

ESG

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Taskforce on Nature-related Financial Disclosures: Shifting capital flows to nature-positive activities

Summary

- Many sectors globally are significantly dependent on nature and ecosystem services, making them vulnerable to the risk of nature loss.
- The Taskforce on Nature-related Financial Disclosures (TNFD) developed a framework for organisations to assess and disclose their dependencies and impacts on nature, and identify nature-related risks and opportunities.
- Building on existing frameworks and standards, the TNFD recommends 14 disclosures structured around the four pillars of (i) governance, (ii) strategy, (iii) risk and impact management, and (iv) metrics and targets.
- The TNFD can support investors and corporates in increasing transparency on nature reporting, mitigating nature-related risks, identifying opportunities, and supporting regulatory compliance.
- Moving forward, climate and nature reporting is expected to become mainstream, with organisations getting more support from the government to increase capabilities in this area.

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Global dependence on nature

It is estimated that more than half of the world's total gross domestic product (around US\$44 trillion) is moderately or highly dependent on nature and ecosystem services to generate economic value, according to the World Economic Forum. Many companies are significantly dependent on nature across their operations and are vulnerable to nature-related risks due to overexploitation and climate change impacts. According to the TNFD, nature-related risks can refer to physical risks, transition risks or systemic risks:

1. **Physical risks:** Acute or chronic risks to companies that result from the degradation of nature and consequential loss of ecosystem services, which are usually location-specific e.g. oil spills, forest fires, pollution from pesticide use.
2. **Transition risks:** Risks that result from a misalignment of economic actors with actions aimed at protecting, restoring and/or reducing negative impacts on nature. These risks include policy risk, market risk, technology risk, reputational risk and liability risk. For example, a policy risk could be a new policy to mitigate negative impacts on nature.
3. **Systemic risks:** Systemic risks arise from the breakdown of an entire system, where going past a tipping point triggers a chain of other interconnected failures e.g. ecosystem stability risk and financial stability risk.

To address nature-related risks to long-term economic growth, the TNFD developed a framework for organisations to assess and disclose their dependencies and impacts on nature, as well as to identify nature-related risks and opportunities.

TNFD recommendations

The TNFD launched its disclosure recommendations in September 2023 to guide organisations on nature reporting, with the aim of shifting capital flows to nature-positive outcomes and align business priorities to global biodiversity goals e.g key elements of the Kunming-Montreal Global Biodiversity Framework's include 4 goals for 2050 and 23 targets for 2030. Among the 23 targets for 2030 include 30% conservation of land, sea and inland waters, 30% restoration of degraded ecosystems, halving the introduction of invasives, and US\$500 billion/annum reduction in harmful subsidies. The recommendations have been designed to be consistent with both the Taskforce on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB).

The TNFD recommends 14 disclosures for all sectors that are structured around the four pillars of (i) governance, (ii) strategy, (iii) risk and impact management and (iv) metrics and targets (Figure 1). In addition, the TNFD provides a set of metrics for measurement, which organisations would need to disclose to align with the TNFD framework, in the form of:

- **Core metrics:** There are 'core global metrics' that are relevant to many sectors and cover the main drivers of nature change (e.g. climate change, pollution, resource use/replenishment, pollution), and 'core sector metrics' that are specific to sectors that organisations operate in.
- **Additional metrics:** These are recommended for disclosure, where relevant, to best represent an organisation's material nature-related issues based on specific circumstances.

TNFD early adopters

320 organisations from over 46 countries have committed in January 2024 to begin publishing nature-related disclosures based on the TNFD Recommendations, as part of their annual corporate reporting for FY2023, FY2024 and FY2025. 33% of the first cohort of early adopters are financial institutions such as UOB and Standard Chartered, along with other Singapore-based companies such as CDL and Olam Group's Olam Agri and Olam Food Ingredients.

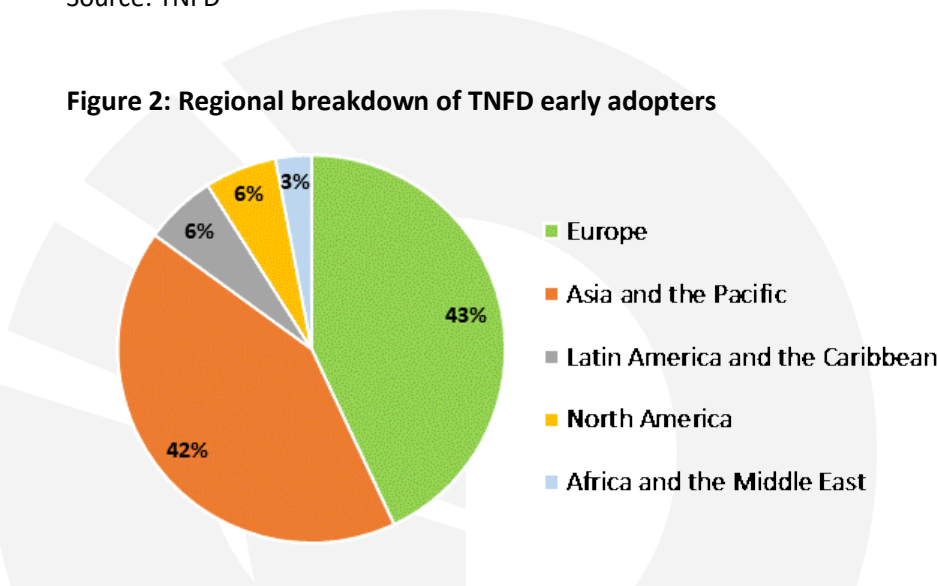
The first cohort of TNFD adopters represents around US\$4 trillion in market capitalisation, of which the majority are from Europe (43%) and closely followed by Asia and the Pacific (42%) (Figure 2). It is a hopeful sign that the market has started to commit to begin adopting the TNFD recommendations, that can enable organisations to better understand nature-related issues and opportunities linked to their businesses.

Figure 1: TNFD’s recommended disclosures

Governance	Strategy	Risk & impact management	Metrics & targets
<p>Disclose the organisation’s governance of nature-related dependencies, impacts, risks and opportunities.</p>	<p>Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation’s business model, strategy and financial planning where such information is material.</p>	<p>Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.</p>	<p>Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.</p>
<p>Recommended disclosures</p> <p>A. Describe the board’s oversight of nature-related dependencies, impacts, risks and opportunities.</p> <p>B. Describe management’s role in assessing and managing nature-related dependencies, impacts, risks and opportunities.</p> <p>C. Describe the organisation’s human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, affected and other stakeholders, in the organisation’s assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.</p>	<p>Recommended disclosures</p> <p>A. Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term.</p> <p>B. Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organisation’s business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.</p> <p>C. Describe the resilience of the organisation’s strategy to nature-related risks and opportunities, taking into consideration different scenarios.</p> <p>D. Disclose the locations of assets and/or activities in the organisation’s direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.</p>	<p>Recommended disclosures</p> <p>A(i) Describe the organisation’s processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its direct operations.</p> <p>A(ii) Describe the organisation’s processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s).</p> <p>B. Describe the organisation’s processes for managing nature-related dependencies, impacts, risks and opportunities.</p> <p>C. Describe how processes for identifying, assessing, prioritising and monitoring nature-related risks are integrated into and inform the organisation’s overall risk management processes.</p>	<p>Recommended disclosures</p> <p>A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.</p> <p>B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature.</p> <p>C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.</p>

Source: TNFD

Figure 2: Regional breakdown of TNFD early adopters



Source: TNFD

How is the TNFD framework useful to investors and corporates?

The TNFD framework can enhance the industry's transparency and consistency of nature reporting. Through a consistent framework using the core metrics, investors and corporates are able to compare the performance of different companies across sectors on nature-related issues. The common metrics can reduce confusion on reporting norms and enhance the transparency of disclosures from the industry, thereby building greater trust among stakeholders.

It also enables investors and corporates to better assess their exposure to nature-related risks, seize opportunities that can contribute to more sustainable business practices, and shift capital flows to nature-positive outcomes. With sustainability-related reporting practices on the rise, the TNFD can help organisations comply with existing and upcoming regulations related to climate and nature.

What's next?

Central banks and financial institutions are increasingly recognising nature loss as an important issue and a systemic risk to financial systems. Singapore's newly launched Singapore Sustainable Finance Association (SSFA), that aims to develop Singapore's sustainable finance ecosystem and best practices, is a case in point. The SSFA has identified natural capital and biodiversity as one of its focus workstreams, among other workstreams on carbon markets, transition finance, blended finance and taxonomy.

In view of climate reporting moving from a comply-or-explain basis to mandatory in Singapore for some companies in accordance with the ISSB standards, nature reporting may soon follow suit. As the TNFD recommendations are aligned with that of the TCFD and ISSB, climate and nature reporting can be integrated if organisations possess the capabilities to do so. Moving forward, governments in the region may start ramping up market capacity building efforts for both climate and nature reporting as these reporting requirements start to become mainstream.

As many of the TNFD early adopters come from the Asia and the Pacific, other organisations in the region may feel the pressure to start adopting TNFD recommendations as well. There may be increased expectations for investors and corporates to make nature-related disclosures moving forward, as the impacts of nature change become more apparent over time.

Sources: MAS, S&P, The Business Times, TNFD, UNEP, World Economic Forum

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