Frameworks: The Checklists for Climate and Nature Risk

Module 4 Companion 2 of 6 lessons

For complete beginners. After this companion you will be able to explain the four TCFD pillars, walk through the four LEAP steps for nature risk, and score how mature a bank's climate-risk practice is.

Two checklists agreed around the world

Imagine your boss says, "Deal with climate risk." Where would you even start? That is the problem TCFD and TNFD solve. They are not laws and not maths; they are *checklists*, agreed around the world, that turn a vague worry into a list of concrete things every institution should do. TCFD covers climate; its younger sibling TNFD covers nature. Learn the structure once and you can read any bank's climate report and know what to look for.

Start Here: what you need to know first

A few workplace words make the frameworks click. Meet them first.

governance and who watches risk. Inside a bank, who is supposed to watch for risk? The **board of directors** sets the **risk appetite**, a plain statement of how much risk the bank is willing to take. A **chief risk officer** (CRO) runs the day-to-day watching. And the work is split across **three lines of defence**: the business that takes the risk, the risk team that checks it, and the auditors who check the checkers. Climate risk fits into this existing machinery.

managing versus disclosing. Two jobs sound alike but differ. **Managing** a risk means doing something about it inside the firm: spotting it, measuring it, setting limits. **Disclosing** a risk means telling outsiders, such as investors and regulators, what you found. Module 4 is about managing; the next module is about disclosing. A quick test: if a sentence is about a public report, it is disclosure, and it belongs to Module 5.

bank capital, in one breath. Banks are required by law to hold a cushion of their own money, called **capital**, so they can absorb losses without collapsing. The international rulebook for how much is named **Basel**, after the Swiss city where it was written. You do not need the details yet; just hold the idea that a bank must keep enough capital, and that climate losses eat into that cushion. Lesson 5 teaches the actual ratio.

Scope 1, 2 and 3 emissions. When we count a company's greenhouse-gas emissions we sort them into three buckets set by the GHG Protocol. **Scope 1** is what the company burns directly (its own boilers and vehicles). **Scope 2** is the emissions from the electricity it buys. **Scope 3** is everything else up and down its value chain: suppliers, customers, and, for a bank, the companies it lends to and invests in. For a bank, Scope 3 is by far the largest, on measured evidence hundreds of times its own direct emissions, which is why it matters so much.

ecosystem services and natural capital. Nature quietly does work the economy depends on: bees pollinate crops, wetlands hold back floods, forests clean water. Economists call these free services **ecosystem services**, and the stock of nature that provides them **natural capital**. When a bank lends to a farm or a fishery, it is exposed to the health of that natural capital, which is why nature risk now belongs with climate risk.

The core idea 1: the four pillars of TCFD

TCFD stands for the Task Force on Climate-related Financial Disclosures. Its advice is organised into four pillars, and they are easiest to remember as four questions a bank must answer about itself.

1. **Governance:** who is in charge of climate risk? (This is where the board and the chief risk officer you just met come in.)
2. **Strategy:** how could climate change reshape our business over time?
3. **Risk Management:** how do we find, assess, and handle these risks? This is the operational heart, the pillar Module 4 lives inside.
4. **Metrics and Targets:** what do we measure, and what are we aiming for? (For example, the Scope 1, 2, and 3 emissions you just met, and a net-zero goal.)

Notice that only the third pillar is about *managing*. The fourth, metrics and targets, shades into *disclosing*, which is why it reappears in Module 5. Keeping the managing and disclosing jobs apart is exactly the distinction you learned a moment ago.

The core idea 2: from climate to nature, with LEAP

Climate is not the only thing the economy leans on. It also leans on nature, the ecosystem services and natural capital you just met. TNFD, the Taskforce on Nature-related Financial Disclosures, extends the same idea to nature, and it offers a four-step recipe with the friendly name **LEAP**:

Step	Plain meaning
Locate	Where does our business touch nature?
Evaluate	Which dependencies and impacts matter?
Assess	How big are the risks and opportunities?
Prepare	What will we do and report?

One subtlety worth holding: carbon is the same everywhere (a tonne is a tonne), but nature is *local*. A bank's risk to a wetland depends on exactly which wetland. That is why nature work always starts by locating.

The core idea 3: how mature are we? A simple score

Frameworks are nice, but how do you tell a bank that is serious from one that is just talking? You score it. A common rubric gives each of the four pillars a mark from 0 (absent) to 3 (advanced), then adds them up for a total out of 12.

Worked example, every step shown

A Thai bank is reviewed against the four pillars.

- Governance: the board discusses climate twice a year but owns no targets. Score 2.
- Strategy: climate is mentioned but not built into plans. Score 1.
- Risk Management: climate enters the credit-risk process for big loans. Score 2.
- Metrics and Targets: it reports Scope 1 and 2 and has set a first emissions target. Score 2.

Add them up: $2+1+2+2=7$ out of 12. On the usual scale (0 to 3 absent, 4 to 6 basic, 7 to 9 developing, 10 to 12 advanced), a 7 places the bank in the **Developing** band. A single digit cannot capture a whole bank, but it does one useful thing: it points to the weakest pillar (here, strategy) as the place to improve next.

Now you are ready

You can now read the architecture of any climate report. Next, **Handout Chapter 2** goes deeper on the Risk Management pillar and the regulatory landscape (the Bank of Thailand, Singapore's MAS, and others). Then watch **Lesson 2 (Deck L2)**, which adds the nature metrics and a research look at why disclosure does not always change behaviour.

Check yourself

1. Which TCFD pillar is the operational heart that Module 4 lives in? *(Risk Management, the third pillar.)*
2. What does the L in LEAP stand for, and why is it first? *(Locate; because nature risk is local, you must find where you touch nature before anything else.)*
3. A bank scores 3, 3, 2, 2 across the pillars. What is its total and band? *(10 out of 12, advanced.)*
4. Which pillar shades into Module 5's reporting job? *(Metrics and Targets.)*

Mini-glossary. *TCFD:* the climate-risk checklist, four pillars. *TNFD:* the nature version, with the LEAP steps. *Maturity score:* pillars marked 0 to 3, summed out of 12, to show how serious a bank's practice is.

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