

## Increase the regulation of biodiversity impacts from private equity markets

**Author List:** *Harrison Carter<sup>1,2†</sup>, Nell Miles<sup>1</sup>, Isobel Hawkins<sup>1</sup>, Toscanie Hulett<sup>1</sup> & Sophus O.S.E. zu Ermgassen<sup>1†</sup>*

**†Corresponding Authors:** [harrison.carter@biology.ox.ac.uk](mailto:harrison.carter@biology.ox.ac.uk) / [sophus.zuermgassen@biology.ox.ac.uk](mailto:sophus.zuermgassen@biology.ox.ac.uk)

<sup>1</sup> Nature Positive Hub, Department of Biology, Oxford University, Oxford, UK

<sup>2</sup> Wildlife Conservation Research Unit, Department of Biology, Oxford University, Oxford, UK

The financial sector is under increasing scrutiny for its ecological impacts. Financial markets play a key role in funding activities that drive biodiversity loss, prompting the development of frameworks and tools to assess these impacts. However, non-bank financial institutions (NBFIs) - including private equity firms that represent more than US \$9 trillion in assets under management - often operate under less rigorous financial reporting standards, limiting transparency of their ecologically influential assets and associated risks for nature<sup>1</sup>. Benefiting from the stricter borrowing and liquidity requirements imposed on traditional banks<sup>2</sup>, the NBFIs sector has nearly doubled in size since 2007, now accounting for around 50% of global financial assets<sup>3</sup> (Fig. 1). Here, we review the commitments of the world's largest private equity firms to assess or address biodiversity loss and show that just one company has measurable, time-bound commitments to address nature loss. In line with the goals of the Kunming-Montreal Global Biodiversity Framework, we call for increasing understanding of private equity's impact on nature, as well as opportunities for effective regulation of damaging investments and incentives for investments that enhance biodiversity.

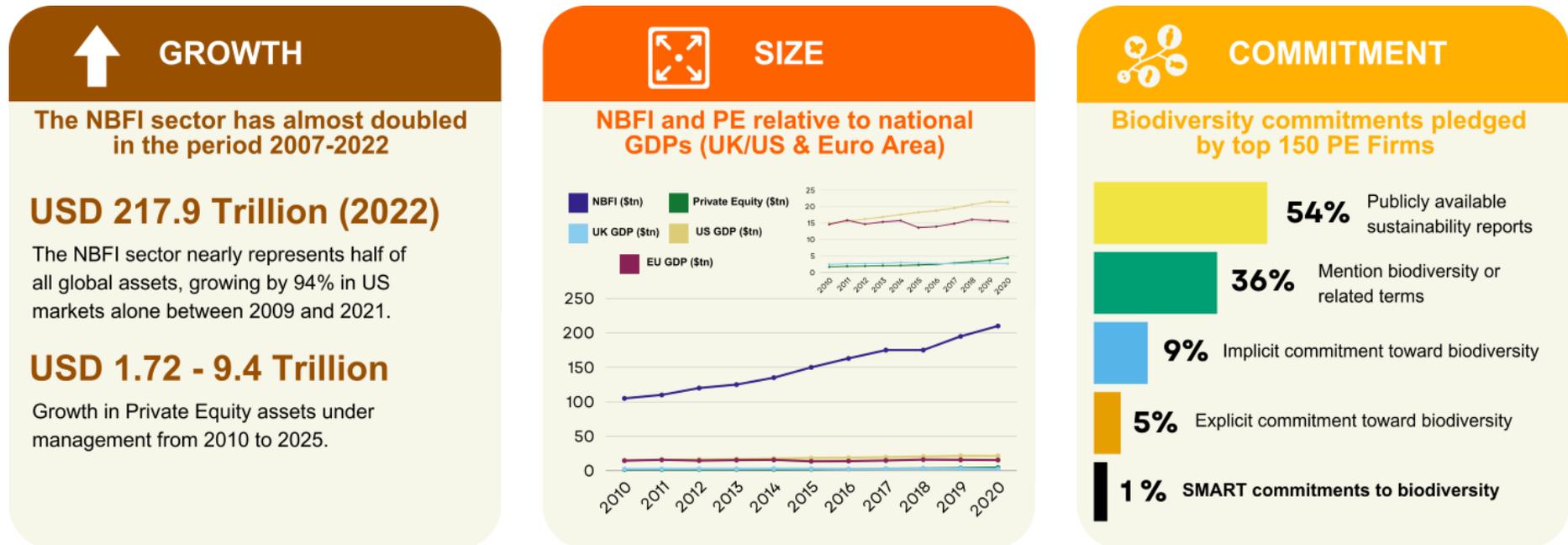
NBFIs include a range of financial service entities, such as insurance companies, asset managers, private equity firms, and others, that do not have banking licenses or the ability to accept deposits. Some entities, like insurance companies, are subject to extensive regulation, while others, such as private equity firms, face comparatively less regulatory oversight. NBFIs offer investors alternative financing to traditional banks and access to a greater diversity of products, but also pose a significant threat to biodiversity. For example, ten of the largest private equity firms also held at least 80% of their energy portfolios in fossil fuels by 2021, investing over USD 1 trillion in the sector since 2010<sup>4</sup>. Private equity markets have quadrupled in size (e.g. through growth in assets under management) during this period<sup>5</sup>, and strong growth is projected into 2030 (Fig.1). Without readily available sustainability disclosures at institutional and fund levels, the stewardship of environmentally damaging assets remains largely unknown.

Sustainability reporting standards are being increasingly introduced with the aim of enhancing the disclosure of environmentally damaging investments. For example, the Corporate Sustainable Reporting Directive is expected to quadruple the number of entities in scope and standardise existing sustainability reporting in EU markets. However, reporting standards designed to reduce environmentally damaging investment can unintentionally fuel the transfer of investments to less visible and regulated markets. For example, fossil fuel financing has shifted towards private markets, with private markets exceeding public acquisitions by 64% between 2017-2021<sup>6</sup>. By 2021, deals that moved assets away from companies with environmental commitments accounted for 15% of these transactions<sup>6</sup>. Whilst larger private equity firms will fall in scope for emerging disclosure regulation in the EU, it remains unclear how these regulations will affect specific fund-level disclosures and the movement of holdings across fund domiciles<sup>7</sup>.

To exemplify these problems, we assessed publicly available information from private equity firms across global markets. Private equity firms are a growing NBF sector with potentially limited exposure to sustainability disclosure regulation. To gain some insight into how these firms are reporting on biodiversity considerations in investment activity, we identified the 150 largest private equity firms globally based on the Private Equity International (PEI) 2024 full ranking, and classified their commitment to assess or address biodiversity loss using a replicable commitment assessment methodology<sup>8</sup> validated by a second reviewer (kappa score 0.97; see supporting information for commitment data, methods and validation results). Of these 150 firms, 81 had publicly available sustainability reports, 54 of which mentioned the term 'biodiversity' or related terms referring to biodiversity. 21 firms stated a commitment towards addressing biodiversity loss, where 57% of commitments linked to developing a better understanding of biodiversity impact. Seven firms had explicit forward-looking commitments relating to a biodiversity impact target, and one firm framed their commitment under specific, measurable, achievable, relevant and time-bound conditions (Fig. 1). Thus, one of the top 150 private equity firms provided a commitment to addressing biodiversity loss rigorous enough to enable accountability, suggesting these firms' reporting is largely in contradiction to targets (Target 15) agreed by nations at the Kunming-Montreal agreement adopted in 2022.

There is no silver bullet to address the biodiversity crisis while safeguarding global financial stability, but concerted efforts are needed to make the financial sector part of the solution. According to the United Nations Environment Programme, 75% of nature-damaging capital flows come from private markets globally, while contributing only 18% of nature-positive investment. Investment - whether from traditional banking or from private equity and other NBFs - will shape the trajectory of biodiversity recovery, but a policy-first approach is essential to mitigate negative impacts as financial instruments evolve. A collective shift toward double materiality<sup>9</sup> in sustainability disclosure is essential to illuminate the biodiversity impacts of opaque sectors, but disclosures must extend to fund-level holdings to expose the role of financial intermediaries in financing and stewarding nature-damaging activities. Without coordinated regulatory oversight across domiciles, policy interventions are unlikely to understand or effectively govern capital flows from NBFs contributing toward biodiversity loss.

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**Figure 1.** Visual representation of growth in the non-banking financial institution sector. Non-banking financial institutions (NBFIs) include insurance companies, asset managers, hedge funds, private equity (PE) funds and other financial service entities without banking licences or the ability to accept deposits. **a**, The sector has grown rapidly in recent years, fuelled in part by stricter borrowing and liquidity requirements imposed on traditional banks<sup>2,3,10</sup>. **b**, The size of NBFIs and the PE sector (inset) compared to major economies<sup>2,5,11</sup>. **c**, Findings from our analysis that reviews the commitments of the world’s largest 150 private equity firms to assess or address biodiversity loss; findings are nested as a proportion of the 150 firms. See Supplementary Information for further information.

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