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POLLINATION

Nature for Boards: *A primer*

PRACTICAL GUIDANCE

IN COLLABORATION WITH

Chapter Zero
The Directors' Climate Forum

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Pollination is a global investment and advisory firm focused on climate and nature. It designs, builds and invests in climate and nature solutions to accelerate the transition to a net zero, nature positive future. Established in 2019, Pollination has brought together a global team of over 200 leading experts from across the climate and nature ecosystem; spanning finance, investment, technology, business, law, policy and science. Leveraging unique market insights, it supports clients to navigate the transition, and designs investment platforms and funds to meet investor needs and deliver real impact.

Chapter Zero, the Directors' Climate Forum, is a global centre of excellence for thought leadership working in partnership with the Climate Governance Initiative. We work with directors and chairs to integrate climate into business strategy. With over 3,000 members, Chapter Zero is represented on the boards of over 80% of the FTSE 100 and 75% of the FTSE 250. Through expert-led curation, convening and community building, Chapter Zero's purpose is to equip and inspire non-executive directors with the tools, knowledge and capabilities needed to ensure that climate is a strategic priority in boardrooms. Our events and publications programme brings the latest thinking on climate to our members.

Korn Ferry is a global organisational consulting firm, bringing together strategy and talent to drive superior performance for our clients. We work with clients to design their organisational structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward, develop, and motivate their workforce. We help professionals navigate and advance their careers.

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Board Summary

Companies and their directors are increasingly familiar with climate risks and opportunities. Still, the role of nature is often overlooked in terms of its contribution to climate change mitigation and as a commercial risk (and opportunity) in its own right. Nature is not only an enabler of net zero through its critical role in carbon sequestration and emissions reduction, but integrating nature and investing in it represents a significant and essential opportunity for businesses to secure long-term value and resilience.

Bringing nature into the boardroom conversation will support non-executive directors (NEDs) and board members to discharge their duties to the company in relation to nature. This should include assessment and evaluation of risks and strategic opportunities, including by understanding the following related key issues:

- **Material financial risks:** The degradation of nature is increasingly understood to be financially material for many businesses, with risks arising from both impacts and dependencies on nature. These can manifest as physical risks (such as disruption to supply chains due to increasing nature-related hazards, including water scarcity and extreme weather events), transition risks (such as changing market and regulatory expectations), and systemic risks (such as breakdowns of financial or natural systems). For example, at the national level, damage to the natural environment has been linked to a potential 12% reduction in UK GDP by the 2030s – larger than the hit to GDP from the global financial crisis or Covid-19.[1]
- **Legal and regulatory risks:** As one example of a transition risk particularly relevant to directors, recent legal opinions highlight that in some jurisdictions company law directors' duties include, at the least, the responsibility to identify the company's nature-related dependencies and impacts, as well as consider the potential risks these might pose to the company. In some cases, they also require directors to take mitigation actions accordingly. Failure to do so may expose directors to claims that they have acted in breach of duty.[2] There are also significant emerging stakeholder and regulatory pressures to respond to nature-related risks.
- **Business resilience:** Mapping and mitigating risks arising from impacts and dependencies on nature along and beyond the value chain can increase business resilience by ensuring that supply chains remain secure and the business remains insurable, potentially warding off increased premiums.[3] Intact ecosystems can also provide natural resources critical for supply chains and support additional benefits, often being as effective as "grey" engineered infrastructure in mitigating disaster risk.[4]
- **Value enhancement:** Nature also presents business opportunities. Integrating natural capital and approaches that support positive outcomes for nature into businesses' assets and strategies can open new markets and drive innovation. The World Economic Forum has predicted that globally a nature positive economy could represent $10 trillion in business opportunities by 2030.[5] In addition, nature-aligned investment portfolios and strategies may help reduce exposure to financial risks associated with nature loss. As such, forward-thinking, nature-aware businesses may have leading-edge potential in the marketplace.
- **Talent acquisition:** Businesses seeking to align with the global movement towards nature positive approaches may not only attract new investors and customers, but can also be on the front foot for talent acquisition and retention in line with growing demand from the workforce for proactive strategies regarding climate and nature.[6]

Recognising that NEDs play a critical role in integrating nature-related risks and opportunities into corporate governance, this primer provides an understanding of future-facing leadership and offers practical guidance for boards regarding how to exercise their role effectively when it comes to nature.

1. Green Finance Institute, Assessing the Materiality of Nature-Related Financial Risks for the UK (2024).
2. Shivji and Stubbs, Nature related risks and directors' duties under the law of England and Wales (2024) (UK); Hartford-Davis and Bush, Nature-related risks and directors' duties (2023) (Australia); Wildner., A. and Dolmans, M., Sustainable Fiduciary Duties - The time has come for financial fiduciaries to adapt to the new climate reality, Net Zero Lawyers Alliance (2024) (investor fiduciary duties).
3. Howden and Pollination, Through the Wilderness: The Role of Insurance in Unlocking Nature Finance (2024).
4. Vicarelli, M., et al., On the cost-effectiveness of Nature-based Solutions for reducing disaster risk, *Science of the Total Environment* (2024) 947; The White House, Opportunities to Accelerate Nature-based Solutions (2022).
5. World Economic Forum, New Nature Economy Report II: The Future of Nature and Business (2020).
6. Freshminds, How sustainability and talent acquisition are linked: The future of work is green (2023).

1.
What does future-facing governance & leadership look like?

As the world grapples with the twin crises of biodiversity loss and climate change, future-facing governance and leadership will see companies evolving to respond to market and regulatory expectations. To assist directors in discharging their duties and complying with the evolving regulatory landscape, directors can adopt governance practices that are forward-looking, adaptive, and appropriately address nature-related risks and opportunities as a financial consideration.

- **A fundamental shift in mindset is required.** Directors and executives must move beyond viewing nature as a peripheral concern or non-financial externality and recognise it as a core business issue that is directly linked to financial performance. This requires embedding climate and nature into many aspects of corporate strategy, from investment decisions and supply chain management to product development and marketing. Leaders must be equipped with the knowledge and skills to navigate the complex and interconnected challenges of nature-related risks and opportunities, as well as increasingly demanding regulatory requirements. In some instances, this will include investment in nature-based solutions and natural capital.
- **Capacity building is crucial for boards to effectively discharge their functions.** This includes understanding a base level of the science of biodiversity and nature, the legal and regulatory frameworks, the financial implications of ecosystem decline, and the opportunities faced by their companies. The Accountability Accelerator, AccountAbility, and the Climate Governance Initiative have jointly published a helpful resource to support boards to navigate the various guidance materials available: Board Pocket Guide: Nature and Climate Action (2024).[7] Boards should ensure they are diverse, curious, and active, with access to a range of expertise, including environmental science, law, finance, and stakeholder engagement.
- **Future-facing leaders must be multilingual across a number of core intersecting business issues**, such as nature, climate, cybersecurity, artificial intelligence, diversity, and economic uncertainty. They must be willing to challenge the status quo, take bold actions, and lead by example. This includes setting ambitious nature strategies and targets, investing in nature, and collaborating with supply chain partners, investors, governments, and civil society to drive systemic change.
- **Transparency and accountability are key pillars of future-facing governance.** Companies and their boards must be transparent about the financial risks arising from their impacts and dependencies on nature, as well as the steps they are taking to mitigate them. Stakeholders, including investors, customers, regulators, and employees, are increasingly demanding greater and more consistent disclosure of nature-related risks. Regulators and accounting standards bodies globally are working to respond to this demand, resulting in a proliferation of sustainability reporting requirements globally.

7. Accountability Accelerator, AccountAbility, and the Climate Governance Initiative, [Board Pocket Guide: Nature and Climate Action](#) (2024).

There are key questions that NEDs can use to prompt boardroom discussion and raise the level of understanding with respect to the nature-related risks and opportunities facing the company. These include:

1. Have we identified the nature-related impacts and dependencies relevant to our company, including whether these create risks or opportunities for the business or other key stakeholders?
2. Have we properly assessed and evaluated the company's exposure to nature-related risks, including to form a view as to whether these are material to the company?
3. What steps have we taken, or should take, to ensure that the executive and the company are managing or mitigating material nature-related risks?
4. Have we integrated nature into our strategy and evaluated opportunities for the company to create shareholder value and business resilience through nature positive aligned approaches?
5. Are we meeting our disclosure expectations regarding nature-related risks?
6. Have we properly documented our consideration and actions regarding nature-related risks?

The Recommendations of the Taskforce on Nature-related Financial Disclosures can be a helpful framework in approaching these questions. Chapter Zero and The Green Finance Institute have published instructive guidance on this topic: Taking TNFD to Your Board (2024).[8]

> A Board should know the impact of its decision making on nature and the natural environment. For some companies it ought to be obvious before it is mandatory. There will be dependencies on natural systems, vulnerabilities and non-linear risk in supply chains and there will be consequential harm to the natural world upon which we all depend which will be discounted or left to the public purse to pay for unless a board properly attends to its fiduciary responsibilities. Now we have a new set of expectations to deal with in TNFD, CSRD and ISSB standards to apply to reporting, new interpretations of existing corporate law and much more data on what nature loss is doing to make us all less resilient. Step one is to take the issue seriously and get informed."

JAMES CAMERON

Non-Executive Director at Octopus Renewables Infrastructure Trust (ORIT) and Senior Advisor at Pollination

8. Chapter Zero and The Green Finance Institute, Taking TNFD to Your Board (2024).

2. Nature fundamentals for businesses

Nature and the ecosystem services it provides – from water supply to pollination to soil to flood mitigation to climate regulation – is the bedrock on which the global economy depends. Yet it has historically been undervalued, and externalised, in commercial decision-making. Now, the natural capital on which the economy depends has been depleted and degraded to the extent that it is increasingly scarce. We now know that an estimated 55% of global GDP (equivalent to an estimated $58 trillion) is highly or moderately dependent on nature.[9] As one example of this at the national level, damage to the natural environment – whether freshwater scarcity, soil degradation, deforestation and biodiversity loss, or plastics and synthetic chemical pollution – has recently been linked to a potential 12% reduction to UK GDP by the 2030s, larger than the hit to GDP from the global financial crisis or Covid-19.[10]

Now, the tide is turning. In 2022, 188 countries agreed to new biodiversity goals and targets under the Global Biodiversity Framework, fuelling momentum towards a global agenda for nature and biodiversity.[11] At the same time, nature is emerging as a fundamental consideration in corporate governance and risk management, driven by increasing scientific, market, and regulatory recognition of the financial materiality of natural capital and the ecosystem services it provides.[12]

Companies are beginning to understand that their impacts and dependencies on nature make them vulnerable to physical, transition, and systemic nature-related financial risks, but also introduces new commercial opportunities. Investors, too, now identify the importance of natural capital and the material portfolio-level risks posed by the nature loss crisis. At least 500 companies have committed to disclosing their nature-related issues to investors and stakeholders in line with the Recommendations of the Taskforce on Nature-related Financial Disclosures, including publicly listed companies representing over $6.5 trillion in market capitalisation and financial institutions with $17.7 trillion in assets under management.[13]

It is estimated that approximately 50,000 companies will need to disclose against the EU's Corporate Sustainability Reporting Directive (CSRD),[14] which comprises significant reporting requirements for nature (e.g., climate, water, soil, biodiversity and ecosystems), including 10,300 non-EU companies.[15] This is accompanied by forthcoming obligations under the Corporate Sustainability Due Diligence Directive (CSDDD), which includes a duty for large companies to identify and address actual or potential adverse environmental and human rights impacts in their own operations, those of their subsidiaries, and in their supply chains.[16]

$58 trillion

equivalent to 55% of global GDP is highly or moderately dependent on nature[9]

188

countries agreed to new biodiversity goals and targets under the Global Biodiversity Framework in 2022[11]

$17.7 trillion

total assets under management of the financial institutions committed to disclosing in line with the Recommendations of the Taskforce on Nature-related Financial Disclosures, as well as publicly listed companies representing $6.5 trillion in market capitalisation[13]

Similarly, more than 20 jurisdictions, representing over half the global economy by GDP, are taking steps towards introducing disclosure requirements aligned to the International Sustainability Standards Board (ISSB) standards.[17] The ISSB standards comprise a climate-related disclosure standard (IFRS S2) and a broader sustainability-related disclosure standard (IFRS S1). The latter extends to all sustainability-related risks and opportunities that could reasonably be expected to affect an entity's cash flows, its access to finance or cost of capital over the short, medium or long term (for example, biodiversity, ecosystems, and ecosystem services).[18] Note that the UK Government has announced it is aiming to endorse reporting standards aligned to IFRS S1 and IFRS S2 in 2025.[19]

Going one step further, future-facing firms are integrating nature-related considerations into their strategies and setting science-based targets for nature,[20] recognising that proper consideration of nature risks and opportunities is now a financial necessity.

9. PwC, Centre for Nature Positive Business (2023), building on analysis published in World Economic Forum, Nature Risk Rising (2020).
10. Green Finance Institute, Assessing the Materiality of Nature-Related Financial Risks for the UK (2024).
11. United Nations Convention on Biological Diversity, Kunming-Montreal Global Biodiversity Framework (2022); UNEP, COP15 ends with landmark biodiversity agreement (2022).
12. Network for Greening the Financial System, Nature-related Financial Risks: a Conceptual Framework to guide Action by Central Banks and Supervisors (2023).
13. TNFD, Over 500 organisations and $17.7 trillion AUM now committed to TNFD (2024).
14. PwC, Global CSRD Survey (2024).
15. London Stock Exchange Group, How many companies outside the EU are required to report under its sustainability rules? (2023).
16. European Commission, Corporate Sustainability Due Diligence (2024).
17. ISSB, Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards (2024).
18. As part of its 2024-2026 work plan, the ISSB is considering whether it should pursue standard-setting for disclosure requirements for certain sustainability-related risks and opportunities to meet the information needs of investors, including those associated with biodiversity, ecosystems, and ecosystem services.
19. UK Government, UK Sustainability Reporting Standards (2024).
20. Science-based Targets Network, Leading the way: Insights from SBTN's corporate target validation pilot (2024); SBTN announces first companies publicly adopting science-based targets for nature (2024).

3. Directors' duties & nature risk

These developments have significant implications for company directors as the ultimate risk management functionaries. As identified by the Network for Greening the Financial System (NGFS), the coalition of central banks and financial supervisors, and the Grantham Research Institute on Climate Change and the Environment, a potential trend may emerge concerning shareholder claims against directors alleging breaches of company law directors' duties for failing to identify and mitigate company exposure to nature risks.[21] Similarly, the Commonwealth Climate and Law Initiative (CCLI) observes that biodiversity loss can present foreseeable and material financial risks and opportunities to individual companies, not just the wider economic and financial system, thus placing the issue in the remit of company law directors' duties in a number of jurisdictions globally.[22]

Two recent landmark legal opinions commissioned by Pollination and the CCLI, one in the UK and one in Australia, conclude that company law directors' duties include, at the least, the responsibility to identify the company's nature-related dependencies and impacts, as well as consider the potential risks these might pose to the company, and (in some cases) to take mitigation actions accordingly.[23] This is relevant to the duty of skill, care, and diligence and the duty to promote the success of the company.[24] Directors should also consider whether the company should be disclosing nature-related risks it has identified in accordance with their statutory disclosure obligations.

This analysis highlights that a director who properly identifies and manages their company's nature-related risks will generally be promoting the success of the company. While it will necessarily vary on a case-by-case basis, directors who take practical steps to identify and manage any nature-related risks and (if necessary) disclose those risks will be more likely to discharge the duty of skill, care, and diligence required from them in their role as director under company law. In contrast, directors who fail to consider nature-related risks, and in some cases fail to take appropriate steps to mitigate them, may be exposed to claims that they have acted in breach of duty.

Chapter Zero and the CCLI recently published an overview of the UK legal opinion on its website with more detailed guidance on implications for NEDs: UK Legal Opinion: Nature-Related Risks and Directors' Duties - What NEDs in England and Wales Need to Know (2024).[25] The Net Zero Lawyers Alliance has also recently published a discussion paper arguing that under existing principles of investor fiduciary duties, preserving and maximising financial returns on investment means actively pursuing climate mitigation and mitigation of the nature loss crisis.[26]

Additionally, directors and senior management are responsible for ensuring compliance with new regulatory sustainability reporting obligations arising under the CSRD, CSDDD, and ISSB-aligned frameworks. Importantly, this goes beyond simply disclosing that there is a sustainability-related risk (e.g., nature) and requires disclosure of the integration of such risks into business strategies and commercial decision-making over the short, medium and long term.

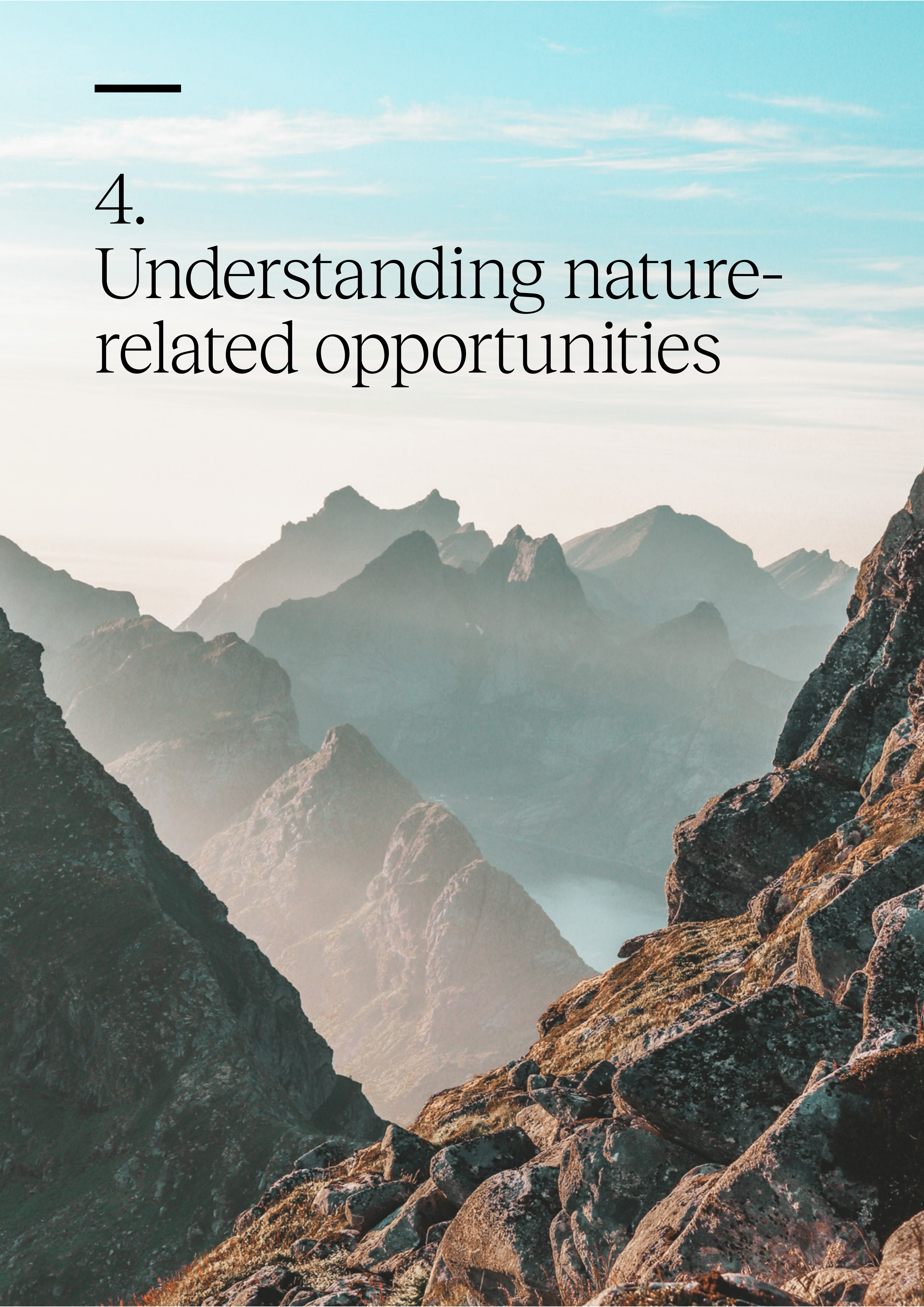
In the context of sustainability-related reporting, liability may also arise for misleading disclosure.

NATURE-RELATED FINANCIAL RISK CASE STUDIES

- In 2023, chemicals and technology company 3M incurred a $10.5 billion liability for damages it caused by polluting waterways with 'forever chemicals' in the United States. 3M also experienced a 66% share price fall from 2018 to 2023, partly due to liability concerns.[27]
- The loss of beehives in the United States has driven up the cost of commercial pollination. For instance, the cost of renting honey bee hives for almond pollination rose from about $50 in 2003 to $150-$175 per hive in 2009. This threatens the viability of the beekeeping industry and crops dependent on bee pollination, with implications for the sustainability of the food production system.[28]

21. NGFS, Nature-related litigation: emerging trends and lessons learned from climate-related litigation (2024); Grantham Research Institute on Climate Change and the Environment, Global trends in climate litigation: 2024 snapshot (2024).
22. Commonwealth Climate and Law Initiative, Biodiversity Risk: Legal Implications for Companies and their Directors (2023).
23. Shivji and Stubbs, Nature related risks and directors' duties under the law of England and Wales (2024) (UK); Hartford-Davis and Bush, Nature-related risks and directors' duties (2023) (Australia).
24. UK: Companies Act 2006, sections 172 and 174; Australia: Corporations Act 2001 (Cth), section 180.
25. Chapter Zero and CCLI, UK Legal Opinion: Nature-Related Risks and Directors' Duties - What NEDs in England and Wales Need to Know (2024).
26. Wildner., A. and Dolmans, M., Sustainable Fiduciary Duties - The time has come for financial fiduciaries to adapt to the new climate reality, Net Zero Lawyers Alliance (2024).
27. BloombergNEF and Taskforce on Nature-related Financial Disclosures, When the Bee Stings: Counting the Cost of Nature-Related Risks (2023).
28. White House, Fact Sheet: The Economic Challenge Posed by Declining Pollinator Populations (2014).

4.
Understanding nature-related opportunities



There is an increasing understanding that firms acting on nature can also seize commercial upside and opportunities as a result of this work, in addition to mitigating exposure to risk. The Taskforce on Nature-related Financial Disclosures classifies nature-related opportunities as follows and provides illustrative examples:[29]

FIGURE 1: NATURE-RELATED OPPORTUNITIES & EXAMPLES (ADAPTED FROM THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES).[30]

NATURE-RELATED OPPORTUNITIES & EXAMPLES (ADAPTED FROM TNFD):

BUSINESS PERFORMANCE

MARKETS

Changing dynamics in overall markets, such as access to new markets or locations, that arise from other opportunity categories as a result of changing conditions, including consumer demands, consumer and investor sentiment and stakeholder dynamics

Example:
In the agriculture and food sector, this could include improved ESG ratings, lower transition risk ratings, and improved asset valuation due to alignment of company business strategy to the goals and targets of the Global Biodiversity Framework.

RESOURCE EFFICIENCY

Actions an organisation can take within its own operations or value chain in order to avoid or reduce impacts and dependencies on nature, while achieving co-benefits such as improved operational efficiency or reduced costs

Example:
For the pharmaceutical and biotech sectors, this could include increased productivity from switching to more efficient manufacturing systems (e.g., green chemistry) and reduced costs from consumption of physical inputs (e.g., freshwater-saving technologies).

PRODUCTS & SERVICES

Value proposition related to the creation or delivery of products and services that protect, manage or restore nature, including technological innovations

Example:
In the metals and mining sectors, this could include use of owned or managed natural assets to create or enhance ecosystem services that may be monetised (e.g., natural flood management).

CAPITAL FLOW & FINANCING

Access to capital markets, improved financing terms or financial products connected to positive nature impacts or the mitigation of negative impacts

Example:
For the finance sector, this could include lending and advisory opportunities for banks, underwriting opportunities for re/insurers, and investment opportunities for asset managers and owners.

REPUTATIONAL CAPITAL

Changes in perception concerning a company's actual or perceived nature impacts, including the consequent impacts on society and engagement of stakeholders

Example:
In the agriculture and food sector, this could include increased customer brand loyalty due to low to no deforestation.

SUSTAINABILITY PERFORMANCE

SUSTAINABLE USE OF NATURAL RESOURCES

Substitution of natural resources by recycled, regenerative, renewable and /or ethically responsibly sourced organic inputs

Example:
For the pharmaceutical and biotech sectors, this could include increased credibility from market and reputational status through use of certification schemes to ensure raw genetic materials are sustainably harvested and medicinal plants are sustainably cultivated.

ECOSYSTEM PROTECTION, RESTORATION & REGENERATION

Activities that support the protection, regeneration or restoration of habitats and ecosystems, including areas both within and outside the organisation's direct control

Example:
In the forestry and paper sector, this could include conservation or restoration activities of strategically important ecosystems or habitats which enhance water quality and supply to productive assets and provide increased resilience to natural disasters.

There are clear examples of how acting on nature can present new revenue generating opportunities and reduce operating costs, many of which can easily be quantified and valued. Analysis by the World Economic Forum estimates that 15 systemic transitions aligned with the global nature positive movement could present annual business opportunities worth $10 trillion by 2030.[31] This includes $3.6 trillion in food, land, and ocean use, $3 trillion in infrastructure and built environment, and $3.5 trillion in energy and extractives.[32] Understanding, valuing, and making decisions on the basis of nature-related opportunities is key to effective board governance for successful businesses in the face of global ecosystem decline.

Additionally, investing in natural capital is gaining momentum as an opportunity to secure strong, diversified returns that can be insulated from market fluctuations and inflation.[33] Public and private finance is increasingly being allocated to natural capital, including

29. Adapted from TNFD, Recommendations of the TNFD (2023) and associated sectoral guidance.
30. Adapted from TNFD, Recommendations of the TNFD (2023) and associated sectoral guidance.
31. World Economic Forum, The Future Of Nature And Business (2020).
32. World Economic Forum, The Future Of Nature And Business (2020).
33. Nuveen, A guide to investing in natural capital (2022).

in regenerative approaches for real assets, technology solutions, nature markets, and nature-based solutions.[34] For example, Climate Asset Management, the dedicated natural capital asset management company formed as a joint venture between HSBC Asset Management and Pollination, recently announced it has secured commitments in excess of $1 billion for natural capital projects.[35] Similarly, the UK Infrastructure Bank (now the National Wealth Fund) has announced investments into nature-based solutions in the UK, including £12 million for its first natural capital transaction.[36]

NATURE-RELATED OPPORTUNITY CASE STUDY: IKEA GROUP

IKEA, the world's largest furniture retailer, has made strides in pursuing nature-related opportunities through its Forest Positive Agenda for 2030. It has reportedly achieved its goal of sourcing more than 98% of its wood from FSC-certified or recycled sources.[37] IKEA has now committed to making responsible forest management the norm globally, going beyond just the wood sourced for its own business. As part of its strategy, it is driving innovation in wood use, aiming to make at least one-third of its wood range from recycled wood and designing products for reuse, refurbishment, and eventual recycling. In launching the Forest Positive Agenda, CEO Jon Abrahamsson Ring explicitly recognised that wood is one of the main materials in IKEA products and commented that "[s]till the pressure on the world's forests and the surrounding eco-systems is increasing. Now it is time to take an even more holistic approach to protect and support these important resources."[38] In addition to securing access to the nature-based materials its business depends on, IKEA is also responding to consumer preferences. IKEA commissioned a study that found 80% of consumers across eight of its markets are concerned about the state of the world's forests and 75% would prefer to buy furniture from a company known for forest conservation efforts.[39]

34. Pollination, Nature Finance Focus (2023)
35. Climate Asset Management, Climate Asset Management secures commitments in excess of $1 billion for natural capital project (2024).
36. UK Infrastructure Bank, UK Infrastructure Bank announces first natural capital transaction (2023).
37. IKEA, IKEA launches 2030 forest agenda (2021).
38. IKEA, IKEA launches 2030 forest agenda (2021).
39. IKEA, Sustainability Report FY23 (2023).

NATURE-RELATED OPPORTUNITY CASE STUDY: NATWEST GROUP

In 2022, NatWest Group, one of the largest business and commercial banks in the UK, worked with the Cambridge Institute for Sustainability Leadership (CISL) to explore the potential financial risks posed by land degradation to arable farming producers in the UK.[40] The analysis found that for extreme weather events, financial losses for farmers begin once crop yield declines reach and exceed 27% for two consecutive years. Whilst a 27% or greater crop yield decline is very unlikely for those farming healthier, more resilient soils, research indicates it is possible for those on degrading land.[41] This is significant in the UK context, where the Department for Environment, Food & Rural Affairs (Defra) has identified that "soil degradation, erosion, and compaction result in losses of about £1.2 billion each year and reduce the capacity of UK soils to produce food."[42] Separate analysis by the Environment Agency found that soil degradation is "putting 4 million hectares of soil at risk of compaction as well as over 2 million hectares of soil at risk of erosion (which could take hundreds, or thousands of years to form again)."[43] In conducting its risk assessment, NatWest identified that "there is a readymade opportunity for the risk to profitability posed by land degradation to become a bigger part of bank engagement with farmers, during which the implementation of risk mitigation strategies that improve soil health, crop resilience and diversify revenue can be discussed."[44]

40. CISL, Nature-related finance risk: Use case – Land degradation, UK farmers and indicative financial risk (2022).
41. CISL, Nature-related finance risk: Use case – Land degradation, UK farmers and indicative financial risk (2022).
42. Defra, United Kingdom Food Security Report 2021: Theme 2: UK Food Supply Sources (2024).
43. House of Commons, Environment, Food and Rural Affairs Committee, Soil health (2023).
44. CISL, Nature-related finance risk: Use case – Land degradation, UK farmers and indicative financial risk (2022).

5.
What steps should directors be taking now?

The role of board leadership in driving this change cannot be overstated. The integration of nature into corporate governance is not just a moral or ethical imperative; it is a strategic necessity for ongoing business success. As the financial materiality of nature becomes increasingly understood, companies that fail to adapt risk being left behind. On the other hand, those that embrace strategies that align with global nature positive ambition and the Global Biodiversity Framework will be well-positioned to thrive in the new economy.

There are specific actions that NEDs can take to mitigate exposure to potential claims that they have failed to discharge their company law directors' duties with respect to nature risk. In this regard, directors should:[45]

1. **Identify and actively consider** the extent to which the company faces nature-related risks arising from its impacts and dependencies on nature. In some scenarios, independent expert advice will help in understanding the character, scope, and severity of those risks. This can and should be accompanied by the identification of nature-related commercial opportunities.
2. **Assess and evaluate** those risks and the potential they have to cause harm to their company. Toolkits such as the Taskforce on Nature-related Financial Disclosures Recommendations may be instructive and having a defined approach to assessment of materiality will be essential, in particular where CSRD and ISSB requirements apply.
3. **Manage and mitigate** nature-related risks where this is considered appropriate. This could include setting science-based targets and taking action, such as aligning investments with a nature positive economy and/or directly investing in nature-based solutions in line with the mitigation hierarchy to: (1) Avoid and Reduce pressures on nature loss; (2) Regenerate and Restore so that nature can recover; and (3) Transform underlying systems in which companies are embedded to address the drivers of nature loss.[46] Any associated claims made about these efforts should be underpinned by robust and defensible evidence, and be communicated accurately and transparently, to ward off potential consumer protection and greenwashing claims. It is important to note that businesses and financial institutions can align their investments and practices with a nature positive economy and society, by halting and reversing nature loss as outlined by Global Biodiversity Framework. However, organisations should not claim that they "are" or are aiming "to be" nature positive; they can only contribute to outcomes that are aligned to a nature positive economy.
4. **Disclose** those risks in line with legislative and regulatory requirements. It is also open to directors to give broader voluntary disclosure, such as under the Taskforce on Nature-related Financial Disclosures Recommendations (see Chapter Zero's and TNFD's Taking TNFD to Your Board (2024)) or a double materiality approach, if that is deemed to be suitable in discharging their duties (e.g., to meet emerging market standards or investor expectations even where regulations may require disclosure on a single or financial materiality basis).
5. **Document** a director's decisions and the reasons behind them. While activist litigation and shareholder actions have to date focused on climate change, there is evidence to suggest that claims on the basis of nature and biodiversity are the next frontier.[47] Whatever steps a director takes should always be properly documented to provide a degree of protection against such claims.

The future of corporate governance lies in recognising and valuing the fundamental role of nature in business. By understanding and managing nature-related risks and opportunities at the board level, and by adopting future-facing governance practices, companies can protect their bottom lines, respond to growing regulatory and market expectations, and contribute to a more resilient business, economy and society. The challenge is significant, but the commercial opportunities for those who respond appropriately are substantial.

45. Adapted from Shivji and Stubbs, Nature related risks and directors' duties under the law of England and Wales (2024).
46. Science-based Targets Network, Act (2023).
47. Grantham Research Institute on Climate Change and the Environment, Global trends in climate litigation: 2024 snapshot (2024).

Aligning the board's talent strategy with nature

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Directors must ensure they have the right knowledge and mindset in the boardroom to discharge their duties, to hold the executive to account. Beyond capacity building for directors, boards should consider how they can bring a deeper knowledge of nature risks and opportunities into their deliberations. Finding individuals with the relevant deep nature expertise – whether it be water, biodiversity, soil health, or plastics – and who can frame it for the strategic and commercial context is not easy. It may mean looking for individuals who bring a different set of career experiences, such as NGOs, academia or professional services, or from non-traditional sectors where nature matters have been prominent.

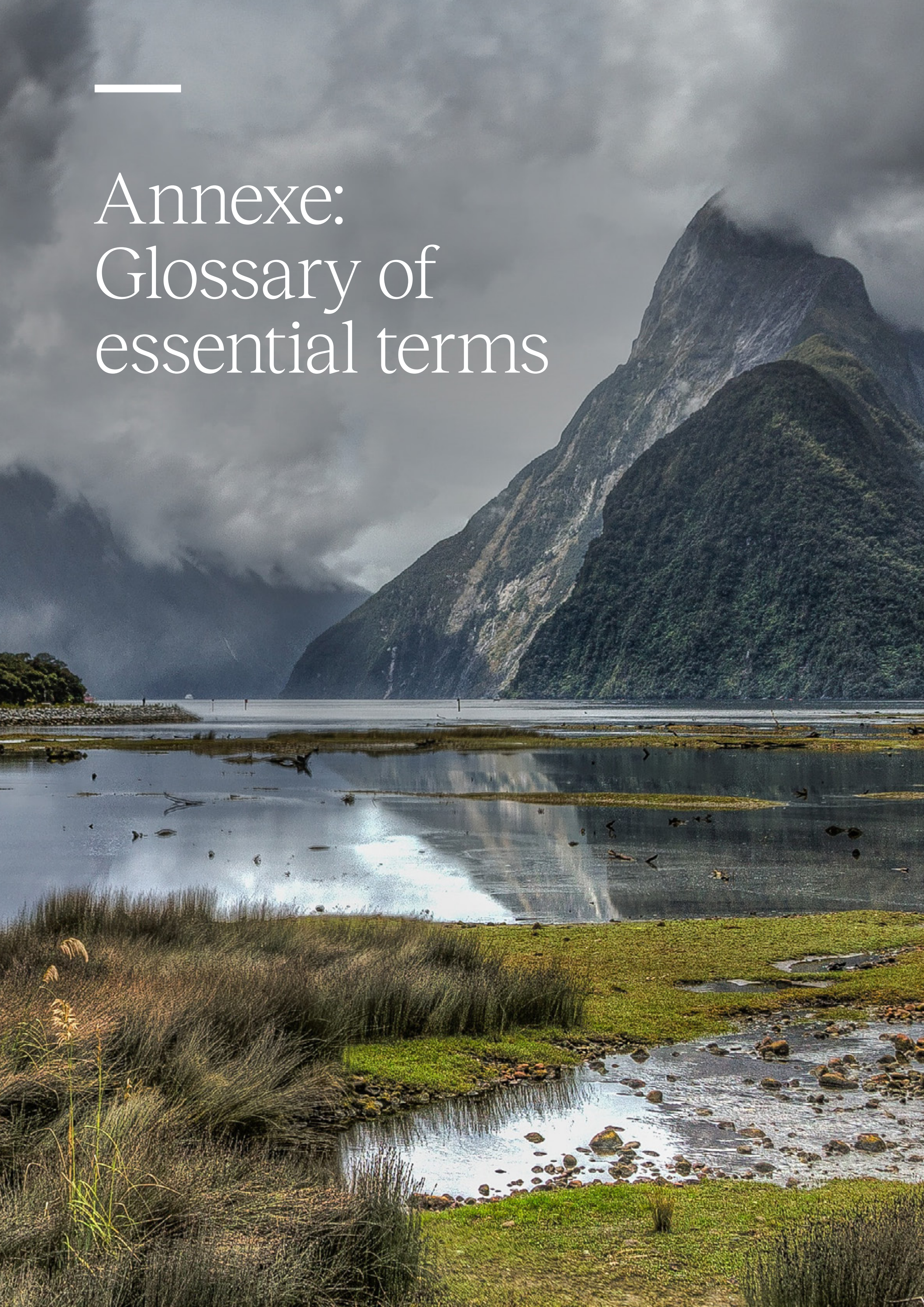
Such individuals can act as advisors, perhaps as part of an advisory group or special committee to the board, or even as a non-executive Director. 'Faith In Nature', a UK based beauty brand have created a non-executive director with a specific remit to represent nature in the boardroom, fulfilled by an expert with expertise in legal and nature matters.[48]

As well as technical knowledge and skills, mindset is crucial. Korn Ferry's view is that businesses need leaders who can lead for impact, and exhibit the characteristics of Enterprise Leaders. This is the ability to perform and transform, and focus on the short and long term, knowing how to pivot and switch between each mode. Such leaders are purpose driven, courageous, work across and beyond individual businesses, have high self awareness, and can deliver impact through connections and inclusion. They have an integrative mindset, able to balance tensions and multiple perspectives.

Directors need to ensure the executive is set-up to address nature risk and opportunities, and can access the talent and skills required. This means ensuring accountability for nature-related matters is clear in, and across the executive – not just with a Chief Sustainability Officer – and that there is appropriate in-house capability being built. External advisors can help provide deep technical expertise, and help in baselining and initial strategy and target setting, but capability will need to integrated into how the organisation operates on an ongoing basis. This will go beyond reporting and data matters to fulfil disclosure requirements, and touch other functions, for example supply chain and procurement, R&D and innovation, or operations and production. Finding talent which can bring relevant nature expertise that can be applied in practice may mean looking for non-traditional backgrounds, considering team design, and developing individuals with non-nature related backgrounds to be able to acquire nature-related skills.

48. Faith in Nature, What would Nature say? (2022).

Annexe: Glossary of essential terms



KEY TERM	DEFINITION
Biodiversity	The variability among living organisms from all sources including, inter alia, terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species, and of ecosystems.[49]
Dependencies	Dependencies are aspects of environmental assets and ecosystem services that a person or an organisation relies on to function. A company's business model, for example, may be dependent on the ecosystem services of water flow, water quality regulation and the regulation of hazards like fires and floods; provision of suitable habitat for pollinators, who in turn provide a service directly to economies; and carbon sequestration.[50]
Ecosystem	A dynamic complex of plants, animals, and microorganisms, and their non-living environment, interacting as a functional unit.[51] Examples include deserts, coral reefs, wetlands, and rainforests.
Ecosystem services	The contributions of ecosystems to the benefits that are used in economic and other human activity.[52]
Impacts	Changes in the state of nature (quality or quantity), which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative. They can be the result of an organisation's or another party's actions and can be direct, indirect or cumulative. A single impact driver may be associated with multiple impacts.[53]
Materiality	An essential concept in corporate sustainability disclosure, under which an entity identifies which information is reported. Depending on the applicable reporting requirements and standards, this assessment can be made on a single (financial) or double (financial and impact) materiality basis. • Financial materiality: Whereby an entity discloses material information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term.[54] In particular, information is considered material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the organisation's sustainability statement.[55] • Impact materiality: Whereby an entity also discloses information that pertains to an organisation's material actual or potential, positive or negative, impacts on people or the environment over the short, medium, and long term.[56]

49. CBD, Convention on Biological Diversity, Article 2 (1992).
50. TNFD, Glossary (2024) as adapted from SBTN, SBTN Glossary of Terms (2023).
51. Capitals Coalition, Natural Capital Protocol (2016).
52. TNFD, Glossary (2024); United Nations, System of Environmental-Economic Accounting - Ecosystem Accounting (2021).
53. TNFD, Glossary (2024); SBTN, SBTN Glossary of Terms (2023); Climate Disclosure Standards Board, Application Guidance for Biodiversity-related Disclosures (2021).
54. International Financial Reporting Standards, IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information (2023).
55. Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, Annex 1.
56. Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards, Annex 1; TNFD, Glossary (2024). Note that the TNFD change the word "undertaking" to the word "organisation" in the TNFD Recommendations.

KEY TERM	DEFINITION
Natural capital	The stock of renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people.[57]
Nature	The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.[58]
Nature-based solutions	Actions to protect, sustainably manage, and restore natural and modified ecosystems in ways that address societal challenges effectively and adaptively, to provide both human well-being and biodiversity benefits.[59]
Physical risk	Nature-related physical risks are risks resulting from the degradation of nature (such as changes in ecosystem equilibria, including soil quality and species composition) and consequential loss of ecosystem services that economic activity depends upon. These risks can be chronic (e.g. a gradual decline of species diversity of pollinators resulting in reduced crop yields or water scarcity) or acute (e.g. natural disasters or forest spills). Nature-related physical risks arise as a result of changes in the biotic (living) and abiotic (non-living) conditions that support healthy, functioning ecosystems. These risks are usually location-specific.[60]
Transition risk	Nature-related transition risks are risks to an organisation that stem from a misalignment of economic actors with actions aimed at protecting, restoring, and/or reducing negative impacts on nature. These risks can be prompted, for example, by changes in regulation and policy, legal precedent, technology, or investor sentiment and consumer preferences. They can also arise from activities aimed at restoring nature that no longer align with, for example, revised policies.[61]
Systemic risk	Nature-related systemic risks are risks arising from the breakdown of the entire system, rather than the failure of individual parts. Nature-related systemic risks are characterised by modest tipping points combining indirectly to produce large failures and cascading interactions of physical and transition risks. One loss triggers a chain of others and stops systems from recovering their equilibrium after a shock. Nature-related systemic risk covers more than only risk to a financial system (i.e., financial stability risk), it also covers the risks from the breakdown of natural systems (i.e., ecosystems).[62]

57. TNFD, Glossary (2024); Capitals Coalition, Natural Capital Protocol (2016).
58. TNFD, Glossary (2024); Adapted from Díaz, S. et al., The IPBES Conceptual Framework – Connecting Nature and People (2015).
59. IUCN, IUCN Global Standard for Nature-based Solutions (2020).
60. TNFD, Glossary (2024); NGFS, Nature-related Financial Risks: A Conceptual Framework to Guide Action by Central Banks and Supervisors (2023).
61. TNFD, Glossary (2024); NGFS, Nature-related Financial Risks: A Conceptual Framework to Guide Action by Central Banks and Supervisors (2023).
62. TNFD, Glossary (2024).

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