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# Establishing a Taskforce on Nature-related Financial Disclosure (TNFD)

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June 2020



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# 1. Rationale for a Taskforce on Nature-related Financial Disclosure (TNFD)

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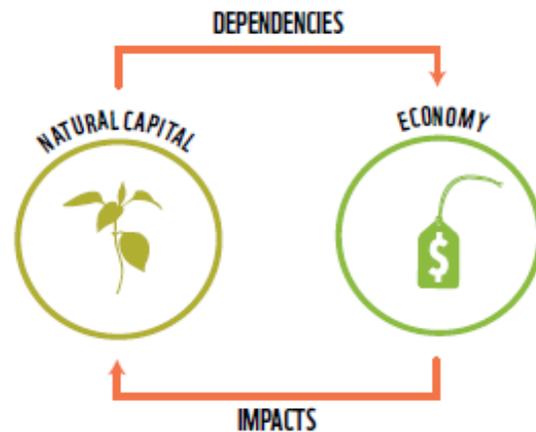


- **AFTER CLIMATE, COMES NATURE RISK:** TCFD has helped financial institutions to understand climate, but understanding of nature and natural capital risk is far behind.
- **NATURE RISK IS BIG, FAST, AND CAN HIT MANY SECTORS GLOBALLY:** Think of COVID 19! Agriculture, mining and the food sector are most at risk.
- **HALF OF GLOBAL GDP IS DEPENDENT ON NATURE'S SERVICES:** According to the World Economic Forum US\$44 trillion is potentially at risk from the collapse of nature's services. Many reports are emerging on Nature risk.
- **FINANCIAL REGULATORS ARE NOW EXAMINING THESE RISKS:** The Dutch Central Bank report on biodiversity and the economy identified €510 billion at risk, almost 36% of portfolio examined.
- **IT'S TIME TO GET READY FOR TNFD!** Global momentum has grown amongst financial institutions to create a Taskforce – to understand the risks and to report on them.

# 2. What are Nature Related Financial Risks | A new frontier?

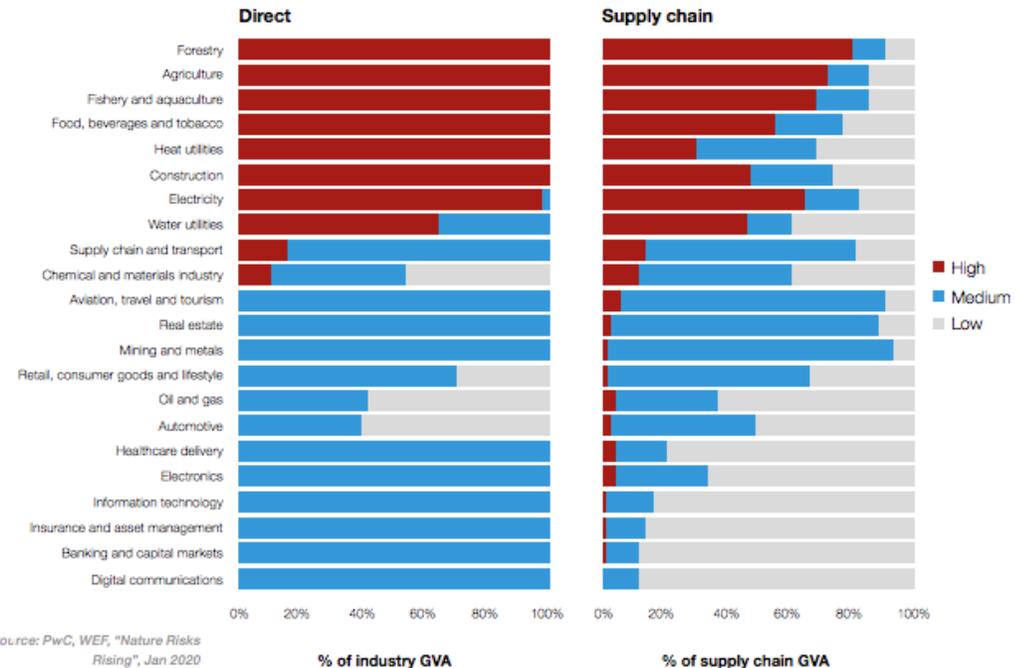
1. **WHAT SECTORS?** Agriculture, extractives, fisheries, food, forestry and civil construction are especially dependant on natural services, such as soil, air, water and raw materials. But there are many more .....

2. **COVID 19: AN EXAMPLE OF UNRECOGNISED NATURE-RELATED RISK:** A small virus, adapted to human infection by zoonotic transfer from bats, to pangolins (?) to humans - due to illegal wildlife trade.



• **CLIMATE AND NATURE RISK ARE LINKED:** PwC and WWF [report](#) loss and damage of ecosystems reduces their ability to capture and store carbon, which accelerates climate change. Nature-based solutions get just 3% of climate finance, but offer 33% of the climate solution.

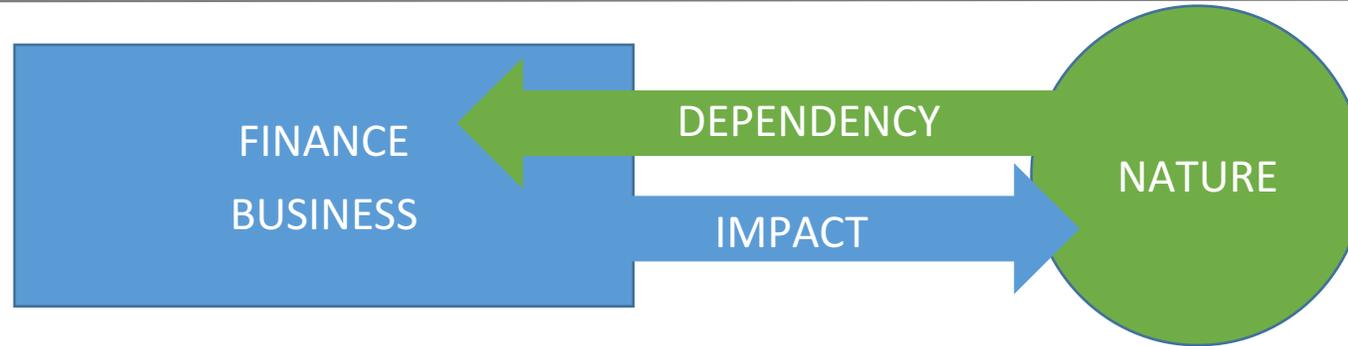
Figure 03 – Percentage of direct and supply chain GVA with high, medium and low nature-dependency, by industry



Source: PwC, WEF, "Nature Risks Rising", Jan 2020

# 3. What is Nature Related Dependency and Impact ?

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## IMPACT:

1. Portfolios may negatively **impact** natural assets and services via companies, OR projects they invest in or lend to.
2. This impact **isn't captured** in the financial performance of the portfolio (or its assets)
3. For finance, such impacts may be economic externalities "**Non-Material**". ie. , it is not reflected in the price of products or the share price. The risks are therefore hidden.
4. This leads to Private Profits and **Public Losses**

## DEPENDENCY:

1. Portfolios are **dependent** on services provided by nature to companies they invest or lend to.
2. A mining company polluting water, may negatively impact a drinks company needing clean water.
3. **New tools** are emerging to measure Impact and dependency risks.
4. The **ENCORE** Tool for finance looks at Impacts and Dependencies across all business sectors.

## 4. Nature Related Financial Risks | Risk identification

Type of risk	Definition	Examples	Time horizon
<b>Physical risks</b>	They can be event driven or longer-term <b>shifts in ecosystem patterns</b> . Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption.	<ul style="list-style-type: none"> <li>• <b>Increased insurance claims</b> due to fluctuating precipitation and flood patterns ;</li> <li>• <b>Higher default risks</b> caused by increased costs of raw materials as a result of low harvest yields</li> </ul>	<b>Short term</b>
<b>Transition risks</b>	As policy and technology respond to natural capital issues, there is potential for a <b>reassessment of the value</b> of a large range of assets as costs and opportunities become apparent. The abruptness with which such re-pricing occurs could lead to <b>stranded assets</b> .	<ul style="list-style-type: none"> <li>• <b>Decrease in investment value</b> caused by changes in consumer behavior ;</li> <li>• Higher default risks resulting from <b>increased costs</b> due to additional legal requirements regarding water management.</li> </ul>	<b>Medium term</b>
<b>Reputational risks</b>	The association of businesses sectors and investors with negative impacts on nature, such as deforestation, poses serious reputational risks that might <b>drive consumers away</b> from certain products or companies.	<ul style="list-style-type: none"> <li>• <b>Impaired reputation</b> due to media coverage on the funding of activities with adverse impacts on nature</li> <li>• <b>Loss of clients</b> resulting from their impression that the FI does not sufficiently factor in nature-related concerns in its decision-making processes</li> </ul>	<b>Short term</b>
<b>Systemic risk</b>	Systemic risk from the exogenous biodiversity risk leads to <b>impaired functioning of the financial system</b> as well the risk created endogenously by the financial system.	<ul style="list-style-type: none"> <li>• Beyond the circles of the financial industry, biodiversity loss is believed to have a deteriorating effect on food availability, health and socioeconomic development, with <b>repercussions for well-being and productivity</b>.</li> </ul>	<b>Medium term</b>

Sources: Connecting finance and natural capital – A supplement to the Natural capital protocol, 2018 and Nature is too big to fail, PwC, WWF, 2020

# 5. Nature-related Financial Risks | Some case studies

Business	Change in dependencies or impacts	Threat	Vulnerability	Exposure	Consequences
BP	Impacts of the oil spill	Damage to surrounding environment	Risk assessment ; brand value	Types of activities undertaken (e.g., deepwater drilling); operations in marine environment	Legal costs at around USD 62.59–144.89 billion; loss of USD 3.7 billion in revenue; drop in market cap and share prices; increased insurance rates across the industry
Vale	Growing awareness about the dangers of “upstream” tailings dams	Collapse of the tailings dam	Risk assessment ; brand reputation	Environmental conditions	Suspension of operations; USD 2.3 billion in assets frozen; employees arrested; drops in share value and bond prices; downgraded credit ratings
German exporters	Depletion of South African water sources; drought	Crop failures	Diversification of suppliers and diversified products	Distance from primary production; geography of supply chain; sociopolitical mood in home and host countries	EUR 70 million in forgone sales/profits
PG&E	Increased dryness in the environment; malfunctioning equipment	Sparks on the power lines	Risk assessment	Types of activities undertaken (e.g., power transmission); environmental conditions of operation	Over USD 30 billion in liabilities; bankruptcy



## 6. Mobilizing the TNFD | creating consensus to act at scale

During 2019 > 2020, Global Canopy, WWF, UNDP and UNEP created an informal Partnership to build on growing calls for nature-related financial disclosure.



### April 2019: NGFS Comprehensive report

The report recommends that policymakers and supervisors consider further actions to foster a broader adoption of the TCFD recommendations and development of an **internationally consistent environmental disclosure framework.**



### May 2019: G7 Environment in France

AXA and WWF's Into the Wild report calls for a **Task Force on Nature Impacts & Disclosures**, to identify and analyze business activities that have a material impact on biodiversity as well as activities that are dependent on ecosystem services, to support biodiversity protection.



### May / July 2019: G7 Environment in France; UK Green Finance Strategy

The **OECD**, calls for the creation of a **multi-stakeholder group** to integrate biodiversity in investment decisions. **UK Government** includes **nature-related financial risk** Working Group into its Green Finance Strategy.



**Jan 2020: French asset managers raise awareness on nature-related financial risks** AXA Investment Managers, BNP Paribas Asset Management, Sycomore Asset Management and Mirova issued a **call for interest to develop pioneering tool for measuring investment impact on biodiversity.**

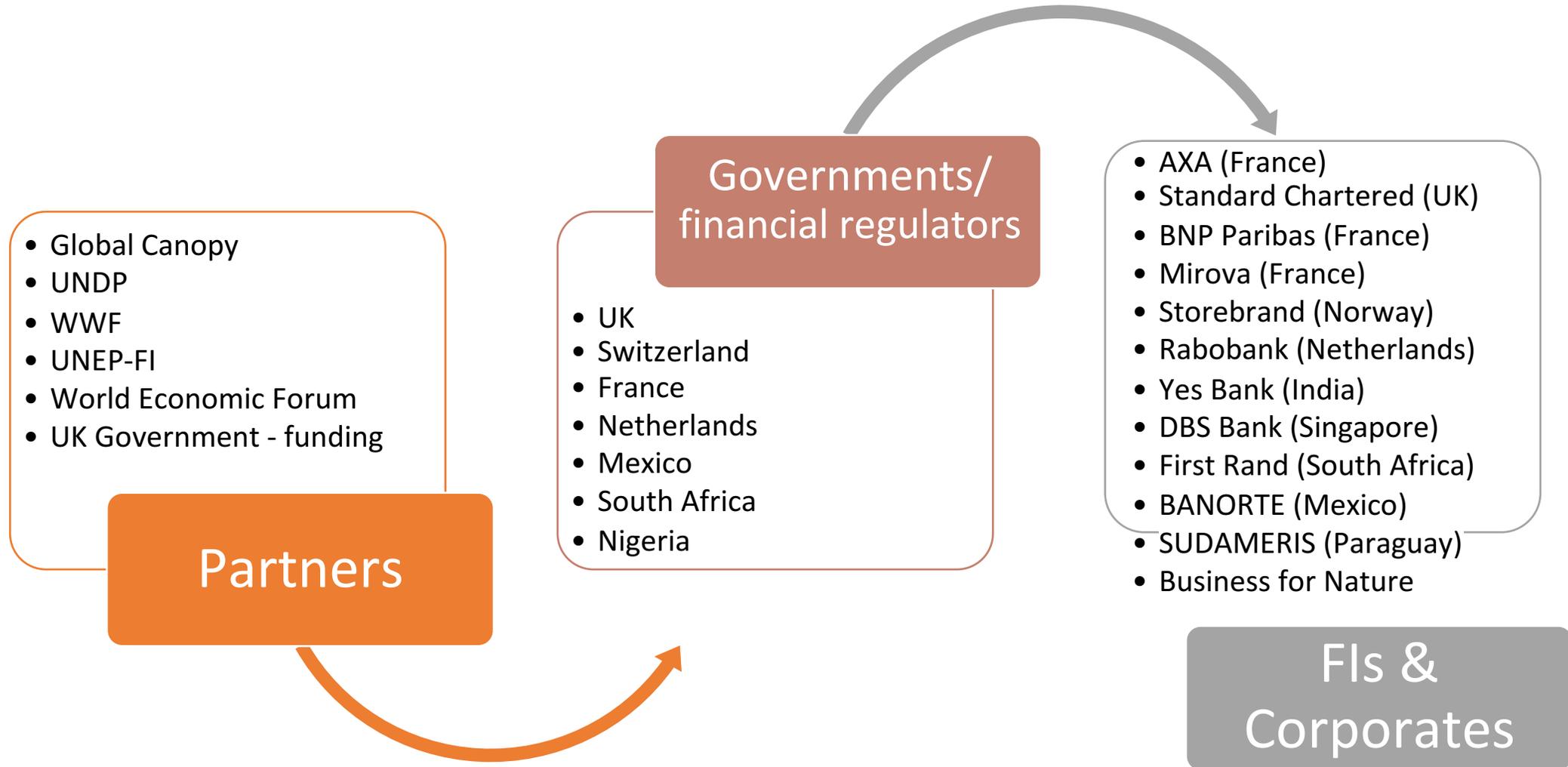


### Jan 2020: CSDB consultation

UK Climate Disclosure Standards Board (CDSB) has launched a public consultation & call for evidence: Advancing Nature-related Financial Disclosures. The aim of the consultation is to **advance the disclosure of nature-related financial information** by organisations globally.

# 7. TNFD Phase 1 | Gathering Signatories & Support

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# 8. Informal Working Group | Launching Sept 2020

## The Informal Working Group

### Members

Private Sector finance & service providers, Governments, trade bodies etc

Provide expertise on private and government-led experimentations/ metrics

Provide political mandate

Articulate with TCFD and/or NGFS mandates

### Objectives

Articulate the rationale for enhanced disclosure of nature-related impacts and risks.

Specify objectives, budget and time plan for the “TNFD”.

Identify and secure commitment of a host organisation and potential providers of funding for the working group activities until handover to the “TNFD”

Dialogue with other stakeholders

Agree on private sector leadership and commitment

### Expert Panel

Contribute mapping and analysing existing frameworks

Challenge findings/ recommendations of the working group

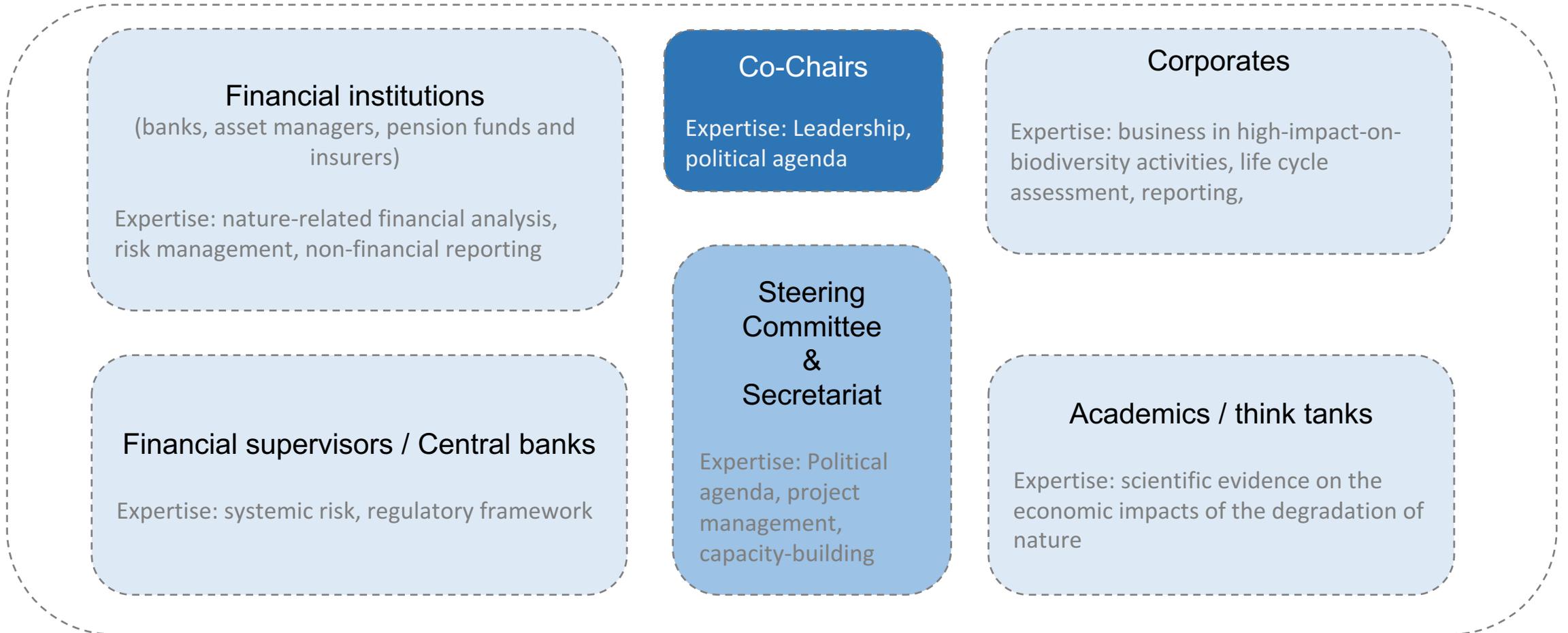
Help elaborate “TNFD” workplan, membership and governance of TNFD



**Calls for the launch of a “TNFD”**

# 9. TNFD Constitution | Similar to TCFD, but not the same

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# 10. Next Steps| Launch of a 2+ Year Work Programme

- 2020 - IWG Agrees scope of TNFD workplan
- 2021 - Launch US\$10 m Programme at CBD COP 15 in China
- 2021 - Phase 2 – Research & Develop “Reporting Framework for Nature”
- 2022 - Phase 3 – Consultation and Dissemination (Finance & Civil Society)
- 2023 - Phase 4 - Voluntary Uptake by Financial Sector Worldwide
- 2025? – Uptake increasingly demanded by some Governments?



## Leaders' Biodiversity Summit, 75th UN General Assembly (UNGA), New York 15-30 September 2020,

The 75th United Nations General Assembly will look forward to **what the state of the world may be at its 100th assembly** if we don't act now.

The Leaders' Biodiversity Summit is very similar to the UN CBD. The rationale behind this leaders-only summit is to **highlight the urgency of the biodiversity issue we face at the highest levels.**

## IUCN World Conservation Congress, Marseille 7-15 January, 2021,

The International Union for Conservation of Nature (IUCN) forum is a hub of public debate, bringing together people from around the world to **discuss and develop solutions to the world's most pressing conservation and sustainability challenges.** It will demonstrate **innovative, scalable solutions to addressing critical challenges at the local and global levels**, highlighting efforts of stakeholders from all sectors across the globe, and from individual to collective actions.

## UN Convention on Biological Diversity (COP-15), Kunming, China May 2021 (tbc),

At this UN CBD, member states will establish **a new 10-year framework**, and re-assess their progress towards the convention's ultimate long-term goal, that people will be living in harmony with nature by 2050.

The conference will consist of the 15th Meeting of the Conference of the Parties to the **Convention on Biological Diversity**, the 10th Meeting of the Parties to the **Cartagena Protocol on Biosafety**, and the 4th Meeting of the Parties to the **Nagoya Protocol on Access and Benefit-sharing.**

# Join the initiative! | Contacts

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Is your organisation or government also interested in joining the initiative and be a frontrunner on nature-related financial disclosures?

IWG Membership closes on Sept 9th!

Join the full Taskforce early in 2021.

## Contact at Global Canopy

- Chris Hart: [c.hart@globalcanopy.org](mailto:c.hart@globalcanopy.org)

## Contact at WWF

- Hugo Bluet: [hbluet@wwf.fr](mailto:hbluet@wwf.fr)

## Contact at UNDP

- Kaavya Varma: [kaavya.varma@undp.org](mailto:kaavya.varma@undp.org)

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