New corporate disclosures metrics designed by WWF to help prevent negative impacts of finance on biodiversity and critical ecosystems, including Key Biodiversity Areas (KBA) and UNESCO natural heritage will become mandatory across the EU this year.

**IMPACT**

Awareness about climate-related risks and impacts in finance, and the need for more and better disclosures on the impacts of finance on the environment, has been growing rapidly since the adoption of the Paris Agreement in 2015. But ‘climate-friendly’ was often used as ‘shorthand’ for all environmental impacts and little, if any, attention was paid to the unintended side-effect of finance on nature, biodiversity and the need to protect critical ecosystems, such as, for example, Key Biodiversity Areas (KBA) or the Natural World Heritage Sites recognised by UNESCO.

That’s why WWF worked with the European Commission to help design so-called ‘do-no-significant harm (DNSH)’ criteria to promote the preservation of biodiversity and ecosystems through Europe’s sustainable investment framework (also referred to as the “EU-Taxonomy”).

The new rulebook, adopted in 2020, will have far-reaching consequences on the way companies in the EU, and beyond, have to disclose environmental information: starting this year, more than 50,000 major companies in the world (including non-EU companies after 2028) will have to report each year on the share of their ‘green’ revenues, their ‘green’ operational and capital expenditure that meet environmental performance criteria. As a result, investors will be required to conduct due diligence on biodiversity and ecosystems, including an assessment of impacts on KBA and UNESCO World Heritage Sites for almost 60 relevant sectors.

This will provide environmentally-minded investors with much better, more detailed and more reliable data on the ‘greenness’ of European companies and shed light on how, and to which extent the money earned, spent, or invested by these companies contributes to environmental sustainability.
Unintended side effects on biodiversity and ecosystems: a blindspot in sustainable finance

When WWF started to work on sustainable finance in 2016, the fast-growing markets for ‘green- and climate bonds’ were dominated by relatively flexible international process guidelines allowing companies to self-label their financial products as ‘green’. International market standards were self-regulated by the industry, with a notable exception in China, and the only robust international standard and certification scheme that existed at that time was almost exclusively focused on climate change.

At that time, the words ‘climate-friendly’, ‘green’ or ‘sustainable’ were equivocal terms that were often used interchangeably by finance professionals as ‘shorthand’ to describe climate-friendly financial instruments. Nature-related impacts were the ‘blindspot’ of most practices and little, if any, attention was paid to environmental impact other than climate. The use of due-diligence to prevent unintended side-effects on nature, and biodiversity was by no means common practice. Reliable data on environmental impact assessments practices to protect critical ecosystems was hard to find.

WWF argued that ‘the booming green bond market ran the risk of having its reputation tainted by issuances that fund controversial assets’, and that nature-related impacts should also be addressed. For example, under the prevailing self-labelling practices, an investments in offshore wind energy production in, or around protected areas, or even UNESCO World Heritage Sites, could be easily labelled as ‘green’ in spite of potentially disastrous effects on nature, exposing investors to accusations of ‘greenwashing’ and putting the credibility of the emerging sustainable finance market at risk.

The need to define what is green and what is not so green in sustainable finance in a scientific way

In response to growing controversy around ‘what is green and what is not’, debt capital market participants including issuers, underwriters and investors of bonds had come together under the ‘Green Bond Principles’, an industry-led platform convened by the International Capital Markets Association (ICMA), to provide market guidance for the fast-growing green bond markets. Over the years ICMA had become the dominant standard-setter in the industry with more than 95% of the market applying the Principles. However, ICMA made it also very clear from the beginning that it was the role of governments, not ICMA, to define what is green and what is not. As Tanguy Claquin, Vice Chair of the ICMA Executive Committee put it in a webinar organised by WWF: ‘...I think we need a helping hand from the regulators. There is a question of transparency and there is a question of defining what is green [for these markets]’.

WWF worked with all leading international standards-setters to develop effective & credible standards

This is why WWF worked with all leading international standard-setters, including ICMA, the International Standards Organisation (ISO), the European Commission and the Chinese government, to clearly define what can be deemed a ‘green’ through a robust investment framework (also called ‘taxonomy’) including sector-specific investment criteria, metrics and thresholds.

“I fully agree with [WWF]: I think we need a helping hand from the regulators. There is a question of transparency and there is a question of defining what is green [for these markets]”

Tanguy Claquin, Vice-Chair of the Executive Committee, ICMA Green Bond Principles & Global Head of Sustainable Banking, Crédit Agricole CIB, September 2021

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4 i.e., the Climate Bonds Standard (CBS), purveyed by the UK-based international NGO Climate Bonds Initiative (CBI).

5 Green and Social Bond Principles, convened by the International Capital Markets Association (ICMA), provide market guidance to allow raising money on capital markets through bonds to self-label their securities as green, social and sustainable bonds.

6 According to ICMA, 98% of sustainable bond issuers internationally reference the Principles, which have become the voluntary global standard of the market: ICMA AGM July 2022

7 Can debt capital markets save the planet? An Environmental Finance and WWF webinar, 30 September 2021, available online on-demand.
The EU-taxonomy, an influential investment framework for sustainable finance mandated by European law

WWF’s took advantage of an ambitious reform agenda initiated by the European Union in 20169 to ensure environmental issues, beyond climate, were better addressed. By working with the European financial market regulators as a member of EC-mandated expert groups over 4 years10 WWF was able to co-author recommendations for an ambitious suite of policy reforms, including the development of a government-led sustainable investment framework, or ‘EU-taxonomy’, intended to provide market clarity on what is green and ‘environmentally sustainable’. Through these fora WWF also actively promoted the idea that regulatory and voluntary standards11 should mandate due diligence procedures to assess and disclose impacts on biodiversity and ecosystems, in particular for assets in countries where environmental governance, legislation systems and institutional capacity are not robust enough to protect the natural environment12.

EU policy-makers took WWF’s ideas on board and adopted a far-reaching EU Action Plan on Sustainable Finance in 201813. The same year the EC started to develop a regulated EU-wide investment framework, a dictionary-style tool to provide investors with guidance to identify investment opportunities that promote environmental sustainability. The EU-Taxonomy was born! (see boxed text below).

The EU-Taxonomy: Put simply, it’s a dictionary-style tool detailing specific business activities that are considered as environmentally-friendly by the European Union

A sustainable taxonomy is a classification system to help investors understand whether an economic activity is environmentally or socially sustainable and navigate the transition to a low-carbon, nature-positive inclusive economy.

The purpose of a sustainable taxonomy is to set a common language between investors, issuers, project promoters and policy makers, and to help investors assess whether investments meet robust science-based sustainability standards and are aligned with high-level policy commitments. It recognises as ‘green’, or ‘environmentally sustainable’, economic activities that make a substantial contribution to at least one of the EU’s climate and environmental objectives, while at the same time not significantly harming any of these objectives such as biodiversity or the protection of ecosystems (i.e., ‘do-no-significant harm’) and meeting minimum social safeguards.

Sources: Investor briefing: EU sustainable finance taxonomy, UN-PRI, 28 April 2022 & Frequently Asked Questions (FAQ), EC website.

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10 WWF served on three EC-mandated expert groups: the High Level Expert Group on sustainable finance (2016-18), the Technical Expert Group (TEG) on Sustainable Finance (2018-20) and ultimately the Platform on Sustainable Finance (2020-22). At the international level WWF also became a formal member of the International Capital Markets Association (ICMA) in 2016. WWF was subsequently appointed as a member of an international working group convened by the International Standards Organisation (ISO) and hosted its first meeting in 2017. WWF also worked with the Keynan Sustainable Finance Initiative Supporting the Green Economy Strategy and Implementation plan and was appointed into the National Multi Stakeholder/sector Steering Committee by the government and provided partial funding to the process.
11 This article focuses on mandatory disclosures. Since 2018 WWF is also actively promoting voluntary nature-related disclosures through the Taskforce on Nature-related disclosures (TNFD), which was set up in 2021 with support of WWF (see: Into the Wild, Integrating nature into investment strategies, WWF & Axa, May 2019).
12 Also referred to as ‘designated countries’ by the Equator Principles.
13 Action plan on financing sustainable growth, European Commission, 8 March 2018.
Environmental performance criteria designed by WWF to help prevent negative impacts of finance on critical ecosystems and biodiversity

The EU-taxonomy includes, among others, sector-specific criteria for positive impacts on biodiversity and ecosystems protection, as well as ‘do-no-significant harm criteria (DNSH)’ aiming to avoid unintended negative side effects on critical ecosystem, such as, for example or Key Biodiversity Areas (KBA) or the Natural World Heritage Sites recognised by UNESCO. These generic DNSH criteria\(^{14}\) which now apply to 58 out of 88 activities (68%) with ecosystems-related criteria included in the EU taxonomy were initially developed by WWF for an ISO standard in 2018 on the basis of international standards\(^{15}\). They were subsequently promoted by WWF as part of the EC-mandated Technical Expert Group in 2019. They were eventually adopted with some minor revisions by the European Commission and became EU law in December 2021. Eventually, they will trigger more comprehensive investor due-diligence on biodiversity/ecosystems across the financial services value chain.

However, the actual level of ambition of the rulebook will hinge on the robustness of the ‘EU-taxonomy’, which currently is a source of serious concern. For example, in some instances technical proposals with solid scientific evidence made by WWF and other NGOs have been overruled to suit vested national or industry interests (e.g., inclusion of gas and nuclear in the EU taxonomy\(^ {16/17}\) or weak criteria for certain activities\(^ {18}\) such as forestry or bioenergy). This has significantly tarnished the reputation of the standard that the EU had initially intended as the world’s leading “gold standard” for green finance with relevance beyond Europe.

Far-reaching knock-on effects on the EU-wide rulebook for nature-related corporate disclosures and due diligence, beyond European debt capital markets

The EU-taxonomy investment framework will also have far-reaching consequences on the way companies in the EU, and beyond, report on their nature-related impacts: under the EU’s new disclosure rulebook, more than 50,000 major companies will have to report on the share of their ‘green’ revenues as well as their ‘green’ operational and capital expenditure that meet these DNSH criteria, starting as early as in 2023 for approximately 11,000 European companies\(^ {19}\). DNSH disclosures will ultimately help identify, mitigate, and hopefully prevent negative impacts of finance on critical ecosystems and biodiversity in the future.

The race for a global ‘gold standard’ - impacts of the EU’s leadership in sustainable finance beyond Europe

The idea of regulatory guidance on what constitutes a green investment, and the EU’s ambition to develop an international ‘gold standards’ for sustainable finance has now developed into a veritable “Taxomania”, with numerous taxonomies in development around the world\(^ {20}\), and others seeking to align with international definitions, or at least strive for harmonisation. The Chinese government, for example, has revised and streamlined its green definitions in April 2021 and released a new rulebook in July 2022\(^ {21}\), aligning more closely with international standards and taking into account international best practice (e.g., excluding coal). WWF China now engages with the Chinese government to develop a blue/oceans taxonomy. WWF Hong Kong is engaged with market participants to facilitate the application of the Common Ground Taxonomy as well as the establishment of a green taxonomy framework for Hong Kong.

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\(^{15}\) i.e. requirement to conduct environmental impact assessments (EIA) modelled after by the International Finance Corporation’s PS6 standard, which is also applied on a voluntary basis by international banks that are signatories to the Equator Principles, a financial services industry benchmark for determining, assessing and managing environmental and social risks in projects.

\(^{16}\) This is not over yet - WWF will not rest until the Taxonomy is truly green, WWF Europe, July 2022.

\(^{17}\) EU Lawmakers Remove Last Hurdle to Label Gas, Nuclear as Green, Bloomberg News, 6 July 2022.

\(^{18}\) Open Letter to the Commission Asking for Removal of Forestry and Bioenergy from the Current Climate Taxonomy Delegated Act, Brussels, 9 April 2021.

\(^{19}\) Reporting requirements will apply for European companies as of 2023, and 5 years later to companies outside that have important business ties to the EU. EU finally require businesses’ transparency on their harmful environmental impacts, WWF-Europe.


\(^{21}\) The China GBPs were recently published by the China National Association of Financial Market Institutional Investors (NAFMI) and the China Green Bond Standard Committee – which is also backed by the People’s Bank of China (PBoC) and the China Securities Regulatory Commission (CSRC) – and were broadly aligned with the Green Bond Principles administered by the International Capital Market Association (ICMA), see: China green bond principles important but imperfect, Environmental Finance 25 August 2022, and Labelled bonds to drive China green debt market as harmonisation continues, S&P Global, July 2022.
A “common language” for sustainable finance to eliminate confusion and greenwashing, thus improving confidence in the market and helping investors look at investment opportunities through a “green lens”

These underlying standards, definitions, and taxonomies are now beginning to create a ‘common language’ for responsible and sustainable investments globally, becoming a universal set of definitions of what qualifies as a ‘green investment’. And they are being applied by a broad range of issuers of debt securities, including sovereign governments. Indeed, governments have played an increasingly important role in amplifying and accelerating market growth and tightening of standards through signalling effects since the first sovereign government issued a bond labelled as green in 2016 (See: WWF’s impact story #3: Greening Sovereign Debt Capital Markets).

As of 2023, these new taxonomy-based standards and disclosures will provide environmentally-minded investors with much better, more detailed and more reliable data on the ‘greenness’ of European companies and shed light on how, and to which extent the money earned, spent, or invested by these companies contribute to environmental sustainability.

In practice this new legal requirement means that every single company that raises funds on European capital markets or generates significant business in the EU will have to look at its business models through a ”green lens” and disclose data on its alignment with the EU taxonomy.

“The use of these standards is aimed at eliminating confusion and greenwashing, thus improving confidence in the market. This, in turn, should not only result in greater investment and investor confidence, but deliver more environmental benefits as well”


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22 EU rules on non-financial information apply to all large companies and all companies listed on regulated markets. After 2028 it also applies to non-European companies generating a net turnover of €150 million in the EU and which have at least one subsidiary or branch in the EU, see: New rules on corporate sustainability reporting: provisional political agreement between the Council and the European Parliament, June 2022.

New mandatory corporate disclosures metrics designed by WWF to help prevent negative impacts of finance on critical ecosystems and biodiversity enter into force across the EU in 2023

The EU-taxonomy investment framework, intended as the ‘gold standard’ for sustainable finance, includes, among others, sector-specific ‘do-no-significant harm’ criteria (DNSH). These criteria will help prevent unintended negative side effects on critical ecosystems, such as, for example, Key Biodiversity Areas (KBAs) or the Natural World Heritage Sites recognised by UNESCO. These generic DNSH criteria developed by WWF now apply to 58 out of 88 activities (68%). They will trigger more comprehensive investor due-diligence on biodiversity and ecosystems across the financial services value chain.

50 000 major companies will have to assess and disclose unintended side-effects of their activities on biodiversity and critical ecosystems according to mandatory corporate disclosures metrics designed by WWF

The EU-taxonomy will also have far-reaching consequences on the way companies in the EU, and beyond, report on their nature-related impacts: more than 50 000 major companies will ultimately have to meet these DNSH criteria, starting as early as in 2023 and including non-EU companies after 2028. In practice these new legal requirements mean that every single company that raises funds on European capital markets or generates significant business in the EU will have to look at its business models through a ‘green lens’ and disclose data on its alignment with the EU taxonomy.

Prescriptive, taxonomy-based standards with tighter definitions for a US$ 3 trillion ESG bond market are becoming available

Global debt capital markets for securities labelled as ‘green’ or ‘sustainable’ have reached US$3 trillion in 2021, representing more than 13% market share of annual issuances in 2022, and are set to grow to US$1 trillion by 2025 (i.e., a 17% market share). 10% of that labelled market (US$296.3 billion) are bonds which have funding earmarked, among others, at least one biodiversity goal. International standards for these markets have shifted from relatively lax, principle-based process guidelines available since 2016 to more prescriptive taxonomy-based standards. These ESG bond markets will be the first to consider adopting these new definitions, e.g., by adopting the European Green Bond Standard agreed in March 2023, which ambitions to become the ‘gold standard’ for global green bond markets (see: Impact story #2: Leveraging the power of debt capital to help save the planet).

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45 Reporting requirements will apply for European companies as of 2023, and 5 years later to companies outside that have important business ties to the EU. EU to finally require businesses transparency on their harmful environmental impacts, WWF-Europe,
46 EU rules on non-financial information apply to all large companies and all companies listed on regulated markets. After 2028 it also applies to non-European companies generating a net turnover of €150 million in the EU and which have at least one subsidiary or branch in the EU: EU to finally require businesses transparency on their harmful environmental impacts, WWF-Europe.
47 EU rules on non-financial information apply to all large companies and all companies listed on regulated markets. After 2028 it also applies to non-European companies generating a net turnover of €150 million in the EU and which have at least one subsidiary or branch in the EU: EU to finally require businesses transparency on their harmful environmental impacts, WWF-Europe.
48 Research by HSBC quoted in HSBC: COP15 will see more green bonds focus on biodiversity, Environmental Finance, 2 September 2022.
49 EU agrees on long-awaited rulebook for ‘green’ bonds in an attempt to fight greenwashing, March 2023.