

Nature-related financial disclosures have arrived: Release of the prototype TNFD framework

On 15 March 2022 the Taskforce on Nature-related Financial Disclosures (TNFD) released the first beta version of its nature-related risk and opportunity disclosure framework.

As our previous briefings on the TNFD have emphasised¹, whilst the risks and opportunities posed to businesses by climate change have increasingly become embedded in corporate decision making and disclosure practices, the business risks posed by the destruction of the world's natural resources (such as biodiversity, oceans and soil quality) have been given comparatively little emphasis. This is in spite of the fact that approximately US\$44 trillion of economic value generation - which equates to more than half of the world's economic output - is moderately or highly dependent on nature.

The TNFD was established in response to the growing appreciation of the need to factor nature into business and financial decision making - with the TNFD's ultimate aim being to help facilitate a shift in global financial flows away from nature negative outcomes and towards nature positive outcomes. The taskforce responsible for developing the framework is made up of 34 senior executives drawn from corporates, financial institutions and market intermediaries around the world collectively representing institutions with a combined market capitalisation of over US\$3.1 trillion, over US\$18.3 trillion in assets under management and a footprint in over 180 countries.

In response to the views expressed by market participants, the prototype TNFD disclosure framework builds upon, and is structured in a very similar manner to, the framework generated by the Taskforce on Climate-related Financial Disclosures (TCFD) in respect of the disclosure of climate-related risks and opportunities. Responsive to market feedback and testing, further prototype versions of the TNFD framework will be released throughout 2022 and 2023. The Taskforce on Nature-related Financial Disclosures

expects to publish its final recommendations in late 2023 after closing the formal feedback process on 30 June 2023.

This is an exciting time for corporates and financial institutions to engage with the framework, consider how it will impact operations and broader business mindset, and help shape the framework in various ways. Those who take a proactive approach will get a head-start on what they will need to do to comply when the framework is published.

This briefing is a tool to help business navigate the prototype framework and the key concepts and processes.

Content of the prototype TNFD framework - 3 key components

The prototype TNFD framework includes three key sections:

1. The first section provides a **summary of nature-related concepts and definitions**. The aim of this section is to provide companies with a usable set of science-based concepts with which they can assess their relationship with nature, including their business's nature-related risks and opportunities.
2. The second section sets out the TNFD's **draft disclosure framework**. The draft disclosures are oriented around the four pillars of governance, strategy, risk management, and metrics & targets (mirroring the pillars of the TCFD). Each pillar includes several recommended disclosures, the particular requirements of which are explained in further detail.
3. The third section introduces a **model assessment approach** designed to practically assist organisations when they are ascertaining and evaluating their nature-related risks and opportunities.

Fundamental nature-related concepts and definitions

Over the past decade market participants have become increasingly well-acquainted with climate change

¹ <https://my.slaughterandmay.com/insights/client-publications/beyond-tcf-the-rising-tide-of-climate-related-obligations> and <https://my.slaughterandmay.com/insights/briefings/nature-the-next-esg-frontier-for-corporates>

terminology. However, whilst climate change terminology has become an essential element of the modern business lexicon, no equivalent vocabulary exists for nature and nature-related risks. The TNFD aims to fill this gap. Amongst many other definitions, the TNFD defines **natural capital** as the stock of renewable and non-renewable resources that combine to yield a flow of benefits to people. Natural capital underpins the delivery of **ecosystem services** which are the goods and services provided by ecosystems that are ultimately enjoyed by people, society and organisations. The TNFD defines **dependencies** as ecosystem services that an organisation relies on to function. **Nature impacts** are changes in the state of the quality or quantity of natural capital. **Nature-related risks** are the potential threats posed to an organisation linked to its, and other organisations', dependencies on nature and nature impacts. Conversely, **nature-related opportunities** are activities that can create positive outcomes for organisations and nature by avoiding or reducing negative impacts on nature, or actively contributing to its restoration. In addition to providing companies with a conceptual roadmap to help them understand their relationship with nature, the prototype TNFD framework emphasises that the complex interplay of nature-related dependencies and impacts over time can result in earnings and cashflow vulnerabilities for companies. These corporate vulnerabilities can, in turn, translate into market, credit, and liquidity risks. The Taskforce's aim is that by providing companies with a set of terminology to help them engage with nature, they are also providing companies with the tools needed to better assess their financial risk profile for the years ahead.

Draft disclosure recommendations

The publication of a standardised set of disclosure recommendations for nature-related risks and opportunities is founded on the premise that transparency of information through disclosure better facilitates risk and capital allocation decisions by corporates, investors, and lenders. As nature-related financial disclosures become more widespread the financial implications of corporate nature-related dependencies and nature impacts will become increasingly evident.

The TNFD draft disclosures are designed to (i) provide better nature-related information to support business strategy and risk management at the board level; (ii) promote more informed investment, credit, and insurance decisions by financial institutions; and (iii) enable a stronger understanding of the concentrations of nature-related risks and opportunities, based on insights into nature dependencies and impacts.

The TNFD has explicitly sought to adopt an approach consistent with the TCFD disclosures for climate change risks and opportunities. Like the TCFD disclosure recommendations, the TNFD draft disclosure recommendations are divided into pillars dealing with **governance, strategy, risk management, and metrics & targets**. For instance, under the strategy pillar companies

should “disclose the actual and potential impacts of nature-related risks and opportunities on the organisation’s business, strategy, and financial planning.” Under the governance pillar companies should “disclose the organisation’s governance around nature-related risks and opportunities.”

Each pillar is supplemented by various recommended disclosures, which explain in more depth the types of disclosures that are expected under each of the four pillars. The recommended disclosures are themselves fleshed out in more detail by guidance provided in the draft framework. Although the current prototype of the draft disclosure recommendations includes disclosure guidance relevant to all sectors, it is anticipated that sector specific disclosure guidance will be incorporated into subsequent beta releases of the TNFD framework. When disclosing under the draft TNFD framework, companies should consider risks and opportunities over the short term (less than 2 years), medium term (2-5 years), and long term (more than 5 years). A company should ensure that its disclosures are based on (i) an assessment of its nature-related dependencies and nature impacts; (ii) a consideration of geographic location; (iii) a consideration of its capabilities for nature-related risk and opportunity assessment; and (iv) a statement of the present and future scope of its nature-related disclosures.

Nature-related risk and opportunity assessment approach: LEAP

In order to help more organisations practically incorporate nature considerations into their enterprise and portfolio risk management processes, the TNFD has also developed a nature-related risk and opportunity assessment approach called LEAP. The LEAP assessment approach is voluntary guidance intended to support internal nature-related risk and opportunity assessments within corporates, and thereby help inform strategy, governance, and risk management decisions (including disclosure decisions consistent with the TNFD draft recommendations). The LEAP approach has four component limbs. Companies should:

- **Locate** their interface with nature
- **Evaluate** their dependencies and impacts on nature
- **Assess** their nature-related risks and opportunities; and
- **Prepare** to respond to nature-related risks and opportunities.

Each limb of the LEAP approach is supplemented by further sub-guidance. To take one example, when locating their interface with nature, companies should seek to identify at which geographic locations their business is interfacing with ecosystems that are areas of high biodiversity importance, water stress, or low ecological integrity. They should then seek to ascertain which of their sectors, business units, or value chains are interfacing with nature at such locations. The TNFD notes that LEAP is designed as

an iterative process, in other words it is intended for repeated use across business lines and locations rather than as a 'one-off'. The Taskforce makes clear that the current version of LEAP is an early prototype and that feedback from market participants is welcomed.

A tailored version of LEAP has also been created by the TNFD specifically for financial institutions, recognising that not all financial institutions will make location-based capital allocations (and therefore that the 'Locate' limb may not be so relevant to them).

Likely areas of future development

The current prototype of the TNFD disclosure framework provides indications of the sorts of subjects that might be addressed in later versions of the framework. These include a greater discussion of the climate-nature nexus (the notion that climate change and nature loss are mutually reinforcing), more emphasis on scenario analyses as a way of assessing nature-related risks and opportunities, and the provision of recommendations dealing with nature-related metrics and targets.

Are companies required to make nature-related disclosures in line with the TNFD?

Not yet. The draft framework released in March 2022 serves only as a prototype for consultation with market participants, with the final TNFD recommendations expected to be published in September 2023. However, it

likely that - once finalised - disclosure against the TNFD disclosure framework will be put on a legal footing, in the same way that disclosure against the TCFD framework for climate change risks and opportunities is now mandated in eight jurisdictions around the world, including the United Kingdom, Japan, and the European Union.

Given the growing urgency of policymakers to stop the degradation of the world's natural resources, the prospect of obligatory TNFD disclosures is not far-fetched. According to Mark Carney, the former Governor of the Bank of England, "a move to ultimately mandatory standards [for nature-related risks] is appropriate."

Immediate next steps for corporates in response to the prototype framework

Against this backdrop, and the likely voluntary drivers that we have seen in the case of the TCFD, corporates and financial institutions are strongly encouraged to commence discussions across their businesses on the potential impact of the TNFD framework.

Corporates that are road-testing the prototype framework should also report their experiences back to the TNFD. There are several way to engage in this exciting process including through pilot testing (running 1 June 2022 to 30 June 2023), attending focus groups, and signing up and contributing to consultation and participation channels.

Contact



Samantha Brady
Head of Environmental Law
T +44 (0)20 7090 4279
E Samantha.Brady@SlaughterandMay.com



Jeff Twentyman
Partner, Head of Sustainability
T +44 (0)20 7090 3476
E Jeffrey.Twentyman@SlaughterandMay.com



Richard Hilton
Associate
T +44 (0)20 7090 3611
E Richard.Hilton@SlaughterandMay.com

