



Current Topics

July 2022

1. TCFD Reporting
2. The ESG spotlight turns to natural capital

TCFD Reporting





Government's consultation response

Task Force on Climate Related Financial Disclosures (“TCFD”)

In June 2022 the consultation outcome from the Government response to “Climate and investment reporting: setting expectations and empowering savers” was published. Two major areas were discussed – TCFD Reporting and Implementation Statements

More can be found on: [Government response: Climate and investment reporting: setting expectations and empowering savers - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/climate-and-investment-reporting-setting-expectations-and-empowering-savers/proposed-amendments-to-the-statutory-guidance-governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes)

Within their TCFD requirements, financial institutions **now need to include a portfolio alignment metric** which describes the extent to which their **activities are aligned with the climate change goal of limiting the increase in the global average temperature to 1.5°C** above pre-industrial levels (i.e. with the goals of the Paris agreement).

Trustees must select and report on a minimum of one **absolute emissions** metric, one **emissions intensity** metric, one **portfolio alignment** metric and one **additional climate change metric**.

Metric	Examples under the 2021 guidance ¹	Examples under the updated 2022 guidance ²
Absolute Emissions	<ul style="list-style-type: none"> •Total Greenhouse Gas (“GHG”) emissions 	<ul style="list-style-type: none"> •Total GHG emissions
Emissions Intensity	<ul style="list-style-type: none"> •Carbon Footprint (<i>recommended</i>) •Weighted Average Carbon Intensity (“WACI”) 	<ul style="list-style-type: none"> •Carbon Footprint (<i>recommended</i>) •WACI
Portfolio Alignment	<ul style="list-style-type: none"> •Not required 	<ul style="list-style-type: none"> •Binary target measurements •Benchmark divergence models •Implied temperature rise
Other	<ul style="list-style-type: none"> •Portfolio alignment metric (no metrics explicitly specified) •Climate value at risk (“VaR”) •Data quality 	<ul style="list-style-type: none"> •Climate VaR •Data quality •Carbon price(s) •Proportion of assets materially exposed to physical risks •Proportion of assets materially exposed to transition risks •Proportion of assets aligned toward climate-related opportunities •Amount of senior management remuneration impacted by climate considerations •Amount of expenditure or capital investment deployed toward climate risks and opportunities

Schemes with a year end date on or after 1 October 2022 need to consider an appropriate fourth metric for their reporting requirements

The ESG spotlight turns to natural capital

Protecting natural capital is the next big challenge and an essential component of mitigating climate change



What is biodiversity and natural capital?

- **Biodiversity** is the variety of living things on Earth and includes the variability within and between species, and within and between ecosystems;
- **Natural capital** includes the services the ecosystem provides to society and economies.



Land



Oceans



Freshwater



Atmosphere

- Over half of the world's economic activity is highly or moderately dependent on nature¹



Taskforce on Nature-related Financial Disclosures



The TNFD published its beta framework on 15 March 2022 and its second iteration, including draft metrics in June 2022. TNFD is in a consulting phase ahead of producing the final recommendations in September 2023.

The TNFD is aiming to replicate the success of the Taskforce for Climate-related Financial Disclosures (TCFD):

- It seeks to understand the interactions between business and natural capital;
- It aims to agree a framework to monitor nature impacts to encourage businesses and investors to minimise negative impacts on nature and maximise positive impacts
- The TNFD will create a toolkit for business leaders and the financial community to allocate capital away from nature-negative and towards nature-positive outcomes

Mercer sits on the TNFD forum and is actively involved in providing feedback and input to the TNFD



What can investors do now?

Sustainable investment pathway



- Incorporate natural capital considerations into your investment beliefs.



- Make nature-positive statements in sustainable investment policies and stewardship policies.



- Understand how asset managers are monitoring and measuring natural capital metrics.



- Understand how asset managers integrate natural capital considerations into the management of your investment portfolio.
- Understand your exposure to high risk sectors (e.g. food producers)
- Allocate to a thematic fund.



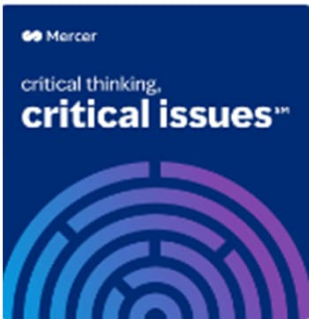
Find out more...

ESG

The ESG spotlight turns to natural capital



<https://www.uk.mercer.com/our-thinking/environmental-social-governance/the-esg-spotlight-turns-to-natural-capital.html>



<https://www.mercer.com/our-thinking/wealth/podcast-critical-thinking-critical-issues.html>

Podcast episode 22 – Making waves: A spotlight on water scarcity

<https://www.uk.mercer.com/our-thinking/environmental-social-governance/the-esg-spotlight-turns-to-natural-capital.html>

<https://insightcommunity.mercer.com/>



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Investing in Natural Resources – A Primer

Private market insights



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