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Taskforce on Nature-related Financial Disclosures Framework – An Overview of the First Beta Release

In March, the Taskforce on Nature-related Financial Disclosures released the first beta version (v0.1) of the TNFD Nature-related Risk & Opportunity Management and Disclosure Framework. The first beta release marks the beginning of an 18-month consultation and development process to improve the Framework’s relevance, usability and effectiveness. The TNFD is thus encouraging market participants and stakeholders to engage in pilot testing and submit feedback. After four rounds of beta versions, the TNFD plans to release its final recommendations for the Framework in September 2023. In this Alert, we provide both an overview of the first beta version of the Framework and next steps for companies seeking to engage in the consultation process.

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What is the TNFD?

Formally launched in June 2021, the TNFD is a global, market-led initiative established in response to the growing call to factor nature-related risks into financial and business decisions. As framed by the TNFD, although more than half of the world’s economic output is moderately or highly dependent on nature, corporate and financial institutions do not currently have the information needed to understand (1) how nature impacts an organization’s immediate financial performance or (2) the longer-term financial risks that may arise from how the organization, positively or negatively, impacts nature. To address this need, the TNFD is developing an integrated risk management and disclosure framework for organizations to report and act on evolving nature-related risks and opportunities.

The nature-focused TNFD builds on the work of the Task Force on Climate-related Financial Disclosures, which focused on climate risk management and disclosures. The TNFD adopts the same pillars as the TCFD, seeking to provide comparable, financially relevant, decision-useful information. However, instead of addressing climate risks, the TNFD is focused on ensuring that nature-related risks and opportunities are understood and effectively communicated. By aggregating the best tools, materials and information available, the TNFD aims to allow financial institutions and companies to incorporate nature-related risks and opportunities into their strategic planning, risk management and asset allocation decisions, and to promote worldwide consistency for nature-related reporting.

The TNFD consists of various groups that together make up the TNFD Alliance. This Alliance includes a 34-member Taskforce comprising senior executives from financial institutions, corporates and market service providers with operations in over 180 countries, a consultative Forum with over 300 institutional supporters, two Co-Chairs, a Secretariat and a Stewardship Council representing the founders and funders of the TNFD. Additionally, the TNFD has 13 core knowledge partners, including leading science, standard and data bodies, working to ensure the framework is scientifically sound and builds on existing standards and data.

The TNFD has been endorsed by the G7 Finance Ministers, G20 Sustainable Roadmap and international leaders, including UN Secretary General António Guterres, French President Emmanuel Macron, U.K. Prime Minister Boris Johnson and UN Special Envoy on Climate Action and Finance Mark Carney.

Overview of the First Beta Release of the TNFD Framework

The first beta release of the Framework seeks to provide recommendations and guidance on nature-related risks and opportunities relevant to a wide range of market participants, including investors, analysts, corporate executives and boards, regulators, stock exchanges and accounting firms. The beta release comprises three main components:

1. Foundational guidance, including key science-based concepts and definitions, to help a wide range of market participants understand nature, and nature-related risks and opportunities;

2. Disclosure recommendations aligned with the approach and language of the climate-related guidance developed by the TCFD; and
3. Practical guidance on nature-related risk and opportunity analysis for companies and financial institutions to consider incorporating into their enterprise risk and portfolio management processes.

Fundamental Concepts and Definitions

While climate terminology has become part of the business lexicon for informing and making corporate and investment decisions, no equivalent language system yet exists for nature and nature-related risks. As a result, the TNFD’s beta release identifies and defines a set of concepts that market participants can use to understand, assess and report on their nature-related risks and opportunities. Some of these key terms are described below.

- For the purposes of the Framework, **“nature”** is defined as the natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with the environment. It can be understood through a construct of four realms – Land, Ocean, Freshwater and Atmosphere. These four realms provide an entry point for understanding how organizations and people depend on and impact the natural capital that provides the resources and services from which businesses and societies benefit.
- **“Natural Capital”** means renewable and non-renewable natural resources (e.g., plants, animals, air, water, soils and minerals) that combine to yield a flow of benefits to people.
- **“Environmental Assets”** are the naturally occurring living and non-living components of the Earth (e.g., forests, wetlands, coral reefs and agricultural areas).
- **“Ecosystem Assets”** are a form of environmental assets that relate to diverse ecosystems, where an **“ecosystem”** is a dynamic complex of plants, animals and microorganisms, interacting with each other and their non-living environment.
- **“Biodiversity”** is the variability among living organisms from all sources, including, but not limited to, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part. The Framework notes that biodiversity is an essential characteristic of nature that is critical to maintaining the quality, resilience and quantity of ecosystem assets and the provision of ecosystem services on which business and society rely.
- **“Dependencies”** are location-specific aspects of ecosystem services that an organization relies on for their business processes to function, including ecosystems’ ability to regulate water flow, water quality and hazards like fires and floods, providing suitable habitats for pollinators, and sequestering carbon in terrestrial, freshwater and marine realms. The Framework indicates that analyzing and measuring the degree to which business operations are dependent on nature is beneficial to an enterprise because these dependencies affect the costs and benefits of doing business and thereby present risks to earnings and cash flow.
- **“Impact Drivers”** include measurable quantities of a natural resource that are used as an input to production and measurable non-product outputs of a business activity that affects nature.
- **“Impacts”** are changes in the state (quality or quantity) of natural capital, which may result in changes to the capacity of nature to provide social and economic functions. Impacts may be positive or negative and direct, indirect or cumulative.
- **“Nature Loss”** is the loss of, and/or decline in, the state of nature.

- **“Nature-related Risks”** are the potential threats posed to an organization linked to its and other organizations’ dependencies on nature and nature impacts. These can derive from physical, transition and system risks and includes both shorter-term financial risks and longer-term risks presented by nature-related dependencies and nature impacts.
- **“Nature-related Opportunities”** are activities that create positive outcomes for organizations and nature by avoiding or reducing impact on nature or contributing to its restoration. These can occur (1) when organizations mitigate the risk of natural capital and ecosystem services loss; and (2) through strategic transformation of business models, products, services and investments that actively work to halt or reverse the loss of nature, including by implementation of nature-based solutions (or support for them through financing or insurance).
- **“Nature-based Solutions”** are actions to protect, sustainably manage and restore natural or modified ecosystems that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits. They encompass a wide range of actions, such as the protection and management of ecosystems, the incorporation of green and blue infrastructure in urban areas, and the application of ecosystem-based principles to agricultural systems. The concept is grounded in the knowledge that healthy natural and managed ecosystems produce a diverse range of services on which human well-being depends, from storing carbon, controlling floods and stabilizing shorelines and slopes, to providing clean air and water, food, fuel, medicines and genetic resources.

Disclosure Recommendations

As earlier noted, the first beta version of the Framework’s disclosure recommendations for nature-related risks and opportunities follows the TCFD’s four pillars of governance, strategy, risk management, and metrics and targets. The Framework indicates the TNFD sought to maximize the consistency and language of its recommendations with the TCFD and other standard setters, such as the new International Sustainability Standards Board (ISSB) and international and national regulators. They hope this will help reduce time burdens, transaction costs and interpretive uncertainty for preparers and users.

The Framework notes that disclosures should be guided by the concept of materiality. The TNFD recommends that organizations follow an enterprise value approach aligned with the developing standards of the ISSB, which will set a global baseline. However, the Framework notes that the Taskforce will continue to consider its approach to materiality and welcomes feedback from market participants.

The four pillars in the context of the TNFD address and recommend the disclosure of:

- **Governance:** The ways in which the organization’s oversight and decision-making functions take nature-related risk and opportunities into account.

Recommended Disclosures:

- The board’s oversight of nature-related risks and opportunities.
- Management’s role in assessing and managing nature-related risks and opportunities.
- **Strategy:** The integration of actual and potential effects of nature-related risks and opportunities on the organization’s business model, strategy and financial planning.

Recommended Disclosures:

- The nature-related risks and opportunities the organization has identified over the short, medium, and long term.
- The impact of nature-related risks and opportunities on the organization’s businesses, strategy, and financial planning.
- The resilience of the organization’s strategy, taking into consideration different scenarios.
- The organization’s interactions with low integrity ecosystems, high importance ecosystems or areas of water stress.
- **Risk management:** How the organization integrates nature-related risks into its overall risk management approach.

Recommended Disclosures:

- The organization’s processes for identifying and assessing nature-related risk.
- The organization’s processes for managing nature-related risks.
- How processes for identifying, assessing, and managing nature-related risks are integrated into the organization’s overall risk management.
- **Metrics and targets:** Quantitative and qualitative performance indicators and aims related to nature-related risk and opportunities, based on nature dependencies and impacts.

Recommended Disclosures:

- The metrics used by the organization to assess and manage nature-related risks and opportunities in line with its strategy and risk management process.
- The targets used by the organization to manage nature-related risks and opportunities and performance against targets.

The Framework indicates that the TNFD is also considering recommending the disclosure of Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.

The initial draft disclosure recommendations apply to all sectors. More detailed draft disclosure recommendations for each of the recommended disclosures are included in the first beta version of the Framework. Further specific guidance for individual sectors will be developed and included in subsequent beta releases of the TNFD framework.

The Framework notes that preparers should apply four general requirements for the preparation of disclosures across each of the four pillars:

- Identification of material nature-related risks and opportunities should be based on an assessment of nature-related dependencies and nature impacts;
- Consideration of the organization’s interface with nature at specific locations should be integral to the assessment, recognizing that nature-related dependencies and nature impacts occur in specific ecosystems;

- Consideration should be given to how the organization ensures that the correct skills and competencies are available to assess nature-related risks and opportunities, and oversees strategies designed to respond to those risks and opportunities; and
- A statement should be provided regarding the scope of current disclosures and what further disclosures are planned in the future.

Nature-related Risk and Opportunity Assessment Approach – LEAP

Based on feedback from market participants that practical guidance would be helpful to enable organizations to incorporate nature considerations into the risk management process, the TNFD developed an integrated nature-related risk and opportunity assessment process called “LEAP” (Locate, Evaluate, Assess, Prepare). The LEAP approach is voluntary guidance intended to help corporate and financial institutions conduct assessments to inform strategy, governance, capital allocation and risk management decisions, including disclosure decisions aligned with the TNFD’s draft disclosure recommendations. LEAP is not, in itself, a disclosure recommendation or a mandated process to adhere to the disclosure recommendations put forward by the TNFD.

The LEAP approach for corporates involves four core phases of analytical activity:

- **Locate** your interface with nature;
- **Evaluate** your dependencies and impacts;
- **Assess** your risks and opportunities; and
- **Prepare** to respond to nature-related risks and opportunities, and report to investors.

The TNFD has also developed LEAP-FI, an extended LEAP approach that specifically applies to financial institutions to account for the significant differences in decision-making and information requirements among these institutions. In addition to the 17 steps for corporates, the LEAP-FI approach includes a preceding set of four guiding questions that consider the type of financial institution, type of product/asset class, level of aggregation and the sector in which the institution allocates capital.

More detailed information on LEAP and LEAP-FI is included in the first beta version of the Framework.

Opportunities for Feedback

The TNFD is encouraging an iterative, open innovation process over the next year (by June 30, 2023) to ensure the final recommendations are both science-based and practical to implement. They are thus inviting all market participants and stakeholders to review the first beta release in detail and share feedback.

Online Platform

While the TNFD Taskforce is looking for comments and feedback on all aspects of the Framework, it specifically notes that it welcomes feedback on the following topics:

- The approach to scoping in relation to the Framework’s disclosure recommendations and the LEAP and LEAP-FI approaches.
- How to approach the climate-nature nexus in subsequent versions of the Framework. In particular, the TNFD welcomes feedback on how to approach this in the context of scenarios of practical relevance and application for market participants.

- How to approach scenarios and scenario guidance in subsequent versions of the Framework, and, in particular, how to reflect connections between climate and nature.
- The Framework’s approach to time frames, including the guidance on the definition of short-, medium- and long-term.
- The definition of nature-positive and nature-positive outcomes.
- What sector guidance should cover, including specific sectors to focus on for initial guidance, and whether guidance is also needed by biome.

Feedback can be submitted through the TNFD’s interactive online platform.

Pilot Testing

Commencing on June 1, 2022 and continuing through June 30, 2023, corporate and financial institutions interested in exploring how the Framework might apply in their specific organization can pilot test the Framework independently or through collaborative efforts (e.g., with industry peers or between a financial institution and an investee company). It is left up to each organization to determine the scope of the pilot test and the resources required based on its own capabilities. As a result, the TNFD is encouraging organizations to conduct an initial desktop review to help inform the necessary scale and scope before deploying time and resources in a more intensive pilot testing exercise.

The TNFD Secretariat plans to frequently update the online platform to provide guidance to independent pilot testers, including information on available tools, metrics, targets and data.

The TNFD also will be undertaking structured pilot testing programs with a limited number of institutional partners with the expertise and resources to project manage a portfolio of pilot tests on behalf of the TNFD. These partner programs are currently being developed by the TNFD and will be announced on the TNFD website when they are launched.

Focus Group Discussions

Based on feedback received from market participants, the TNFD also plans to convene focus group discussions centered around key themes or by geography or sector in order to engage feedback providers in further detail.

Stakeholder Engagement Channels

The TNFD has established several other consultation and participation channels for stakeholders, including:

- The TNFD Forum, established to enable stakeholders to stay up to date with the TNFD’s developments and support the work of the Taskforce and its working groups.

For those organizations who chose to conduct an independent pilot test and are TNFD Forum members, the TNFD Secretariat will provide additional technical support and resources.

- The TNFD Knowledge Hub, comprising several networks of knowledge partners contributing specialist expertise across science, conservation, development finance and market reporting. The knowledge partners advise the Taskforce on the design and development of the Framework. The TNFD will be looking to add additional knowledge partners, particularly partners with in-depth regional expertise, to its consultative network over the coming six months.
- Through the TNFD Stewardship Council and engagement with intergovernmental organizations and bodies, the TNFD is leveraging various channels to engage government policymakers and regulators.

- National Consultation Groups in select markets to expand awareness about the TNFD and encourage feedback and pilot testing of the framework.

The TNFD is also working with a number of international organizations to provide channels for input and consultation from local and indigenous community organizations into the framework design and development process.

Timeline Moving Forward

Based on the input received from the first beta version’s consultation, the TNFD expects to release a second beta version in June 2022, a third beta version in October 2022 and a fourth beta version in February 2023 before distributing final disclosure recommendations in September 2023. Additional work is already underway on the following topic areas, which will be included in the subsequent releases:

- Links to, and complex interplay with, climate;
- Scenario development;
- The scope of disclosures;
- Approach to materiality;
- Social dimensions;
- Defining “nature-positive”;
- Data, metrics and targets; and
- Sector-specific guidance.

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