

Feature Articles

This month's focus: **Biodiversity and Disclosure**

Genealogy of Sustainability Information Disclosure: The Path to Biodiversity

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The focus of information on corporate social aspects (corporate social reporting) was “employees” in the 1970s, but since the 1990s it has shifted to “environment” and expanded from environmental reports to integrated reports and sustainability reports. Behind this shift is the expansion of ESG investment by institutional investors, who are placing greater emphasis on ESG factors. Interest in natural capital has led to requests for disclosure of climate change (carbon neutral) and biodiversity (nature positive) information.

Information Disclosure on Corporate Nature-related Risks and Opportunities for Achieving Nature Positive

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This report highlights how companies are advancing disclosures on nature-related risks and opportunities. The "Nature Positive Initiative," launched in 2023, aims to halt and reverse nature loss by 2030 from the 2020 baseline and achieve full recovery by 2050. The Taskforce on Nature-related Financial Disclosures (TNFD) and other frameworks guide companies in assessing and disclosing their impacts and dependencies on nature. Financial institutions are also enhancing their responses to the loss of nature with comprehensive risk assessments and targeted evaluations. Leading companies are integrating natural capital assessments into their business models to minimize risks and maximize opportunities.

Characteristics and Challenges of Corporate Biodiversity Initiatives

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In recent years, biodiversity has emerged as a critical issue for companies, driving various initiatives, including enhanced corporate disclosure. This paper analyses key challenges in corporate biodiversity strategy, such as the complexity of measurement, the diversity of indicators and the inherently localized nature of biodiversity, in alignment with corporate climate strategies. It then summarizes the trade-offs and synergies between biodiversity conservation and climate change mitigation. Finally, it highlights the need for an integrated corporate approach to effectively address both climate and biodiversity issues.

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Biodiversity Risk and the Stock Market: A Review of Early Evidence

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This paper offers an overview of early empirical evidence on how biodiversity risk is increasingly priced into stock markets. Studies using text analysis and footprint indicators have shown that information disclosure and international policy events influence stock pricing, with growing interest particularly following COP15 and the TNFD. However, several challenges remain, including the standardization of indicators and the improvement of disclosure quality, highlighting the need for further research.

Articles

Revisiting Equity Factor Investing in Japan

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This paper examines the performance of equity factors to investigate why factor investing has not become common among asset owners in Japan. Our results suggest that the lack of proper consideration of trading costs, the change in the level of the factor premium and time series characteristics over time, and the practical way of performance evaluation, which places more emphasis on short-term performance, may cause the gap between investors' expectations and realized performance.

Unveiling ESG Insights: A Combined Text–Image Approach to Sustainability Reporting

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This study focuses on the newly mandated sustainability information in Japanese securities reports as of the end of March 2023, employing a structural topic model and Computer Vision API to analyze both text and images, and utilizes a machine learning approach to examine their association with ESG risk management scores. The findings reveal that disclosure volume and the balance across diverse topics—such as human capital, governance, and climate change—are associated with the ESG risk management scores, and suggest that certain visual design elements may also contribute to higher scores.