# [***WWF Calls for Supervisory Action to Address Biodiversity Loss***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:635H-5Y51-JB24-N2HF-00000-00&context=1516831)

Regulation Asia

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**Body**

**Capital requirements should be enhanced when institutions are exposed to sectors detrimental to the environment, says a new WWF report.**

The WWF (World Wide Fund for Nature) has published a new report calling for urgent action from central banks and financial supervisors to combat nature-related risk.

***Biodiversity*** ***loss*** is not only compounding climate-related risks, but it is a global crisis in its own right, the report says, adding that it is crucial to the stability of the global financial system.

The report argues that current practices of only integrating climate-related risks and impacts in existing mandates is not enough, and that central banks and financial supervisors need to explicitly include risks from nature ***loss***.

"Central banks and financial supervisors have built up significant expertise to start addressing climate-related risks," said Chiara Colesanti, Fellow at the Council on Economic Policies, which contributed to the report.

"They must now leverage this capacity to scale up their engagement and include further interrelated environmental dimensions into their decision-making."

The report highlights how environmental degradation and ***biodiversity*** ***loss*** is not just material to finance, but finance is also material to the ability of the environment to sustainably regenerate itself.

This means central banks and financial supervisors need to look beyond managing the financial risks stemming from ***biodiversity*** ***loss***; they also need to assess and measure the impacts of their own balance sheet as well as push for financial institutions to follow suit.

The report offers seven case studies setting out how ***biodiversity*** ***loss*** creates or contributes to economic impacts that have the potential for financial sector implications.

The report calls on central banks and financial supervisors to integrate environmental risk into macro- and microprudential supervision, address environmental risk on their own balance sheets, and account for the environmental impacts of their own instruments and monetary policy transmission channels.

"Similarly to the financial institutions they supervise, [central banks] must ensure that their own balance sheets are not misaligned with the broader environmental objectives of the societies they serve."

Central banks and financial supervisors must also engage the institutions and markets they supervise on their environmental impacts, and where impacts are severely harmful, regulatory and supervisory action should drive realignment.

The report proposes that Basel III Pillar II requirements be adapted to address environmental risk, including to make it a board-level responsibility for banks and include environmental considerations in remuneration policies and risk-taking practices.

Capital requirements should be enhanced when institutions are exposed to sectors detrimental to the environment, and the definition of HQLA should exclude assets and funding linked to environmentally-detrimental activities, the report says.

It also proposes tougher disclosure standards for banks on environmental risks, and the integration of climate and ***biodiversity*** considerations into requirements for the management and mitigation of credit, market, liquidity, operational and reputational risks.

The full report is [*published here*](https://wwfint.awsassets.panda.org/downloads/wwf_report_nature_s_next_stewards_14_july_2021.pdf).

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