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

Andrew W. Mitchell
Founder Global Canopy and NCFA

June 2020
Contents

1. Rationale for nature-related Disclosure
2. What are the Financial Risks and Impacts
3. Creating Momentum for Reporting
4. Launching the “TNFD”
5. Governance, Scope and Timeline
6. Join the initiative!
1. Rationale for a Taskforce on Nature-related Financial Disclosure (TNFD)

- **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.
3. What is Nature Related Dependency and Impact?

**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.

www.encore.naturalcapital.finance

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Definition</th>
<th>Examples</th>
<th>Time horizon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical risks</td>
<td>They can be event driven or longer-term <strong>shifts in ecosystem patterns</strong>. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption.</td>
<td>• <strong>Increased insurance claims</strong> due to fluctuating precipitation and flood patterns;</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Higher default risks</strong> caused by increased costs of raw materials as a result of low harvest yields</td>
<td></td>
</tr>
<tr>
<td>Transition risks</td>
<td>As policy and technology respond to natural capital issues, there is potential for a <strong>reassessment of the value</strong> of a large range of assets as costs and opportunities become apparent. The abruptness with which such re-pricing occurs could lead to <strong>stranded assets</strong>.</td>
<td>• <strong>Decrease in investment value</strong> caused by changes in consumer behavior;</td>
<td>Medium term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Higher default risks resulting from <strong>increased costs</strong> due to additional legal requirements regarding water management.</td>
<td></td>
</tr>
<tr>
<td>Reputational risks</td>
<td>The association of businesses sectors and investors with negative impacts on nature, such as deforestation, poses serious reputational risks that might <strong>drive consumers away</strong> from certain products or companies.</td>
<td>• <strong>Impaired reputation</strong> due to media coverage on the funding of activities with adverse impacts on nature;</td>
<td>Short term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• <strong>Loss of clients</strong> resulting from their impression that the FI does not sufficiently factor in nature-related concerns in its decision-making processes</td>
<td></td>
</tr>
<tr>
<td>Systemic risk</td>
<td><strong>Systemic risk from the exogenous biodiversity risk leads to impaired functioning of the financial system</strong> as well the risk created endogenously by the financial system.</td>
<td>• Beyond the circles of the financial industry, biodiversity loss is believed to have a deteriorating effect on food availability, health and socioeconomic development, with <strong>repercussions for well-being and productivity</strong>.</td>
<td>Medium term</td>
</tr>
</tbody>
</table>

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

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

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 is 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

**Partners**
- Global Canopy
- UNDP
- WWF
- UNEP-FI
- World Economic Forum
- UK Government - funding

**Governments/financial regulators**
- UK
- Switzerland
- France
- Netherlands
- Mexico
- South Africa
- Nigeria

**FIs & Corporates**
- AXA (France)
- Standard Chartered (UK)
- BNP Paribas (France)
- Mirova (France)
- Storebrand (Norway)
- Rabobank (Netherlands)
- Yes Bank (India)
- DBS Bank (Singapore)
- First Rand (South Africa)
- BANORTE (Mexico)
- SUDAMERIS (Paraguay)
- Business for Nature
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

- **Financial institutions** (banks, asset managers, pension funds and insurers)
  - Expertise: nature-related financial analysis, risk management, non-financial reporting

- **Steering Committee & Secretariat**
  - Expertise: Political agenda, project management, capacity-building

- **Co-Chairs**
  - Expertise: Leadership, political agenda

- **Corporates**
  - Expertise: business in high-impact-on-biodiversity activities, life cycle assessment, reporting,

- **Financial supervisors / Central banks**
  - Expertise: systemic risk, regulatory framework

- **Academics / think tanks**
  - Expertise: scientific evidence on the economic impacts of the degradation of nature
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.
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

Contact at WWF
• Hugo Bluet: hbluet@wwf.fr

Contact at UNDP
• Kaavya Varma: kaavya.varma@undp.org

Website: tnfd.info