Over the last year, the UN Global Compact Network UK’s Climate Disclosures Working Group (WG) explored topics related to various climate-related reporting frameworks and standards to understand ongoing policy developments, tackle challenges and solutions, and support best practices for implementing the frameworks.

The Climate Disclosures Working Group held four virtual meetings between January-October 2023, during which experts and members shared their insights, experiences, and learnings on climate reporting. The meetings covered the following:

1. Transition Plan Taskforce (TPT) framework and insights from transition plan disclosures ........ 1
2. Scenario analysis from the financial institution perspective .................................................. 4
3. Quantifying the impacts of climate risks and opportunities .................................................... 5
4. International Sustainability Standards Board (ISSB) IFRS S1 and S2 .................................... 6
5. European Union (EU) Corporate Sustainability Reporting Directive (CSRD) ......................... 8
6. Taskforce on Nature-related Financial Disclosures (TNFD) .................................................. 10

This report summarises the key learnings from these meetings.

The Climate Disclosures Working Group is managed by Alexandra Ranft, Senior Project Manager, Environment team. Please get in touch for more information about the Working Group.

1. Transition Plan Taskforce (TPT) framework and insights from transition plan disclosures

Introduction to the TPT

The private sector has become increasingly aware of exposure to climate-related risks and opportunities. In response, many companies and financial institutions have defined climate-related targets, including entity-level net-zero pledges. Companies must now develop strategies for how they plan to deliver on their climate objectives whilst addressing their identified risks and opportunities.

By serving as levers for strategic change, high-quality transition plans allow:

- **Management teams** to develop, communicate, and operationalise climate strategies.
- **Investors** to assess the credibility of their client’s transition strategy, incentivise climate ambition, and manage risk exposure.
- **Insurers** to make more informed underwriting decisions.
- **Corporates** to manage climate risk exposure and carbon intensity of their value chain.
- **Regulators and policymakers** to support market integrity, consumer protection, & financial stability.

The TPT was launched by HM Treasury in 2022 and given a two-year mandate to develop a gold standard for transition plans for finance and the real economy. It aims to:
• Drive the transition by ensuring that financial institutions and companies prepare rigorous transition plans and support efforts to tackle greenwashing.
• Bring together leaders from industry, academia and regulators, and coordinate with international efforts.
• Inform future regulations – the Financial Conduct Authority (FCA) is actively involved and will draw on the TPT’s findings to strengthen disclosure rules. In December 2022, the FCA encouraged companies to consider the TPT’s outputs when making their transition plan disclosures.

**Finalised Recommendations & Workplan**

The TPT released their draft framework and implementation guidance at the end of 2022, when they entered a consultation period. In October 2023, the TPT published their finalised framework and supplementary documentation to help companies with transition planning:

1. **TPT Disclosure Framework** – provides recommendations on what should be disclosed as part of a high-quality transition plan.
2. **The Transition Planning Cycle** – details how to start or continue your transition planning journey, including references to useful resources and case studies.
3. **The TPT Disclosure Framework in the Global Landscape** – maps the TPT recommendations against the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations, the ISSB’s IFRS S2, and the European Sustainability Reporting Standards (ESRS).
4. **Legal Considerations relating to the TPT Disclosure Framework** – details the implications of English law and EU law for publishing a transition plan in accordance with the TPT Disclosure Framework.
5. **Additional External Resources** – third party work to support the development of transition plans.

The TPT has also released a draft **Sector Summary** which outlines decarbonisation levers and metrics for 40 sectors, as well as seven draft **Sector Deep Dives** for preparers in specific industries. This guidance is expected to be finalised in early 2024.

The TPT’s framework has been informed by three guiding principles for devising credible transition plans:

- **Ambition** – companies should consider the full range of levers at their disposal to contribute to and prepare for an economy-wide transition to net zero.
- **Action** – companies should focus on concrete actions which emphasise the short-term and strive for resilience.
- **Accountability** – the delivery of the plan should be enabled through clear governance mechanisms along with consistent, comparable, and decision-useful reporting and verification.

These principles feed into the transition planning guidance and the framework’s 5 disclosure elements, summarised below:

1) **Foundations** (strategic ambition; business model & value chain, key assumptions & external factors)
2) **Implementation strategy** (business operations; products and services; policies and conditions; financial planning)
3) **Engagement strategy** (engagement with value chain; engagement with industry; engagement with government, public sector, communities, and civil society)

4) **Metrics & Targets** (governance, engagement, business and operational metrics and targets; financial metrics and targets; GHG metrics and targets; carbon credits)

5) **Governance** (board oversight and reporting; management roles, responsibility, and accountability; culture; incentives and remuneration; skills, competencies, and training).

**Transition plan disclosures analysis**

Early versions of transition plans have so far varied in quality and lacked detail. In its analysis of net zero transition plan materials published voluntarily by FTSE 100 companies, EY found that:

- 96% of FTSE 100 companies comply with less than 50% of the new TPT guidance.
- Most companies comply with just 25% of the TPT’s guidance.
- 95% of companies have some kind of net zero goal, but only 22% have an operational plan to deliver it that aligns with TPT guidance. This is hindering external stakeholders’ capacity to judge whether companies will credibly deliver on their net zero pledges.
- 79% of companies do not include information on the financial plans underpinning their net zero strategy, and only 1% align with the relevant TPT guidance.

This analysis has shown that most organisations are underprepared to transition and typically fall into three archetypes, summarised below:

- Start of the journey (17% of FTSE 100 companies) – exploring timelines and the business case.
- Plan in progress (79% of FTSE 100 companies) – typically have a siloed approach to transition planning, lacking enterprise-wide integration and/or strategic oversight.
- Front of the pack (4% of FTSE 100 companies) – looking into capabilities and operationalisation.

Looking at average scores across the 19 individual TPT guidance elements, EY identified that:

- Companies typically score highest on the ‘Foundations’ element of the TPT framework, with most organisations having set targets of some description.
- Companies score highly against the sub-elements which have strong connections to TCFD, such as greenhouse gas emissions metrics and Board oversight and reporting.
- Many low-scoring sub-elements require significant cross-functional collaboration beyond the sustainability function (e.g., ‘Financial Planning’ and ‘Culture’).

Companies typically fall within the categories below depending on their approach to climate transition planning and their level of ambition:

- **Compliance and risk management** – for these companies, the main driver for their climate transition plans is the avoidance of sanctions and penalties.
- **Target setting and operationalising progress** – companies in this category generally view disclosure of their climate transition plans as an opportunity to evidence their progress towards addressing their climate risks and opportunities.
- **Embedding across the enterprise** – these companies typically view transition plans as an opportunity to place the climate transition at the core of their business.
- **Competitive differentiation** – for these companies, climate transition planning is key to creating commercial gains and long-term value and their focus is transforming the business.
2. Scenario analysis from the financial institution perspective

Financial institution context

Climate change poses a great risk to both individuals and businesses in terms of the physical effects and scale of the transition required. Climate change risks have changed the risk landscape for banks in that they will persist over time, rather than financial risks which have sharp and quick effects.

Scenario analysis is an important part of the risk management toolkit as it can help test the resiliency of business models and outline where cascading risks and tipping points lie. Whilst it is impossible to predict how things are going to happen, being able to test plausible and severe scenarios can prepare the business for what will inevitably be affected. The FCA requires the banking sector to run multiple economic scenarios on a regular basis to stress test against different impacts. This means that banks have a built-in advantage when it comes to resources around building scenario models.

NatWest uses scenario analysis to test both sides of how the climate transition interacts with the bank, i.e., outwards (how their lending affects the climate) and inwards (how climate affects those they lend to, and thus their balance sheet). Outwardly, this allows NatWest to look at the emissions that they finance, and then determine how to reduce these in line with their goal to halve emissions by 2030 and reach net zero by 2050. Because the ability to meet their emissions targets is heavily dependent on customer behaviour, NatWest instead aims to support customers through the right partnerships, right products, and right data and insights to help them make ‘green’ decisions.

Inwardly, NatWest is currently developing the capabilities to understand how different climate scenarios will affect every individual and business they lend to, and then how that will affect NatWest in return. For this reason, the outward and inward impacts align well because supporting their customers’ transition to net zero also reduces NatWest’s own exposure to credit risk.

As with the rest of the sector, there are several dependencies and limitations when it comes to available emissions data and model methodologies associated with this process. However, the FCA is pushing for business action in this area, rather than letting the pursuit of perfection stand in the way of progress.

NatWest’s approach to scenario analysis

The banking and insurance sector has access to useful support on climate scenarios. For example, the Network for Greening the Financial System (NGFS) provides up to date scenarios to help institutions understand how physical and transition risks could evolve in the future. The Bank of England has started performing climate-risk stress tests against three scenarios that NatWest uses to test their own balance sheets – Early Action, Late Action (ultimately transitions), No Additional Action (high physical risk).

There are limitations to these scenarios that NatWest is looking to address. For example, they are developing shorter term, more bespoke scenarios to consider business planning time horizons and interlinking risks, and using the UK Climate Change Committee’s (CCC) carbon budget scenarios to help provide more granular sector-specific information. NatWest is also looking to conduct mini scenario analyses for all parties they lend to so that they can determine how climate change will affect customers and the credit risk to NatWest.

The aim is not to make predictions about particular firms, but instead understand how different kinds of firms react to various climate scenarios, i.e., how physical risks could affect the costs or revenues of doing business. These financial impacts translate into overall credit worthiness of the business over time and can be influenced by the customer’s transition plan to reduce their risk profile. For
example, financial impacts may be reduced if a company demonstrates credible climate commitments and has plans to respond to various climate scenarios.

NatWest uses underlying data sets and the Partnership for Carbon Accounting Financials (PCAF) data scoring approach, but with a broad spectrum of customers (including small businesses), NatWest also uses local proxies to fill in data gaps. It is the hope that data quality will improve over time as more robust data and analytics are built.

3. Quantifying the impacts of climate risks and opportunities

Stages of climate change management

Corporates are currently in a ‘Transformation Era’ for climate change management, where businesses increasingly need to deal with climate risks and position themselves to capitalise on opportunities. Fewer clients are seeing climate change as a tick box exercise and more an opportunity for value that they need to engage with. The next stage is to move into the ‘Integration Era’ where sustainability becomes integrated into business as usual. Organisations need to understand their financial exposures relating to climate and how they compare against other risks so that they can determine whether mitigation is sufficient.

Understanding financial exposure to climate risk

Disclosure of impacts will become increasingly mandated. Understanding the expectations of financial and regulatory stakeholders is key to determining what analysis is required, although there is little consistency or standardisation so far.

Leading disclosures increasingly disclose financial impacts, albeit in different ways. For example, Enel, Unilever, and Allianz include quantified impacts relating to temperature fluctuations and water scarcity.

Quantifying financial impacts

Quantifying the financial impacts of climate change is challenging for several reasons:

- Limited knowledge – relating to how the risk or opportunity affects the business.
- Lack of data – for example, lack of product-level value chain information or sufficiently granular climate trends data for the geography that a client operates in.
- Methodological challenges – limited existing processes to handle these specific issues.
- Limited detailed guidance – approaches and solutions are emerging, but standardised guidance is currently under development.

ERM has designed a 3-step internal methodology to help clients quantify their financial impacts.

- Step 1 requires a client to assemble relevant information such as property information, energy usage, and procurement policies.
- Step 2 helps the business to identify how this information affects their revenue or costs.
- Step 3 helps a business to understand any limitations or assumptions and identify where there are data gaps and how these can be improved.

Outputs can then be presented in different ways, for example, showing the impacts to revenue or costs of specific line items, or sales associated with particular products. Financial impacts are useful for outlining the materiality of different types of risk, which is crucial for appropriate risk management and influencing decision-making amongst internal stakeholders.
It is important to assess how material the risks are, qualitatively at first, and then explore those material areas in greater detail. If there is a lot of uncertainty around certain risks, this could also be an indication that further work is required.

**Final lessons**

- Start early – the process takes time so allow time to review and adjust what’s been done already.
- Do it right – start from the ground up and prioritise the most material risk.
- Expect iterations – sometimes data isn’t available and that will affect the outcomes you can achieve.
- Involve as many stakeholders as possible, including new ones across various teams.
- Think about disclosures from the start as this will influence the process.

4. **International Sustainability Standards Board (ISSB) IFRS S1 and S2**

**IFRS S1** is the foundational document for the ISSB standards. Overall, S1:

- Asks for disclosure of material information about sustainability-related risks and opportunities with the financial statements to meet investor information needs.
- Applies TCFD architecture whenever providing information about sustainability.
- Requires industry-specific disclosures.
- Refers to sources to help companies identify sustainability-related risks and opportunities and information (for matters other than climate where S2 applies).
- Can be used in conjunction with any accounting requirements to deliver a holistic reporting package, but also leverages and benefits from concepts within the IFRS accounting standards.

IFRS S1 asks about sustainability-related risks and opportunities that could reasonably be expected to affect the company's prospects — its cash flows, access to finance, or cost of capital over the short, medium or long term. This means it is not concerned with all risk, so a materiality assessment should be conducted to determine what is most relevant. Information is material if omitting, misstating, or obscuring it could influence investor decisions.

A company’s ability to deliver financial value for investors is linked to its stakeholders, the society in which it operates, and the natural resources which it depends on. Building on the concepts of the Integrated Reporting Framework, IFRS S1 aims to enable companies to explain how it maintains its resources and relationships, how it manages its dependencies on them, and how its impacts on these give rise to sustainability risks and opportunities.

It is important for disclosures to be connected to financial statements, so the ISSB has made significant progress in facilitating connections between sustainability-related financial disclosures and financial statements, as well as ensuring that information in S1 feeds into S2. The two standards are designed to ensure that the package of information (financial statements + sustainability information) work well together to inform investors. This is reflected in the ISSB’s application of the [TCFD recommendations](https://wwwClimateDisclosuresWorkingGroup.org).

**Guidance for developing sustainability disclosures**
IFRS S1 points to sources of guidance to help companies identify which risks and opportunities to report on. A company should consider the Sustainability Accounting Standards Board (SASB) standards, and may consider the Climate Disclosures Standards Board (CDSB) Framework Application Guidance, industry practice, and materials of investor-focused standard setters to identify relevant risks and opportunities.

For topics beyond climate (where S2 can be applied), a company should consider the SASB standards, and may consider the CDSB Framework Application Guidance, industry practice, materials of investor-focused standard setters, the GRI standards, and ERSRs to identify what information to disclose.

**IFRS S2: Climate-related Disclosures**

**IFRS S2** is the first thematic standard which builds on the requirements of S1 and sets out the requirements for a company to disclose on its climate-related risks and opportunities, including physical and transition risks. As with S1, it fully incorporates the TCFD Framework, which is expressed in a comparison document that companies can refer to.

It should be noted that S2 needs to be applied with S1 – it does not work as a standalone standard and cannot be applied in isolation. This is because S1 establishes key concepts for connected information and determining materiality, which is then applied in S2.

**IFRS S2 Guidance**

The S2 guidance is a new addition from the exposure draft. The Application Guidance is required guidance that helps companies in various areas, one of these being the appropriate approach to scenario analysis. Companies with limited resources and limited exposure to climate risk will have a lower expectation for the level of disclosure within scenario analysis. In these cases, a narrative approach might be the most appropriate. A large multinational corporation with the skills, resources, experience, and high exposure to risk will be required to use scenario analysis that is more sophisticated.

The Application Guidance also includes information on how companies can use the GHG Protocol to measure their Scope 1, 2, and particularly Scope 3 emissions. While this is not a new concept, it provides additional guidance on ensuring transparency around this.

The Accompanying Guidance builds on the SASB standards and can be used with the Application Guidance.

**Effective date and reliefs**

IFRS S1 and S2 are effective for annual reporting periods commencing 1 January 2024 for reporting in 2025. However, companies can apply the standards from now to improve the approach over time.

Within the first year of application, there are several reliefs:

- Companies can limit disclosures to climate-related information (and start with more broad sustainability information in the second year).
- Later reporting is allowed - annual information can be provided with half year reporting.
- Scope 3 disclosure is not required.
- Companies do not need to apply the GHG Protocol if they are already using a different measurement approach.
- Companies do not need to provide comparative information in their second year if limiting to climate-related information in the first year.
5. European Union (EU) Corporate Sustainability Reporting Directive (CSRD)

State of sustainability reporting in the EU

Currently, the Non-Financial Reporting Directive (NFRD) requires EU companies in scope to publish a non-financial report on their ESG performance, either in their management report or as a standalone document. There is no assurance requirement or definition of materiality (aside from financial materiality), and companies have free choice on which reporting framework to use. This means that each member state applies this directive in different ways, leading to inconsistent and incomparable reporting across countries.

In response to this, the European Commission (EC) has adopted the CSRD as the new framework for ESG reporting, which includes 12 binding European Sustainability Reporting Standards (ESRS) and up to 120 mandatory non-financial KPIs and qualitative disclosures, developed by the European Financial Reporting Advisory Group (EFRAG).

Coming into effect on 1 January 2024, the CSRD will mandate reporting for a much larger group of companies (no longer just large Public Interest Entities (PIEs)) meaning that approximately 50,000 organisations will fall in scope. CSRD will require: sustainability disclosures to be included as part of the management report; limited assurance across all disclosures; and a double materiality assessment (financial materiality + impact materiality) to be undertaken.

When and to whom does CSRD apply?

CSRD will apply to EU companies that meet two of the following criteria:

- >250 employees (annual average)
- >€40M in net turnover
- >€20M in total assets

For large EU PIEs, this will apply from Financial Year (FY) 2024 for reporting in 2025. Other large companies will be required to report for FY 2025. Listed SMEs will also be in scope from FY 2026 onwards, with a deferral option in some cases.

Scoping considerations

UK companies will be impacted by CSRD in various ways. First and foremost, if a company is listed in the EU (either through shares or debt), then that company could be in scope for CSRD from 1 January 2024. From FY 2028, a non-EU parent company is subject to CSRD if it has:

- Substantial activity in the EU – i.e., it generated net turnover, greater than €150M in the EU for each of the last two consecutive years; and
- at least:
  - One subsidiary that meets the general scoping of the CSRD; or
  - One branch (in general, a physical presence) that generated net turnover greater than €40M in the preceding year.

There are three exemptions available under the CSRD:

- **The group exemption.** If a parent makes available a CSRD-compliant sustainability report that includes the entire group, all in-scope subsidiaries are exempt from preparing their own reports. However, this exemption does not apply to subsidiaries under the general scoping that are large PIEs (listed companies, credit institutions, insurance companies, pension funds,
etc). Therefore, these subsidiaries are still required to prepare a stand-alone CSRD-compliant report.

- **The ultimate non-EU parent exemption.** If a non-EU parent has multiple subsidiaries in the EU that meet the general scoping, for the first seven years one of the largest subsidiaries is allowed to prepare a consolidated sustainability report that includes only those subsidiaries that fall under the general scoping. This report needs to follow the reporting requirements specific to the general scoping.

- **The equivalency exemption.** The EC has the power to designate individual sustainability reporting frameworks or reporting regimes as ‘equivalent’ to reporting under the CSRD.

There is the potential for companies to use other sustainability reporting frameworks to fulfil reporting requirements. For this reason, a non-EU company could have the option to apply:

- the CSRD as drawn up (i.e., applying ESRSs); or
- a similar sustainability reporting framework that is considered ‘equivalent’ by the EC.

Although the Commission has not yet determined what would be considered an equivalent sustainability reporting framework, it will likely consider whether the other framework requires companies to disclose information on environmental, social, and governance matters; and whether the other framework requires companies to disclose information necessary to understand the company’s impacts on sustainability matters, and how sustainability matters affect the company’s development, performance, and position.

This will likely be a complex process, so it is important for a company to define what entities are in scope and which reporting strategy is most efficient for the organisation that allows compliance and considers wider stakeholder needs.

### Reporting in line with the CSRD

The draft ESRSs were launched 9 June 2023, and a public consultation lasted until 7 July. They were under a period of scrutiny until 31 July, when the European Parliament and the EC officially adopted the standards. The ESRSs include 12 standards, 2 cross-cutting (mandatory) standards and 10 sector-agnostic topic-specific standards covering various ESG topics. These 10 standards are only relevant based on the outcome of a double materiality assessment, which was one of the biggest changes to come out of earlier consultations. There were additional changes made to accommodate interoperability with ISSB.

There are 280 pages of standards, with 82 quantitative and qualitative disclosure requirements. EFRAG has recorded videos which provide an overview of these.

### The principle of double materiality

Double materiality allows a company to consider a wider group of stakeholders in their disclosures, rather than only investors. Double materiality requires businesses to look at both the impact of business activities on the outside world, and the impacts of the outside world on the business – a dual lens.

Double materiality is important because it prompts the business to choose which topics are most relevant to the report reader/user, as well as which topics will then need to be subject to assurance. The process for deciding what is material to the business needs to be structured and well-documented so that it can be scrutinised by an independent assurance provider. While companies may be familiar with assurance on their financial data, this is a new process to ESG-related topics and could have impact on the valuation of the company, so care and time must be taken to determine
how the business will provide the most useful information. The ESRs outline how an organisation should approach double materiality, and there is also the expectation that EFRAG will be releasing guidance on how this should be done in practice.

The assurance opinion will be based on compliance to each of the standards that are listed as material to the organisation, rather than a limited set of specific metrics. While current limited assurance is often in line with ISAE 3000 standards, the International Auditing and Assurance Standards Board (IAASB) has proposed a new standard International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, which will serve as a comprehensive, stand-alone standard suitable for any sustainability assurance engagements. The final standard will be issued before the end of 2024.

Collaboration to deliver CSRD

The breadth of requirements for CSRD is immense and will not be an easy task for most companies. Relevant and robust reporting will require cross-functional collaboration across teams including ESG/risk, sustainability, legal, financial, and human resources.

It is also important to collect information from across a company’s value chain for reporting within CSRD. Considering the complexities that come with Scope 3 reporting, when this is extrapolated across all the ESG topics required by the CSRD, this process may become very difficult. For this reason, it is crucial that companies plan ahead to determine how they will go about reporting in line with CSRD, and what resources will be required to do this.

Roadmap to compliance

Starting from the ground up, KPMG recommends that companies consider the following steps as a roadmap to achieve compliance with CSRD:

1. Establish: scoping and reporting strategy to determine how to make reporting relevant, efficient, and compliant.
2. Assess: metrics, processes, risks, and opportunities through a gap analysis.
4. Implement: governance structure and roadmap with internal controls.
5. Measure: prepare to report by collecting both quantitative and qualitative information.
6. Report: set up a system for reporting that determines who is responsible for which tasks and what the appropriate timelines are.

6. Taskforce on Nature-related Financial Disclosures (TNFD)

Business case for TNFD

Over half of the world’s GDP, approximately, $58 trillion, is highly or moderately dependent on nature and ecosystem services. However, our natural world is declining at an unprecedented rate, illustrated by the fact that 69% of the world’s wildlife has been lost since 1970.

In response to the ongoing nature crisis, the TNFD was established “to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.”

While TNFD is currently a voluntary framework, the Financial Conduct Authority (FCA) has made a statement on nature being its next focus, and the International Sustainability Standards Board (ISSB)
is also considering nature as a future standard, so it is likely that it will be brought into the mandatory space soon.

**Structure of the framework**

The **TNFD Recommendations** include 14 recommended disclosures which build on the 11 TCFD recommended disclosures, with 3 additions and 1 adaptation. There is also a high degree of alignment with IFRS S1 and S2, as well as the European Commission’s ESRS and CSRD.

Regarding the differences between TNFD and TCFD:

- On Governance, there is an additional disclosure on the organisation’s human rights policies and engagement activities, particularly with respect to Indigenous Peoples and Local Communities that currently manage natural resources.
- On Strategy, the additional requirement is on ‘priority locations’ which are either locations where the business has material impacts or dependencies and/or are sensitive/key areas for biodiversity.
- On Risk & Impact Management, there is an explicit reference to *upstream and downstream value chain* impacts.
- On Metrics & Targets, there is reference to disclosing on the company’s *dependencies and impacts* on nature.

In addition to the framework, there is a range of practical guidance provided to help companies prepare to disclose on the recommendations. These include:

- **Getting Started with the TNFD Recommendations**
- **Identifying and assessing nature-related issues: The LEAP approach**
- **Sector guidance**
- **Biome guidance**
- **Guidance on scenario analysis**
- **Guidance on target setting**
- **Guidance on engagement with Indigenous Peoples, Local Communities and affected stakeholders**

**LEAP approach**

The TNFD proposes a four stage ‘how to’ process – Locate, Evaluate, Assess, Prepare (LEAP) – to support organisations to identify, manage and report on nature-related dependencies, impacts, risks, and opportunities (DIROs).

While the LEAP approach is optional/voluntary, it can be a useful tool for companies in getting a sense of scale on these issues and identifying where further work is required. At present while TNFD is a voluntary framework, most organisations are conducting preliminary LEAP assessments, then applying TNFD to one of the most material business units/commodities in a test-pilot phase.

**Metrics and targets**

TNFD explicitly lists out core global metrics for nature-related DIROs with core sector metrics for material sectors. These core global indicators and metrics are aligned with the goals and targets of the **Global Biodiversity Framework (GBF)**.

With regard to impacts and dependencies, TNFD sections its metrics and targets based on the major drivers of ecosystem and biodiversity loss as identified by the **Intergovernmental Science-Policy**
Platform on Biodiversity and Ecosystem Services (IPBES). On climate change, it refers to the IFRS S2 metrics, and then includes metrics on land/freshwater/ocean use change, pollution, resource use, and invasive alien species. There are also placeholder metrics around the ‘state of nature.’

On risks and opportunities, these are also explicitly listed.

PwC and WBCSD TNFD pilot findings

PwC and the World Business Council for Sustainable Development (WBCSD) conducted a TNFD pilot study with 23 organisations across the land use, energy, and built environment sectors. Following this, they published a web page and report detailing TNFD ‘how-to’ guidance at differing levels of maturity, the key findings from the pilot programme, and LEAP-aligned participant use cases.

The key takeaway from the pilot was that integration of nature-related issues within the core business strategy is critical – this is not an isolated standalone exercise on nature. Additionally, most pilot companies conducted qualitative, rather than quantitative, scenario analysis and found this a useful and interesting exercise for preliminary understanding. For this reason, it is recommended as a first step for companies.

Alignment between TNFD and CSRD ESRS E2-5 disclosure requirements

There is a high degree of alignment between TNFD and ESRS disclosure requirements, so companies choosing to report on TNFD now will also be preparing to disclose on CSRD if their company is within scope.

In terms of key differences, ESRS disclosure requirements do not include a) references to dependencies, and b) required disclosure of priority locations.

The Climate Disclosures Working Group will resume activities in 2024. If you have questions about the Group, please contact Alexandra Ranft.
List of contributors

Guest speakers

Environmental Resources Management (ERM)  KPMG
EY  NatWest Group
IFRS Foundation  PwC
Transition Plan Taskforce

Climate Disclosures Working Group members

Coats plc  NEC Europe Ltd
Diageo plc  Petrofac
DWF LLP  Ricardo plc
Herbert Smith Freehills  ScottishPower
Legal & General Group plc  Severn Trent
Marshalls plc  Shoosmiths LLP
Modulaire Group  SSE
Mott MacDonald  Verisk Maplecroft