

Nature-Related Financial Disclosure

The success of business and industry are inextricably tied to the natural world. The acceleration of nature loss globally is an increasing source of risk to businesses and providers of financial capital. Over half of the world's GDP is dependent on nature, and in Australia, the dependence is particularly acute. Agriculture, tourism, mining, fishing, forestry and more depend on the health of our climate and the myriad of ecosystems within it. Our understanding of how nature not only contributes but drives and supports the success of Australia's businesses and our collective well-being will only grow as time elapses. This explains the growing interest in Nature-Related Financial Disclosures (NRFD) not only in Queensland, but globally.

What are NRFD and Who are the Actors Involved?

At the broadest level, NRFD refer to the practice of companies and organisations disclosing and acting on information about their financial risks, opportunities, and impacts related to the climate, biodiversity and natural resource factors. The idea of developing and delivering a risk management and disclosure framework for organisations to report and act on evolving nature-related risks is being led by a multinational coalition, the Taskforce on NRFD (TFDN). The TFDN is funded by Climate, Environmental and Food-related Government departments in Australia, Switzerland, France, Germany, Norway and the United Kingdom, as well as international organisations like the United Nations and more. The ultimate aim of the TFDN is to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

In its inaugural gathering in October 2021, the Taskforce established its commitment to crafting a risk management and disclosure framework under the TNFD. This framework is designed to be universally relevant, and adaptable by enterprises and financial establishments of varying scales, spanning industries and regions regardless of their preferred or required approaches. The attainment of objectives like reversing nature loss, fostering nature-positive outcomes, and navigating nature-linked risks hinges on the unified engagement of diverse businesses, both large and small, interlinked through supply chains, alongside financial institutions of every kind. The collective endeavour to recognise, appraise, govern, and unveil nature-associated interdependencies, effects, risks, and openings will be the cornerstone for achieving these ambitions.

Where is the TFDN Currently?

As per their webpage, the TFDN is now halfway through its two-year phase of design of the TNFD framework. The TNFD's complete recommendations will be published next month for market adoption. As it continues to develop the framework, the Taskforce aims to:

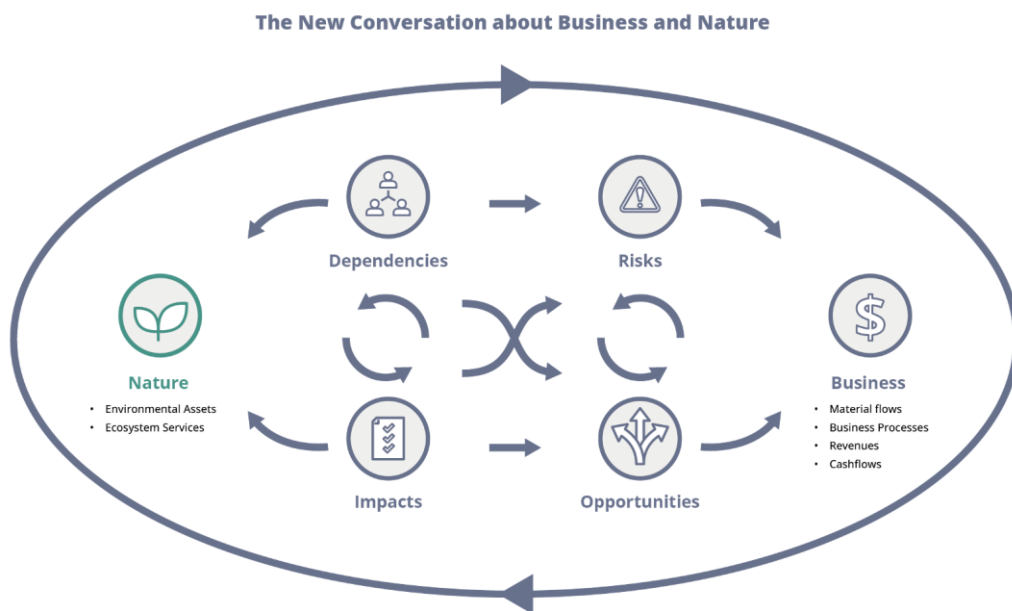
- Help drive **alignment** with the emerging global reporting baseline under development by the ISSB and best practice standards and tools already in use by market participants;
- Provide **adaptability and flexibility** regarding the approach to materiality to accommodate the preferences and regulatory requirements of report preparers and report users from organisations of all sizes and across all jurisdictions.

- Encourage early **action** by companies and financial institutions to begin reporting nature-related dependencies, impacts, risks and opportunities, given the urgent need to address both nature loss and climate change in an integrated approach; and
- Provide a structured path to increase disclosure **ambition** over time, recognising that this area is new to many organisations, but a rapidly growing strategic imperative for sound governance, strategy, risk management and capital allocation.

At the end of 2022, the TFDN published their fourth and final beta framework prior to market adaptation next month.

What is the Framework and how does it Function?

At the core of the TNFD Framework lie four fundamental pillars: nature-related interdependencies, effects, risks, and opportunities. The expanding realm of scientific research and understanding regarding nature, coupled with the resilience of the ecosystems on which society and business rely, underscores the evident necessity of appraising dependencies and impacts on nature. This evaluation remains vital for comprehensively evaluating the risks and opportunities for an organisation. The interaction of dependencies, risks, impacts and opportunities in regard to the natural world and industry is shown below.



Source: TFDN

In the initial consultations with market participants, many called for the Taskforce to provide practical 'how to' guidance to support corporate reporting activities. Recognising the relatively low level of understanding in business and finance about nature and its relevance to their operations, TFDN has developed an integrated assessment process for nature-related risk and opportunity management called LEAP. This includes four phases, following an initial scoping of organisational priorities:

- **Locate** your interface with nature;
- **Evaluate** your dependencies and impacts;
- **Assess** your risks and opportunities; and
- **Prepare** to respond to nature-related risks and opportunities and report.

Research and consultation with market participants resulted in the Taskforce's recommended disclosures for business and finance. Rather than outlining each of these, they've been copied in under the appropriate headings below.

TCFD-Aligned Disclosure Recommendations			
Governance	Strategy	Risk & Impact Management	Metrics & Targets
Disclose the organisation's governance around nature-related dependencies, impacts, risks and opportunities.	Disclose the actual and potential impacts of nature-related dependencies, impacts, risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages nature-related dependencies, impacts, risks and opportunities.	Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities where such information is material.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
<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>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 risks and opportunities have had and may have on the organisation's businesses, strategy, and financial planning.</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 where there are assets and/or activities in the organisation's direct operations, and upstream and/or downstream and/or financed, where relevant, that are in: high integrity ecosystems; and/or areas of rapid decline in ecosystem integrity; and/or areas of high biodiversity importance; and/or areas of water stress; and/or areas where the organisation is likely to have significant potential dependencies and/or impacts.</p>	<p>A. (i) Describe the organisation's processes for identifying and assessing nature-related dependencies, impacts, risks and opportunities in its direct operations.</p> <p>A. (ii) Describe the organisation's approach to identifying nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s) and financed activities and assets for assessment.</p> <p>B. Describe the organisation's processes for managing nature-related dependencies, impacts, risks and opportunities and actions taken in light of these processes.</p> <p>C. Describe how processes for identifying, assessing and managing nature-related risks are integrated into the organisation's overall risk management.</p> <p>D. Describe how affected stakeholders are engaged by the organisation in its assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.</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: TDFN

Use in Australia

The Australian Government supports the TNFD as a strategic funding partner and are a member of the TNFD Stewardship Council. The Department of Climate Change, Energy, the Environment and Water are working to ensure the final framework is fit for Australian purposes and build industry readiness.

A series of workshops were hosted with several leading industry bodies. Through the workshops, the Department identified a need for in-depth testing of the TNFD framework in Australia. To help meet this need, they engaged EY to design and implement five nationally significant piloting case studies to test the draft TNFD framework. Over twenty Australian organisations from the real economy and financial sector are participating. The pilots covered the following five sectors along value chains:

1. Critical mineral mining for producing clean energy technologies
2. Natural gas extraction for industrial manufacturing
3. Domestically sourced fresh beef and salmon sold at a supermarket
4. Property development and construction for residential real estate
5. Domestic cultivation of cotton for export

The findings and recommendations from these pilots will be provided to the TNFD to help shape the final framework, which will also publish case study reports summarising each pilot later this year.

Get Involved

The Responsible Investment Association of Australasia (RIAA) is the Convenor for the TNFD Consultation Group in Australia and New Zealand. The Government supports RIAA in this role to help drive Australian engagement with the TNFD.

RIAA is currently delivering a series of TNFD workshops for Australian and New Zealand businesses interested in engaging with the framework.

TNFD is adopting an open innovation approach that encourages market participants to co-create the TNFD framework. The Taskforce is looking for comments and feedback on all aspects of the framework. TNFD's consultation and engagement efforts are designed to facilitate feedback from market participants across a wide range of countries and sectors.

Businesses can express interest in joining the Consultation Group of Australia & New Zealand here: <https://tnfd.global/about/the-tnfd-forum/expression-of-interest/>