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# FCA publishes paper on nature-related risk for financial institutions

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The FCA's Climate Financial Risk Forum has published a paper on "Nature-related Risk: Technical Data Guidance for Financial Institutions" (the ''**Paper**'').

*What does the FCA's Paper cover?*

The Paper serves as a useful summary of the potential relevance of nature on financial institutions and covers the following fundamental concepts:

- The nature data landscape;
- Quantifying nature risks;
- Nature-based opportunities; and
- Putting theory into practice.

The Paper also includes useful examples and case studies on the types of nature-related data available and how such data is being considered by financial institutions and forms part of their risk management currently and how this may evolve over time.

*How is this relevant?*

To understand how this may impact UK financial institutions, it is helpful to revisit the broader sustainability reporting landscape which nature-related reporting may become part of.

For several years, the FCA has mandated that the Taskforce on Climate-Related Financial Disclosures (the "**TCFD**") recommendations are reported on by a broad range of FCA-authorised firms. The TCFD has now been disbanded, and instead, the International Financial Reporting Standard's International Sustainability Standards Board (the ''**ISSB**'') monitors compliance with the TCFD and has embedded the TCFD recommendations into their own sustainability reporting standards (the "**ISSB Standards**"). The ISSB Standards are structured to be modular and the ISSB has committed that it will consider the Taskforce on Nature-Related Financial Disclosures (the ''**TNFD**'') recommended disclosures to be embedded into the ISSB Standards in the future.

The current UK government has set out its aims to make endorsement decisions on the ISSB Standards by Quarter 1 2025, which is imminent[1]. It is anticipated that the ISSB Standards, which the UK seems highly likely to endorse and adopt, will then operate as the replacement of the TCFD and will become the new basis for sustainability reporting. The Paper sets out that it is anticipated that the ISSB Standards, the UK reporting standards and the TNFD will be aligned and highlights "that it is widely anticipated that the pathway to disclosures for nature in the UK will be similar to that already paved by climate" (i.e. by the TCFD). The Paper therefore suggests a clear momentum towards nature-related reporting in the coming years.

With many financial institutions grappling with the interoperability of the ISSB Standards, the TCFD, the EU's Corporate Sustainability Reporting Directive (the "**CSRD**") and other jurisdictional requirements, it will be welcomed that the FCA notes that the TNFD incorporates "double materiality", a core concept under the CSRD, with the Paper setting out that "TNFD recommendations, LEAP approach and associated metrics could be incredibly useful tools in undertaking a double materiality assessment for the CSRD and reporting according to the ESRS." It could be that for nature-related reporting, if the ISSB Standards, set to be endorsed by a significant number of jurisdictions, and the CSRD can align with the TNFD, there could be at least one area of interoperability in the ever complex area of sustainability reporting.

For further background information on the TNFD, please refer to our previous dedicated alert on this topic here or contact us at ukreg@proskauer.com

[1] UK Sustainability Reporting Standards - GOV.UK

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