often not available in a format which can be easily understood by banks, nor in a format upon which banking decisions can be made. Establishing KPIs and targets that are easy to measure, report and verify against and provide robust internal guidance for front office personnel (as well as risk, compliance and legal) are key enablers for scaling flows of capital and delivering products to market. These KPIs, when integrated in financial products, will also have a direct effect on profit and loss for the client and the issuer of the product.

Measurement: Moving from data to indicators

SMART (specific, measurable, achievable, relevant, and time-bound) targets, as mentioned in the post-2020 Global Biodiversity Framework and Principles for Responsible Banking Guidance Document, are essential to underpin the business activities of responsible banks. These must be applicable across the entire bank to achieve alignment. Global biodiversity goals can be used as a North Star for the biodiversity goals of each bank. However, these frameworks were not designed for banks and do not always lend themselves well to alignment with banking functions (see Box: Moving towards science-based targets).

Banks should therefore aim to align their biodiversity targets with global biodiversity goals, as well as relevant national targets and priorities, but be sure to define these according to the bank's own activities. Since national policies and targets reflect the specific priorities of each country, banks operating in a number of geographies will need to adhere to the priorities of each of those countries. Due to the lack of clarity on what constitutes a "good" biodiversity goal, there is a need for a robust internal framework which resonates with the local operating environment, as well as industry benchmarking to ensure the targets are appropriately positioned against peers.

7 Berg, F., Kölbel, J. and Rigobon, R (2020). Aggregate Confusion: The Divergence of ESG Ratings.

Moving towards science-based targets

UNEP FI, and through it the PRB, have joined the Science-based Targets Network (SBTN). The purpose of Science-based Targets (SBTs):

> **Enabling [companies and cities/actors setting science-based targets] to align their efforts with science, to ensure they're doing their part for an equitable, net zero, and nature positive future.**

Science-based targets are determined at two levels: societal ('overall science-based targets') and individual/actor ('specific science-based targets') such as a bank.[8] The two levels are closely connected: individual or actor-level targets are derived based on the disaggregation of societal targets. At either level, a science-based target should display the following characteristics: achievable within a certain time frame, verifiable (preferably in quantitative terms, allowing for measurement over time), and supported by clear rationale (qualitative).[9]

The SBTN's objective is to make it possible for companies and cities to align their activities with the best-available science and the nature-related societal goals set forward in all three of the 'Rio Conventions'—the UNFCCC, UNCBD and UNCCD, as well as those within the 2030 Agenda for Sustainable Development. To begin, they are focusing on those goals which are science-based and most easily translated into targets for individual actors. Science-based targets for nature will also allow actors to align their activities with Earth's limits, as currently defined in the Planetary Boundaries framework. The objective of creating methods that can be used to align with these goals and limits is to enable as many actors as possible to contribute their fair share toward a nature-positive future in which all can thrive.

The basic scope of SBTs for nature, for which SBTN is currently developing methods that actors can use to set targets, are summarized in Exhibit 2 below.

8 Andersen et al (2020). Defining 'science-based targets'.
9 Andersen et al (2020). *Ibid*.

Exhibit 2: High-level target categories for SBTs for nature. How SBTs take aim at the drivers and pressures fueling the degradation of nature, and the state of nature itself[10]

		REALMS		
		LAND	FRESHWATER	OCEAN
PRESSURES ON NATURE	Land/Water/Sea Use Change	Conversion & deforestation	Conversion & drainage	Conversion & dredging
		Habitat fragmentation		
	Resource Exploitation	Land degradation (net primary production, soil carbon)	Water use (withdrawal / consumption)	
		Overexploitation of land resources, e.g. unsustainable logging	Overexploitation of freshwater resources, e.g. fishing	Overexploitation of marine resources, e.g. fishing
	Climate Change	GHG Emissions		
	Pollution	Soil pollution	Water pollution	*Marine pollution*
	Invasive Species & Other	*Terrestrial invasives*	*Freshwater invasives*	*Marine invasives*
		Accidental mortality		
STATE OF NATURE	Species	Species population and abundance, species extinction rates		
	Ecosystems	Ecosystem extent, connectivity, and integrity		
	Nature's Contributions to People	*Various (e.g. pollination, water filtration, food provisioning)*		

SBTs or interim targets can be set	Baseline can be derived	*Data gathering is possible*

The scope of SBTs today reflects the growing recognition in the scientific community that the different environmental impacts toward which companies and other actors contribute cannot be addressed in isolation; there is not enough time, nor enough resources to do so. SBTN recently put forward initial guidance for companies looking to set science-based targets (SBTs) for nature.[11]

While methods are still under development by the Network, ambitious interim targets are highlighted in Exhibit 3 below. The 'topics' against which the targets are coded correspond to the conceptual framework central to SBTN's approach to target setting. This conceptual framework is based on the IPBES 2019 Global Assessment. This landmark assessment identified five categories of human-induced pressure driving the loss of nature globally: land and sea use change, exploitation of natural resources, climate change, pollution, and invasive species. Based on the best available science, it is known that these pressures must be sufficiently abated in order for nature to begin to recover. The current framework covers positive actions in three categories which capture changes in the 'state of nature': species, ecosystems and nature's contributions to people.

The target language in the second column corresponds to SBTN's Action Framework: Avoid, Reduce, Regenerate, Restore, and Transform (AR3T). This framework, based on the mitigation and conservation hierarchies which is broadly accepted as a robust approach for addressing biodiversity by companies, emphasises the need to first prevent new impacts and contain/minimize any existing and unpreventable impacts, before taking positive action to improve the state of nature.

10 Weber, C., & McCraine, S (2020). Science-Based Targets for Nature Initial Guidance for Business.
11 Weber, C., & McCraine, S (2020). *Ibid*.

Topic	Interim target language	Ambition guidance	Indicator
Use Change (Land)	**Reduce** to X by 2030 activities causing deforestation / conversion in your supply chain	**Zero deforestation from 2020 [note date has passed] / Zero conversion of natural habitats in value chain by 2030**; following Accountability Framework Initiative **No net loss of non-forest natural habitats from 2020**; following IFC PS 6	Deforestation / Conversion of natural ecosystems (ha)
Resource Exploitation (Freshwater)	By 2030, **reduce** water use in high water impact parts of the value chain by x%	**Locally dependent;** following Contextual Water Targets	Water withdrawals (m^3)
Climate Change (Cross-realm)	**Reduce** value chain GHG emissions by X% by 2030 [or alignment by temperature rise?]	**>4.2%/year reductions for 1.5°C alignment;** following Science-based Targets Initiative	GHG emissions (tons CO_2e) [or alignment by temperature rise?]
Ecosystems (Land)	**Regenerate** ecological integrity in supply chain by ensuring X% ecological focus areas per km^2 for all sourced agricultural inputs	**10%** per km^2; following European Commission definitions	Fraction of agricultural land in ecological focus areas at 1 km^2 scale (%)

Exhibit 3 Summary that connects SBT targets and indicators to corporate reporting and accounting standards, as well as societal goal frameworks[12]

12 Weber, C., & McCraine, S (2020). Science-Based Targets for Nature Initial Guidance for Business.

B. Step-by-step: Portfolio-wide biodiversity targets for banking

PRB Signatory banks commit to taking three key steps[13] which enable them to continuously improve their impact and contribution to society:

1. Analyse their current impact on the environment, society and their economies. This may include identification of their impacts and dependence on biodiversity where this is relevant to their portfolios. (See Box: 2021 baseline: commitments to biodiversity amongst PRB Signatories)
2. Based on this analysis, set targets in their areas of most significant impact (and dependencies), such as biodiversity, which should include clear implementation plans.
3. Publicly report on progress (based on measurement of the targets), including biodiversity where this is identified as an area of significant impact.

This guidance elaborates on the Beyond Business as Usual report, which comprises a step-by-step approach to target-setting on biodiversity, for example a target of "no net loss" or "net gain" of biodiversity. The following section outlines these steps, highlighting examples that are appropriate for PRB Signatories. It encourages an approach that will create readiness for science-based targets as these methods are developed in the coming years.

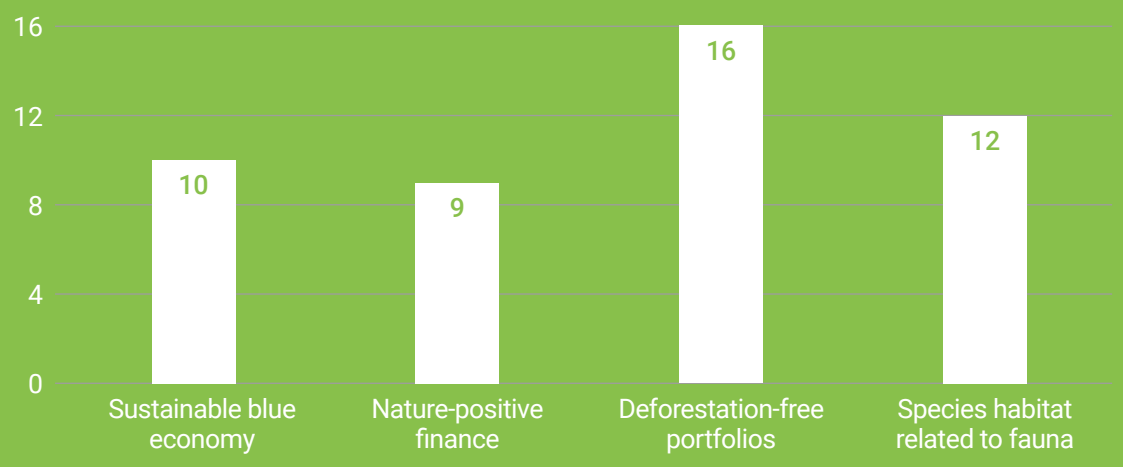
Case studies of the step-by-step approach and FAQs follow, with more detailed materials available for each step in the Technical Annex.

13 PRB (2020). Key Steps to be Implemented by Signatories.

2021 baseline: commitments to biodiversity amongst PRB Signatories

During 29 March to 7 May 2021, Signatories were asked to report on their progress towards implementing the PRBs. This is the first data collection exercise of its kind thus represents a baseline self-assessment of banks (note: the data were not verified by UNEP FI nor by assurance bodies). In total, 203 or 94% of PRB Signatories replied to the survey. Based on applying the Guidance on Impact Analysis, 24 Signatories identified biodiversity as a significant impact area, and a further 6 noted it as an impact area. (For comparison, the equivalent figures for other themes are e.g. climate change mitigation: 152 and 10; financial inclusion 87 and 8; human rights: 36 and 10.)

Of the 30 who identified biodiversity as a (significant or other) impact area, 69% have taken actions to start setting targets, and more than two thirds have signed a pledge for biodiversity or are part of different biodiversity initiatives such as PBAF, TNFD, the ENCORE testing group, Act4Nature or other (see overview of biodiversity and finance initiatives in the Technical Annex for more details). 61% of the banks with biodiversity as an impact area have exclusion or no-go policies in place. From the 30 who identified biodiversity as an impact area, 20% have already set portfolio targets, while 19% are in the process of setting a biodiversity target. Still from the banks that have biodiversity as an impact area, 67% identified having business opportunities from biodiversity, and 20% of banks have developed KPIs to measure their progress in the field of biodiversity through the core banking business. Of the 30 with biodiversity as an impact area, a third to a half have policies related to different aspects of biodiversity in place, on key themes as shown:



1. Analyse exposure to priority sub-industries

PRB banks must firstly analyse and understand their current impacts and dependencies on people and the planet. Within this process, and specifically related to biodiversity, the bank can identify its exposure to the list of high priority sub-industries from the Beyond Business As Usual report to guide its analysis. This enables the bank to identify the sub-industries or production processes to focus on most urgently related to potential impacts and dependencies on biodiversity. The methodology for creating the list below and the relevant sub-industries is explained in more detail in Table 2 from the report. Various biodiversity footprinting approaches can also be used to identify material sectors, for a full overview please see Assessment of Biodiversity Measurement Approaches for Businesses and Financial Institutions: Update 3 report.

Exhibit 4: Highest priority sub-industries based on their potential dependencies and impacts on biodiversity[14]

Rank	Priority from dependencies perspective	Priority from impacts perspective
1	Agricultural products	MArine ports & services
2	Apparel, Accessories & luxury goods	Agricultural products
3	Brewers	Airport services
4	Distillers & vintners	Oil & gas exploration and production
5	Electric utilities	Mining
6	Forest Products	Oil & Gas Storage & Transportation
7	Independent Power Producers & Energy Traders	Oil & Gas Drilling
8	Renewable Electricity	Distribution
9	Textiles	
10	Water Utilities	

2. Materiality of biodiversity-related risk

Using the refined list in Step 1, the bank should prioritise specific sub-industries or production processes that have the highest impact (and dependencies) on the bank's business activities and performance. This process can be complemented by a bank's materiality assessment, based on inputs from relevant stakeholders of the respective bank, helping to identify the sub-industries and production processes that drive the most intense impacts on biodiversity, trends and future business opportunities. Thereby helping to align the three fundamental goals: create impact, reduce risk and generate revenues.

The ENCORE tool can assist with this analysis,[15] as can the University of Cambridge Institute for Sustainability Leadership (CISL) Handbook for nature-related financial risks and material from the forthcoming TNFD.

14 UN Environment Programme, UNEP Finance Initiative and Global Canopy (2020). Beyond 'Business as Usual': Biodiversity Targets and Finance Managing biodiversity risks across business sectors.

15 A more complete explanation of the ENCORE tool can be found in the Technical Annex.

Starting with a focus on one or two material issues may be sufficient and beneficial in the short term to build capacity and learning, but in the long term all material issues should eventually have targets associated with them and actions to implement.

3. Review global biodiversity goals and targets

PRB Signatories should seek out the most authoritative global biodiversity goals and targets to align their core business targets with. From October 2021, it is expected that there will be a post-2020 Global Biodiversity Framework that provides a globally negotiated and agreed roadmap for biodiversity. There may be specific calls to the financial sector for attention to integrate biodiversity into financial decision-making and strategies, assess risks, demonstrate at least decreasing negative impacts of investments in their portfolios, increase the amount of dedicated finance for biodiversity nature positive outcomes, and report on biodiversity risks, impacts, dependencies and financing/opportunities.

A bank can only measure and report on what it can define, categorize and quantify. Having biodiversity-related goals that fit into, and that are supportive of global biodiversity priorities will allow banks to play their part in reversing the loss of biodiversity.

Where biodiversity is an area of most significant impact, PRB Signatories should set a target that addresses the impacts that are related to the priority sub-industries or production processes in their portfolios.

A responsible bank should have i) an exclusion list of activities/sectors to stop financing activities that have too high negative impacts on biodiversity and no transition pathways are possible, ii) a robust due diligence process to manage risks and impacts whenever it finances, and iii) specific targets such as net positive or zero deforestation (in general / overall, and as relevant to each type of ecosystem), and other policies and targets to be defined based on their specific circumstances. Marine, Freshwater and Terrestrial ecosystems that the respective sub-sectors operate in can be used as a categorisation framework (amongst other possible approaches). Responsible banks should focus on mapping a sub-sector level to one or several goals, e.g. the bank could decide to increase business activities in tropical forests within the terrestrial ecosystem. This categorization and focus are valuable tools for banks in target-setting. For example, a bank which analyzes their current business activities within natural capital and chooses a goal of 'deforestation-free' portfolio in temperate forests based on their current asset exposures. This is an overarching target, which will need to be narrowed down to more specific sub-targets based on the sub-sector where the impacts are highest. This is explained in more detail in the next section.

Here the emphasis begins with the exclusion of harmful negative activities from portfolios, and over time improving the bank's engagement with actors and use of its leverage to change the behaviours of their clients. Banks will need to develop their own strategies to increase financing nature positive as well as to reduce finance for nature negative.

4a. Biodiversity Target Setting

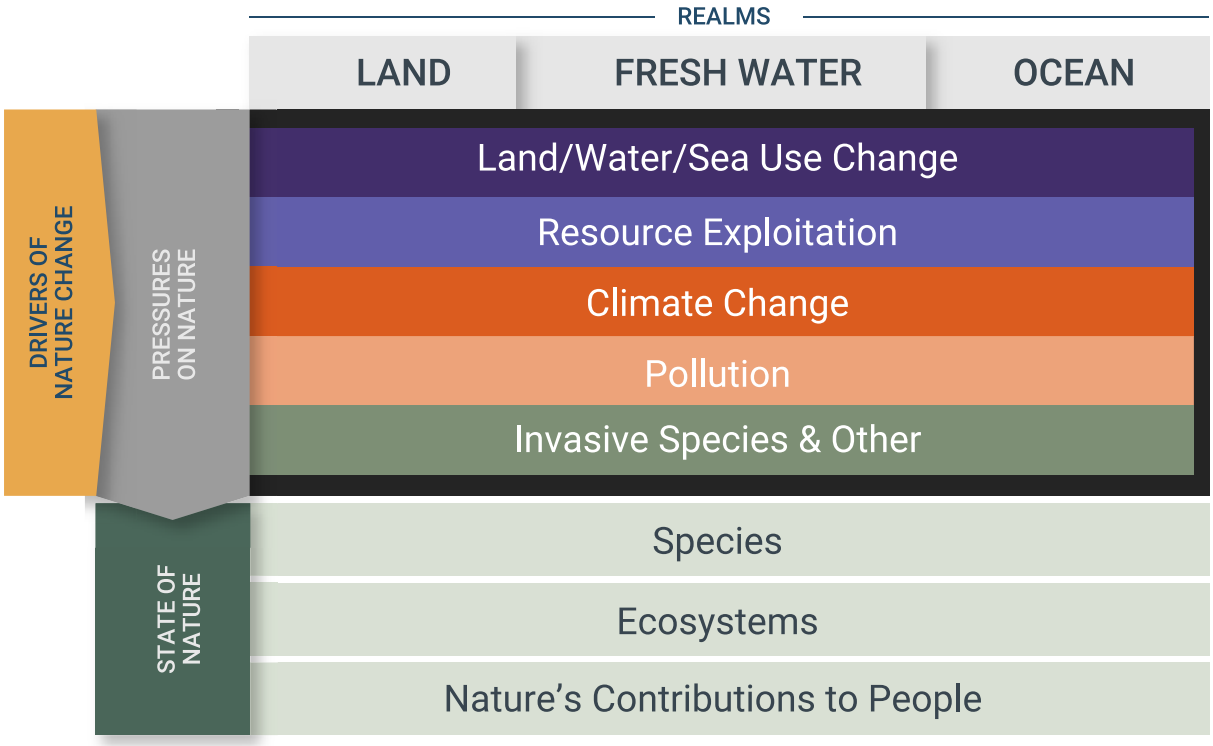
Setting objective, measurable and robust targets is an extremely important part of establishing an efficient and effective biodiversity policy and developing new biodiversity linked financial products.

The defined targets, and in turn, KPIs will have direct and indirect financial impact at an institutional level and subsequently at a product level.

Much like ASN Bank's approach to biodiversity net gain,[16] the use of quantitative targets makes it feasible to track and measure progress.

There are many different measurements and target setting frameworks for businesses and banks relating to biodiversity.[17] The sheer amount of the different potential targets and associated KPIs are relatively high and, when combined with the complexity of the topic, makes it challenging to select the most robust, quantitative and easily measurable ones. Following the post-2020 Global Biodiversity Framework agreed goals and targets, the working group will convene to develop proposals on how to choose the right options. The working group will seek as far as possible to align with and input into the proposed SBTs for nature (see Exhibit 5).

Exhibit 5: The proposed high-level target categories for SBTs for nature.[18]



16 Berger et al (2018). Common ground in biodiversity footprint methodologies for the financial sector, Mission Economie de la Biodiversite.

17 A more detailed table explaining different tools/frameworks can be found in the Technical Annex along with a draft decision tree for businesses to navigate through measurement approaches.

18 Weber, C., & McCraine, S (2020). Science-Based Targets for Nature Initial Guidance for Business.

Clear targets enable a bank to demonstrate intent and have something that is measurable, reportable and verifiable. It will be important to demonstrate clear progress towards achieving the targets set. Relevant targets will require a clear articulation of:

- What do you want to achieve within your biodiversity goal and why do you want to achieve it?
- What indicators will you use to track your progress?
- The resources and capabilities needed to achieve targets
- How the targets are within reach and a clear understanding of the commitment to reach them to avoid greenwashing
- A clear deadline on which you want the targets to be achieved by. For example, 2030 in line with the Sustainable development goals.

Banks may also find the EU Business @ Biodiversity Navigation Wheel (described in the Technical Annex) helpful at this stage.

Example Targets and Corresponding KPIs

The following example targets and KPIs are illustrative of what could be implemented by a bank. Banks should align their targets to global biodiversity goals, then it is up to the bank to implement its own KPIs based on internal policies, materiality assessment and relevant biodiversity goals and targets selected. It is not the aim of this guidance to make recommendations that cover all circumstances or to provide an exhaustive list of KPIs, but a starting point for banks considering the targets and KPIs.

The list below is exemplary and shall show on how a framework can be developed and subdivided into various levels of implementation. The list was discussed across various UNEP departments and with external organisations, e.g. WWF and IUCN.

There is a strong need for an industry-wide KPI directory for biodiversity, ecosystem services and related themes. IRIS+, the generally accepted system for measuring, managing, and optimizing impact, is developing this currently. Another example with a more limited scope is the Land Use Financing—Positive Impact Indicators Directory developed by UNEP and UNEP-WCMC.

Note: The below headline targets are examples only, created by the working group with a limited number of experts as illustrative. They are not necessarily recommendations. Target-setting by banks should be conducted with experts, aligned to good practice, considering the final outcome(s) they may be driving actors toward, and whether there are any potential risks. Assessment or analysis should be conducted to determine how confident the bank is that they will result in the right outcomes.

Ecosystem: Marine (sustainable blue economy)

Examples of Headline Targets

1. By 2030, 100% assets in blue economy portfolio invested in the Sustainable Blue Economy; aligned with SBE Finance Principles EU Taxonomy on Sustainable Finance.
2. By 2025, no loss or degradation of marine and coastal habitats or biodiversity in geographies identified as part of the IUCN Red list of Ecosystems from all direct activities of lending and investment as soon as possible
3. By 2028, no net loss of marine and coastal habitats or biodiversity worldwide from all direct activities of lending and investment as soon as possible.
4. By 2028, 75% of assets in blue economy portfolio invested in the Sustainable Blue Economy; aligned with SBE Finance Principles EU Taxonomy on Sustainable Finance.
5. By 2030, 100% assets in coastal and marine tourism portfolio recognised or in the process of being recognised as sustainable by GSTC-accredited sustainability label

Selected Exclusion Criteria

1. Species being fished, processed or sold are on the IUCN Red List of Threatened Species. (seafood)
2. Non-compliance with MARPOL, IMO, national regulations and best practice for solid and chemical waste/runoff from ports into the sea. (ports)
3. Vessels are exceeding limit values for SOx, NOx, PM, black carbon, and methane according to IMO and MARPOL regulation and best available science. (maritime transport)
4. Development and operation of offshore wind facilities that do not seek to mitigate potential for collisions with birds and bats. (marine renewable energy)
5. Companies featuring destructive wildlife packages as part of their offering to visitors including active (i.e. not in-situ, undisturbed) use of wildlife for entertainment purposes. (tourism)

Selected Nature Positive KPIs

1. Source fisheries are ALL certified or in comprehensive timebound improvement programmes, listed on fisheryprogress.org or certified by a leading – and where possible – benchmarked fisheries standard. (seafood)
2. Spatial management and operational policies in place to protect marine species and IUCN red-listed habitat. (ports)
3. Designing and building ships that are cradle-to-cradle certified. (maritime transportation)
4. Wind farms constructed and operated using sustainable and circular materials, e.g. timber and mitigate risk of animal injury through collision. (maritime renewable energy)
5. Cruise ships operating on alternative, lower-emission fuels, e.g. green hydrogen (tourism)

Suggested Tools

The UNEP FI Blue Economy Guidance provides a practical guide for financial institutions to lead sustainable ocean recovery. Designed for banks, insurers and investors, the guidance outlines how to avoid and mitigate environmental and social risks and impact, as well as highlighting opportunities, when providing capital to companies or projects within the blue economy

Ecosystem: Terrestrial (deforestation/species)

Headline targets

1. Have aligned with deforestation-free analysis and the EU taxonomy by 2025. (note SBTN ambition is 2020; see Exhibit 2 on page 12).
2. Zero conversion of the remaining natural ecosystems, and the avoidance of all related human rights abuses, as defined and following the principles and guidance of the Accountability Framework.
3. Achieve net positive effect on biodiversity by 2030.
4. Increasing the area, connectivity, and integrity of natural ecosystems by at least 30% through clients in your lending portfolio.
5. Environmental Return (ER) target of 5 million hectares of tropical forest protected or restored and a Social Inclusion (SI) target of 500,000 smallholders/households benefiting from the Fund's investments.
6. USD 1 billion new lending to nature-positive clients and/or activities by 2030.

Selected Exclusion Criteria

1. Do not finance customers producing or buying beef or soybeans from land cleared or converted after 2008 in the Amazon.
2. Do not finance any projects or activities with significant impacts on World Heritage Sites, Alliance for Zero Extinction (AZE) areas, or other as deemed appropriate.
3. Do not finance companies involved in unsustainable palm oil harvesting, who use non-local species in reforestation, and/or who engage in the destruction of mangroves.

Potential additional criteria:

- Integrate mitigation hierarchy in ESG policy
- Exclusion of harmful or illegal wildlife trade
- Exclusion of activities that introduce, or increase competitiveness, of invasive species
- Procurement or use of pesticides and chemicals specified as persistent organic pollutants under the Stockholm Convention
- Standardized biodiversity risk and opportunity assessments across the portfolio

Selected Nature Positive KPIs

1. Full traceability of the most significant nature-degrading commodities in portfolio (beef, palm oil and soy, direct and indirect channels) required by 2025, linked to targets and progress.
2. Number of companies with an analysis of the biodiversity or natural capital pollution risk:
   - 100% of new clients covered by the ESG risks tool by the end of 2020.
   - 100% of existing clients covered by the ESG risks tool by the end of 2023.
   - Full disclosure of impact assessments.
3. At least 50% of the bank's lending portfolio is allocated to nature-positive projects
4. Mobilize USD 200 million for blended finance opportunities to fund conservation and sustainable use of biodiversity projects up to 2050.
5. Ensure that 75% of financial transactions are conducted with clients who have publicly disclosed their dependency and impact on nature, aligned with the recommendations of the Taskforce on Nature-related Financial Disclosure (TNFD) once available.

Suggested tools[19]

- ENCORE Biodiversity module (currently covers agriculture and mining sectors)
- IFC Performance Standard 6 and Guidance Note 6 updated in 2019
- Corporate measurement approaches, covered through the Aligning Biodiversity Measures for Business collaboration, including:
  - Agrobiodiversity Index (Bioversity International)
  - Biodiversity Footprint Financial Institutions (BFFI) (ASN Bank, PRé Consultants and CREM)
  - Biodiversity Impact Metric (BIM) (Cambridge Institute of Sustainability Leadership)
  - Global Biodiversity Score (GBS) (CDC Biodiversité)
  - LIFE Impact Index (LIFE Institute)
  - Planetary Boundaries for Investment-Biodiversity (Pictet Asset Management)
  - Species Threat Abatement and Restoration (STAR) (International Union for Conservation of Nature (IUCN))
- European Commission Assessment of Biodiversity Measurement Approaches for Business and Financial Institutions
- IBAT
- Global Forest Watch Pro
- Biodiversity Guidance Navigation Tool
- Trase Finance[20]

Ecosystem: Freshwater

Headline targets

1. Zero pollution:
   - Treat 100% of wastewater to effluent quality levels that meet or exceed relevant regulatory requirements in owned facilities and for suppliers.
   - Release zero hazardous substances into the environment.
2. Limit freshwater abstraction:
   - Achieve zero increase in absolute freshwater withdrawals from a 2020 baseline across the full portfolio.
3. Low-carbon: Adopt low carbon wastewater treatment processes. Reduce Scope 1 and Scope 2 carbon emissions by 40% by 2030.
4. Align with EU Taxonomy
5. Freshwater financing:
   - 1% of AUM go to nature-positive clients and/or activities by 2030.

Suggested exclusion criteria

1. All new finance for water intensive sites in basins facing high or very high water risk require verified (by the Alliance for Water Stewardship) water stewardship plans. Exclude all sites which do not meet the criteria
2. No investment in new hydropower build and operation (CAPEX and OPEX) that (i) impacts on Protected Areas (ii) prevents sediment flows to replenish deltas and maintain hydro morphology of rivers, (iii) is on remaining long, Free Flowing Rivers, and (iv) that emits more than 50 gCO2e/KWh.[21]
3. No finance for public infrastructure that increases pollution and destruction of freshwater resources.[22]
4. Zero conversion of peatlands and wetlands from sourced commodities.

19 The Technical Annex provides a complete list of all the tools with links and references to each.
20 The Technical Annex provides a more detailed case study using the Trase Finance tool.
21 In-line with the CBI hydropower criteria
22 This will be linked to the EU Taxonomy criteria

Suggested Nature-positive KPIs
1. For operations in areas of high and very high water risk, set water targets and publicly report progress. 2. Banks active in severely water stressed areas must publicly report upon efforts and progress to improve water regulations, laws and enforcement with relevant public sector agencies. 3. Increase investment into Nature-based Solutions for Freshwater. 4. Removal of obsolete hydropower dams and barriers to free over 25,000 km rivers by 2030.
Suggested tools
▪ Water Risk Filter, which was developed in collaboration with KfW ▪ Climate and socio-economic scenarios of water risk, which are being utilised by CDC Group ▪ Library of water risk, water stewardship and water targets publications, including guidance on contextual water targets ▪ Global Dam Watch, which is the world's most comprehensive dataset on dams. ▪ Free Flowing Rivers are critical for societies, economies & ecosystems but only 1/3rd of long free flowing rivers remain and many of those are threatened by hydropower.

4b. Business Target Setting

Once Biodiversity targets are set, these need to be translated into business targets for front office staff in order to guide future business and product development activity. These business targets can be a combination of increase in assets, deal volume and/or revenue generation for specific biodiversity goals, or for the launch of new product or asset classes. When setting business targets, a deeper understanding of the risk and revenue profile of transactions is likely to be required as the market for such products matures.

One example would be a new technology which needs to be implemented and tested, and therefore with higher default risk in its early stages. Segregation into bankable and non-bankable co-benefits could make sense in order to assess these opportunities.

5. Adapt Activities and Implement Changes

Banks need to amend working practices, increase knowledge level and capacity, and to develop underpinning policies and procedures in order to enable biodiversity related finance at scale, and to deliver against targets set.

All middle and back-office personnel need to be educated regarding the new policies especially from a risk evaluation perspective as described in step 4. The bank adapts requirements in all business areas (e.g. due diligence criteria), sector-level policies, and strengthens its client/customer engagement procedures to meet its newly set targets. Depending on the type of financing, activities may include screening, disclosure requirements, criteria on environmental impacts, and/or loan conditions for positive biodiversity performance.[23]

23 BBOP (2012). No Net Loss and Loss-Gain Calculations in Biodiversity Offsets.

6. Reporting

The bank publishes its progress report annually, with intended next steps in the coming one to five years. The PRB Reporting and Self-Assessment Template provides the requirements that should guide reporting on target setting. A bank would report on its targets (and other PRB implementation) in the report where it normally reports on sustainability performance. It also must complete the Reporting and Self-Assessment template, providing summaries of its implementation. See pages 5 and 12–14 of the Reporting Guidance Document.

More specific to biodiversity, the Global Reporting Initiative (GRI) has created a biodiversity reporting document that can be used as background for banks who are reporting on biodiversity targets. The creation of Technical Notes 5 of the BBOP Business Roadmap demonstrates how the GRI criteria can relate to no net loss and biodiversity net gain targets.[24] Additionally, the bank should consider the forthcoming recommended framework of the Taskforce on Nature-related Financial Disclosures (TNFD) that will be available in 2023.

24 BBOP (2012). *Ibid.*

C. Case Studies using the Step-by-Step approach

Case studies were highly requested by PRB Signatories in the working group to visualise how these steps can be applied in a banking-specific context. The case studies are not recommended practice or necessarily endorsed as good practice, but provide a visualisation of how the steps can be applied—recognising that practice in this space is in its earliest stages, and will be built upon rapidly in the coming years. UNEP FI will continue to gather material for case studies and update this in the Technical Annex as it becomes available, and latterly in future versions of this guidance.

1: ING on Agriculture

Background

Organization Profile: Global Bank

Step 1: Define Portfolio Sub-Industry and Relevant Principles

Back in 2017, ING was the first bank to link financing to how well a company performs on sustainability. Where 'traditional' green/social/sustainable financing is used to fund projects with clear climate or social benefits, sustainability-linked loans incentivise companies to take action to lower their own environmental impact and improve on other ESG metrics by offering them more favourable loan terms if they meet ambitious, pre-agreed sustainability targets that are explicitly linked to the loan. This sustainable finance product is one of the banks' key mechanisms to work with clients to bring about positive change on ESG topics.

To identify sub-industries with an increased exposure to biodiversity risks, ING trusts on the existing body of literature that already describes biodiversity impacts and in particular ENCORE.

ING currently focuses on one driver of biodiversity loss in particular, which is climate change. The Terra approach enables ING to measure the carbon intensity of specific industry portfolios by using the most appropriate methodology available at a sub-industry level. The Terra approach was designed to provide a precise, forward looking and sector level view on key sub-industries and technologies that underpin a low-carbon future rather than only measure a carbon-rich past. An example of this forward looking, sector level approach is the working group to help decarbonize the steel sector that ING is leading. Together with other banks in the steel industry, ING will define common standards for measuring progress on climate targets, proactively supporting the sector's decarbonisation.

Step 2: Materiality of Biodiversity-Related Risk

For climate change, being one of the main drivers of biodiversity loss, the bank uses its Terra approach to define, and prioritise, the sub-industries in its loan book that are responsible for most greenhouse gas emissions and where the bank has the highest exposure in its lending portfolio. This includes power generation, fossil fuels, automotive, shipping, aviation, steel, cement, residential mortgages and commercial real estate sectors. The bank worked with a global think tank to co-develop climate metrics

in the banking sector called “PACTA for Banks”. PACTA looks at the technology shifts that are needed across certain sectors to slow global warming and then cross-references this against the actual technology clients are using – or plan on using in the near future.

To assess the materiality of other biodiversity drivers in its portfolio, ING is implementing a mix of tools such as ENCORE, BFFI and IBAT. Each tool is in a different stage of implementation within the bank and each tool has its own strength to draw from. These tools broaden the scope of the bank from the climate change driver of loss to other drivers of loss, such as land use change. Combined with internal portfolio data these sources help to form an increasingly clearer picture of where in ING’s lending portfolio biodiversity risks are most material.

Step 3: Review Global Biodiversity Goals

At ING biodiversity is a long-standing topic within the Environmental & Social Risk (ESR) policy framework. Within the framework there is a climate change and environmental section, in which the bank commits itself to helping its clients limit their impact on biodiversity as well as climate change and water stress. Specifically on biodiversity, the bank acts according to the principle that helping clients avoid negative and irreversible impact on biodiversity will reduce risks for the client and for ING. Various goals underpin this principle, such as the goal to achieve 100% RSPO (Roundtable on Sustainable Palm Oil) certification of clients and the commitment to reduce financing to coal power generation to close to zero by 2025.

ING is analysing the feasibility of aligning its own approach with global biodiversity goals and frameworks in order to develop a systemic approach to biodiversity that is in line with global priorities.

Step 4: Targets Setting and Monitoring & Evaluation Framework Setup

Based on the selection of the sub-industry and risk assessment, the bank created a framework of sustainability targets and criteria. These are both quantitative and qualitative and are fed through to front office personnel in order to have an integrated approach towards Environmental & Social Risk management, as well as further stimulating Sustainable Finance activities.

One example of such ambition materializing in which climate and biodiversity came together is the sustainability-linked loan to FrieslandCampina, one of the world’s largest dairy cooperatives. In March 2021, it committed amongst others to reducing the greenhouse gas emissions and making it easier to trace raw materials such as palm oil and cocoa. To be more precise, the KPIs for the loan included (note these are not directly linked to biodiversity):

- Decrease of greenhouse gas emissions on the dairy farms of its member farmers
- Reduction of greenhouse gas emissions in its worldwide production and transport network
- Increasing traceability to source key raw materials such as palm oil, soy, pulp & paper and cocoa

In return, ING will lower interest rates on the €300 million sustainability-linked loan for each year it meets its targets. Third party opinions are used to identify performance against the targets. Improved traceability of raw materials is a vital building block in any biodiversity approach. Within the value chain of these products there are potential risks of deforestation or other forms of land conversion that have a negative impact on biodiversity. Improved traceability is a first step to reduce pressures on nature throughout the value chains. A reduction of greenhouse gas emissions mitigates climate change and therefore also benefits nature.

Step 5: Implement Changes in Business Activities

ING has a systemic approach in place to adopt sustainability throughout its primary and secondary processes. The ESR policy framework ensures transparent choices about how, where and with whom we do business. To keep up to date with new developments, the ESR policy framework is reviewed regularly by the ESR team at ING. This is done with the active participation of internal stakeholders and guidance from external stakeholders such as peers, clients and NGOs. To also grasp sustainability related opportunities, at ING a sustainable finance team works together with sector specialists and clients. A global sustainability team provides the generic sustainability direction and targets, for instance based on interactions with external stakeholders. Together these teams implement the changes in the business activities that drive ING's sustainability efforts.

Step 6: Reporting

ING currently has different ways of reporting on biodiversity-related criteria and is looking with interest at TNFD to provide an encompassing reporting framework. ING has published an annual Terra progress report twice in which it details the progress and targets on climate alignment in the nine sectors making up the majority of direct emissions. By aligning its lending portfolio with the goals of the Paris Climate Agreement, ING makes transparent how it addresses the climate change driver of biodiversity loss. The bank is now working on an integrated climate report, which will include a clear connection between its actions on climate and biodiversity. ING also published its approach to biodiversity on its public website. Transparent reporting provides a foundation for dialogue with clients, civil society and other stakeholders who are interested in the way ING acts on biodiversity.

2: Credit Suisse on Blue Economy

Background

Organization Profile: Globally operating bank with strong investment bank

Step 1: Define Portfolio Sub-Industry and Relevant Principles

Credit Suisse has a bank-wide Sustainability Leadership Committee, chaired by the CEO of the Sustainability, Research and Investment Solutions (SRI) function, and the Chief Sustainability Officer, drives and executes our sustainability strategy, including biodiversity. The Position & Client Risk (PCR) cycle of the Capital Allocation & Risk Management Committee (CARMC) oversees the management of reputational and sustainability risk, which would include risks related to biodiversity. At the Board of Directors (BoD) level, a dedicated Board Sustainability Leader chairs the Sustainability Advisory Committee. They assist the Board in an advisory capacity, fulfilling oversight duties with respect to the development and execution of the Group's sustainability strategy and targets. Furthermore, the Risk Committee of the BoD periodically reviews relevant aspects of Credit Suisse's risk and sustainability framework.

Depending on the internal assessment by the committees there is a definition of sub-industries to focus over a certain period of time.

Step 2: Materiality of Biodiversity-Related Risk

2a) Credit Suisse has an internal materiality assessment tool which is available online for a wider audience. They regularly undertake a materiality assessment in order to identify critical economic, environmental and social issues that may either have a significant impact on the company's business performance or substantively influence the assessments and decisions of their stakeholders. The materiality assessment is based on an ongoing dialogue with stakeholders across all parts of their organization.

2b) The approach helps Credit Suisse to recognize new trends and evolve strategy and financial solutions accordingly, as well as having aligned reporting with the interests and needs of the business and its stakeholders. On this basis, the bank decides on development of new products and initiatives to enable financial flows.

Step 3: Review Global Biodiversity Goals

Credit Suisse engages with stakeholders on defining ways for the financial industry to contribute to preserving biodiversity and the world's natural habitats.

The policies and guidelines of the bank also consider standards developed by international organizations such as the UN and the World Bank. The bank applies the Equator Principles to relevant transactions, as part of our efforts to ensure that any associated environmental and social risks are managed in line with the International Finance Corporation's Environmental and Social Performance Standards (PS), and specifically PS6: Biodiversity Conservation and Sustainable Natural Resource Management.

Step 4: Targets Setting and Monitoring & Evaluation Framework Setup

A strategic working group has identified the need for a far greater understanding of ESG related risks within the Bank's risk management functions. This work stream established the mechanism by which ESGs are included in the overall firm-wide risk framework and the process by which internal governance systems would evaluate risks at a transactional and portfolio level. Overall the same standards needed to be applied for both green and brown assets. The target settings and KPIs are linked to the overarching ESG framework.

Step 5: Implement Changes in Business Activities

The risk management framework of the bank incorporates an assessment of whether a transaction or client relationship under review is in line with the sector policies, relevant industry standards and good practice which are up to date with the latest developments.

Credit Suisse has been active in the conservation finance space for several years, developing and supporting the creation of new, long-term and diversified sources of revenue, including mobilizing private capital to address biodiversity loss and support terrestrial and marine habitat conservation. One of the recognized focuses is expanding the product shelf in the "blue economy".

The bank established the Credit Suisse Rockefeller Ocean Engagement Fund, a listed equity impact fund dedicated to ocean health and supporting UN's SDG 14 "Life below Water". The Rockefeller Asset Management is advising the fund on the basis of fundamental strategy. The fund aims to enforce a change through active engagement with the companies in the fund.

Step 6: Reporting

There are several reports progressing on a periodic basis.

3: Rabobank on Deforestation-free portfolios

Background

Organization Profile: Dutch multinational bank, operating in 44 countries with international focus on food and agriculture

Step 1: Define Portfolio Sub-Industry and Relevant Principles

Rabobank is an international financial services provider operating on the basis of cooperative principles. It offers retail banking, wholesale banking, private banking, leasing and real estate services. As a cooperative bank, Rabobank puts customers' interests first in its services. It serves approximately 8.7 million clients around the world. Rabobank Group is comprised of Coöperatieve Rabobank U.A. (Rabobank) and its consolidated subsidiaries in The Netherlands and abroad. It is committed to making a substantial contribution to welfare and prosperity in the Netherlands and to feeding the world sustainably.

Rabobank has been on the forefront of sustainable finance and pioneering in channeling financial flows towards biodiversity improvement and financing sustainable agriculture and food systems.

Within their Sustainability Policy Framework Rabobank has strong company-wide sector policies for high-deforestation risk sectors and a thematic Biodiversity Policy which aims to mobilize products and services to help clients prevent biodiversity loss from land conversion, notably achieve zero net deforestation by promoting clients in forest-rich countries to protect, enhance and preserve biodiversity and ecosystem services and only convert degraded land for agricultural production, thus discouraging deforestation; Rabobank local policy in Brazil excludes finance to deforestation even where it is legal (as in Brazil certain types of deforestation are—while unsustainable—still legal).

Step 2: Materiality of Biodiversity-Related Risk

Rabobank identifies high deforestation risk geographies and high deforestation risk sectors in its portfolio. For high deforestation risk sectors and where materially relevant, Rabobank applies enhanced client sustainability assessments.Biodiversity risks and impacts are also addressed in client sustainability assessments geared to specific sectors. Increasingly, Rabobank engages its clients on the business opportunities and risk mitigation.

Step 3: Review Global Biodiversity Goals

Rabobank engage with stakeholders to co-create biodiversity solutions such as the:

- Finance for Biodiversity Pledge, whereby financial institutions commit to share knowledge, engage with companies, assess impact, set targets and report publicly by 2024 on the progress of positive and negative impacts of their financing on biodiversity;
- Informal Working Group in preparation for a Taskforce for Nature-related Financial Disclosures, to resolve the reporting, metrics, and data needs that will enable the financial sector to better understand risks, dependencies and impacts on nature;
- Natural Capital Finance Alliance, convened by UNEP FI, UNEP-WCMC and Global Canopy to integrate natural capital considerations into our financial products and services, financial accounting, disclosure and reporting.

Rabobank and fourteen other financial institutions have joined the Partnership for Biodiversity Accounting Financials (PBAF). By doing so, they are showing their commitment to actively pursuing a shared methodology for measuring and reporting the impact of their loans and investments on biodiversity. This allows financial institutions to calculate their biodiversity footprint and take targeted action to restore and protect biodiversity.

Rabobank is part of the Finance for Biodiversity Pledge, which aims to share knowledge, commits to engaging with companies by including biodiversity within ESG policies. Overarching goal is to increase the positive impact significantly, while minimising any negative effects on biodiversity.

Step 4: Targets Setting and Monitoring & Evaluation Framework Setup

Rabobank is quite innovative in implementing measurement, verification and reporting (MRV) in practice, using its client photo tooling. One innovative product example is 'Biodiversity for Dairy Farming' was developed, in which the term biodiversity is operationalised for dairy farming and is a great example of implementing biodiversity related targets and KPIs in practice.

Four pillars arose from this framework: functional agrobiodiversity, diversity of landscape, diversity of species, and regional biodiversity. KPIs were developed with further research into existing databases and surveys. Potential measures, opportunities and action perspectives were further developed together with four agricultural nature management groups.

Step 5: Implement Changes in Business Activities

Biodiversity related targets and KPIs are implemented in Sustainability Linked Loans, Green Bonds and blended finance e.g. Rabobank has been leading the implementation of no-deforestation policies and rules.

Step 6: Reporting

There are several reports progressed on periodic basis.

4. Mitsubishi UFJ Financial Group (MUFG)

Background

Organization Profile: Globally operating bank Asian bank

Step 1: Define Portfolio Sub-Industry and Relevant Principles

MUFG has a strong policies and guidelines in place which have biodiversity references.

- MUFG Environmental Policy Statement
- MUFG Environmental and Social Policy Framework

Step 2: Materiality Assessment of Biodiversity-Related Risk

To select materiality, MUFG utilize guidelines and surveys to identify Corporate Social Responsibility (CSR) issues by looking at trends in the international society, and extract the issues that are most relevant to MUFG. The bank then further refines and selects issues by "Impact on business success" and "Importance to stakeholders." Through these means, the bank has designated three priorities as MUFG's CSR Materiality: "Customers;" "Community;" and "Responsible Finance." This process includes biodiversity related materiality assessment as well.

The findings are reflected in business activity and product development of the bank.

Step 3: Review Global Biodiversity Goals

MUFG supports businesses that protect biodiversity through the provision of products and services. Each group company also takes appropriate measures to prevent negative impacts on biodiversity associated with products and services. The biodiversity goals are aligned with global policies and approaches identified in:

- Paris Agreement
- Recommendations of Task Force on Climate-related Financial Disclosures (TCFD)
- Principles for Responsible Banking (PRB)
- Principles for Responsible Investment (PRI)
- Equator Principles
- United Nations Environment Programme Finance Initiative (UNEP FI)

- Principles for Financial Action for the 21st Century
- CDP (formerly the Carbon Disclosure Project)
- Stakeholder Capitalism Metrics

Step 4: Targets Setting and Monitoring & Evaluation Framework Setup

Under MUFG Environmental and Social Policy Framework, MUFG has identified transactions which are "Prohibited from Financing" and where "Financing is Restricted". Transactions categorized as "Restricted Transactions" are subject to enhanced due diligence in addition to standard due diligence. This is implemented by the department responsible for management of environmental and social risks in each Core Subsidiary. Decisions on financing are made following assessment of the findings of the enhanced due diligence. Biodiversity-related items are as follows:

Prohibited Transactions

- Transactions that negatively impact wetlands designated under the Ramsar Convention
- Transactions that negatively impact UNESCO designated World Heritage Sites
- Transactions violating the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)
- Transactions violating the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)

Restricted Transactions (requires enhanced due diligence)

- Transactions which have impact on high conservation value areas
- Transaction related to new large-scale hydropower plants (i.e. exceeds 15 meters / generates more than 30WM) as they can impact surrounding biodiversity
- Financing for logging businesses, including the development and management of forest plantations, the bank assess the status of such client's consideration for environmental and social impacts.
- Transactions which fund business activities developing and managing palm oil plantations

One example of a transaction with biodiversity linkage is a sustainability linked loan (SLL) THB 12 billion (USD 385 billion equivalent credit facility for a Thai seafood product company (Thai Union Group PCL). Interest rates for SLLs are linked to Key Performance Indicators (KPIs) around sustainability, with achievement leading to the borrower being rewarded with a reduction in interest rates.

Step 5: Implement Changes in Business Activities

MUFG Environmental and Social Policy Framework to manage environmental and social risks associated with financing.

Concerning forestry, palm oil, mining (coal), oil and gas(oil sand, development of the Arctic), and other specific sectors in which concerns are raised over environmental and social impacts, including biodiversity, MUFG has established its finance policy and a due diligence process to identify and assess the environmental and social risks or impacts associated with transactions has been introduced.

Step 6: Reporting

MUFG self-evaluates the implementation status of the Responsible Investment Policy and report annually in accordance with the PRB reporting framework.

D. Frequently Asked Questions

Questions that were heard from the working group are summarised with brief answers as follows:

Question	Brief answer (see detail in Technical Annex)
When should I start? Should we wait for the GBF?	Banks should immediately begin looking to set biodiversity targets where this has been identified as an impact area within the PRB implementation process.
What should be the end-date of my targets?	The end-dates should be as soon as reasonably feasible, taking into account that bending the curve of nature loss requires action before 2030 to take effect. The recommended end-date for deforestation free portfolios is 2025. In some cases, interim targets to 'do no harm' can come ahead of those that are 'nature positive' within their strategies
What does 'nature positive' really mean?	The term 'nature positive' is being used in a range of ways: as an end goal, as things individuals or actors can do, and as the things we can do collectively to create changes in the systems which bind us together. Weber et al (2021) give some essential elements of the recipe of nature-positivity[25] (see also Technical Annex).
Are there better methodologies to measure impact, dependence and performance?	See Technical Annex for detail.

25 Weber, C., Stevenson, M. and McCraine, S (2021). "Nature-positive"—an opportunity to get it right—Science Based Targets Network.

How can our bank choose appropriate metrics?	This is an area of active development for PRB Signatories to monitor and consider how to respond, individually and collectively. Recently, the SBTN, the European Union Business@Biodiversity Platform, and the Finance for Biodiversity Pledge have undertaken a market screening and identified six biodiversity metrics already available for financial institutions to start to understand their portfolio exposure to biodiversity related risks. The ENCORE tool has been upgraded to offer high-level (country-scale) portfolio screening on biodiversity risks for two material sectors (mining and agriculture). WWF Switzerland is developing a biodiversity portfolio risk methodology. Several ESG data and analytics providers are starting to work on nature-related risk data integration. The TNFD will further guide and mature the metrics space in the coming years. More detail on this topic is available in the Technical Annex.
Would it be better to start by encouraging clients to start the process of defining a science-based target?	PRB Signatories should encourage their clients to start the process of defining a science-based targets for nature, however this should not prevent the bank from setting its own targets especially interim targets to remove the most immediately harmful activities.
Can I finance biodiversity offsets as part of a strategy to meet biodiversity targets? What's the difference between a biodiversity offset and a climate offset?	See Technical Annex for detail.

These are presented in more detail in the Technical Annex, which may be updated with additional questions.

E. Next steps and further collaboration

The Principles offer unparalleled opportunities for collaboration within the banking sector. This primer will be built out into more comprehensive guidance once final post-2020 global biodiversity goals and targets are available, other initiatives deliver relevant materials, and as banking practice evolves in this space.

Moving forward, collective initiatives are an important aspect of the implementation of the Principles. They create the space for banks to jointly push beyond current practice and define new standards for sustainability leadership. Some PRB signatories have already committed to “net zero by 2050” yet at least a third of the climate solution will need to come from nature. A collective commitment to nature positive banking would support the delivery of both biodiversity and climate goals in a joined-up approach. This will be considered as a next step in the coming year.

UN environment programme

finance initiative

United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 400 members—banks, insurers, and investors—and over 100 supporting institutions– to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people's quality of life without compromising that of future generations. By leveraging the UN's role, UNEP FI accelerates sustainable finance.

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