



Paris, 13 December 2023

NGFS publishes a Technical Document providing recommendations for the development of nature-related scenarios

Today the Network for Greening the Financial System (NGFS) published a Technical Document providing *Recommendations toward the development of scenarios for assessing nature-related economic and financial risks*.

The recommendations made in the Technical Document are built on an extensive literature review, with inputs from a group of external experts. The Technical Document lays the groundwork for future development of nature-related scenarios.

The Technical Document on nature scenarios is a key step in the NGFS' efforts to help mainstream the consideration of nature-related risks, by providing tools to guide action by central banks and financial supervisors. The NGFS Taskforce on Biodiversity loss and Nature-related risks, had recently produced a beta version of its [Conceptual framework on nature-related financial risks](#), which provides a common language on the risk assessment process and a guide for action by central banks and financial supervisors. This technical document is an important next step in the work of the Taskforce. It sets out our recommendations on the development of scenarios that will help central banks and supervisors assess how our economies and financial systems might be affected by various assumptions of nature-related physical risks and transition policies.

Ravi Menon, Chair of the NGFS and Managing Director of the Monetary Authority of Singapore:

"We need to better understand and manage the economic and financial implications from the twin crises of nature loss and climate change. Building on the conceptual framework on nature-related financial risks, this Technical Document outlines key recommendations for developing scenarios to evaluate nature-related economic and financial risks. While the NGFS will leverage on existing knowledge in building climate-related scenarios, the highly localised impact of nature loss introduces complexities on data needs and modelling capabilities. We hope to inject further rigor and advance the work of central banks and financial supervisors collectively on this endeavour."

The NGFS considered specific challenges in developing this Technical Document:

- Nature scenarios cannot dismiss the specific features of nature-related risks (such as the difficulty to be captured by a single metric, greater consideration for granularity in assessment due to specific biomes, regions and sectors);
- Models currently used for climate scenarios are likely not well-suited to capture all nature-related issues, which means that additional models and approaches may be needed;
- It is commonly agreed that, in order to fully appreciate nature-related risks, it is necessary to understand the potential indirect (or cascading) impacts throughout value chains of nature-related

risks. However, it remains to be seen whether some existing models and tools can be used to further this purpose.

The publication addresses this particular backdrop by:

- (i) envisioning consistent narratives through which different hazards (i.e. potential sources of physical and transition risks) can be identified;
- (ii) exploring methods and tools (e.g. models and data needs) through which the economic and financial impacts of these hazards and the ability to mitigate them can be assessed;
- (iii) providing a list of options for central banks and supervisors to move forward with the development of nature-related scenarios, both in the short term and in the longer term.

Emmanuelle Assouan, Co-chair of the NGFS Taskforce on Biodiversity Loss and Nature-related Risks and Director General for financial stability and operations at Banque de France:

It is of paramount importance that central bankers, supervisors and financial actors at large be armed with tools that allow them to accurately estimate the plausible impacts of nature-related hazards and policies on the financial system. This Technical document is a major first step in this direction. We hope it will quickly pave the way towards macroeconomic models sensitive to nature-related risks, then full-fledged scenarios and, in time, other nature-related milestones like stress tests.

Marc Reinke, Co-chair of the NGFS Taskforce on Biodiversity Loss and Nature-related Risks and head of the Sustainable Finance Office at De Nederlandsche Bank:

The development of scenarios is key to better assess and act on nature-related financial risks. Although the road ahead is still long and not without serious challenges, this Technical Document and its recommendations provide a solid foundation to build on. With little time to waste, we should keep moving forward on the important journey towards developing better forward-looking assessments of nature-related financial risks.

The NGFS released the Technical Document during the 8th edition of the Green Finance Research Advances Conference, an international research conference for academics and professionals, held at the Banque de France headquarters and co-organised by Banque de France and Institut Louis Bachelier.

This launch session sought to further highlight the NGFS' work on this new frontier in nature-related work of, and illustrate the specificities of nature-related scenarios and their relevance to the mandates and work of central bankers and supervisors.

About the NGFS

The Network for Greening the Financial System (NGFS), launched at the Paris One Planet Summit on 12 December 2017, is a group of central banks and supervisors, which on a voluntary basis is willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy. The NGFS brings together 129 central banks and supervisors and 21 observers. Together, they span across five continents, operate in economies that account for more than 88% of global greenhouse gas emissions and are collectively responsible for the supervision of all global systemically important banks and 80% of the internationally active insurance groups. The NGFS is chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore. The Secretariat, headed by Jean Boissinot, is provided by Banque de France.

For more details, visit the [NGFS website](#), [Twitter account](#) and [LinkedIn account](#) or contact the NGFS Secretariat at Banque de France sec.ngfs@banque-france.fr

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