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

Earlier this summer, the Taskforce on Nature-related Financial Disclosures released the second beta version of the TNFD Framework. The second beta release is part of an 18-month consultation and development process to improve the Framework’s relevance, usability and effectiveness. 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 second beta version of the Framework and next steps for the Framework’s development.

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Background on the TNFD

Formally launched in June 2021, the TNFD describes itself as 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 is 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 tools, materials and other available information, the TNFD aims to allow financial institutions and other corporates 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 First Beta Release

The first beta release of the Framework was comprised of three main components:

1. Foundational guidance, including science-based concepts and definitions;
2. Disclosure recommendations for nature-related risks and opportunities aligned with the four-pillar approach and language of the climate-related guidance developed by the TCFD; and
3. Practical guidance on nature-related risk and opportunity analysis for corporates and financial institutions to incorporate into their internal enterprise risk and portfolio management processes, referred to as the LEAP approach. The LEAP approach 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.

For more information on the first beta release and key definitions and approaches therein, see our prior Alert [here](#).

Feedback on the First Beta Release

The first beta release of the TNFD Framework received over 500 pieces of topical feedback from 138 organizations and individuals in 37 countries across a variety of sectors. Three main themes emerged in terms of areas for improvement:

1. More specific guidance, particularly “how to” guidance related to the LEAP approach, with more case studies and illustrative examples;
2. Further development and clarification on specific technical aspects of the core components of the first beta release (*e.g.*, definitions, disclosure recommendations and the LEAP approach); and
3. Continued outreach and engagement across stakeholders and geographies to bring in a mix of perspectives and market experience and ensure the framework is both science-based and practical to implement.

The second beta release indicates that, where appropriate, this feedback has been incorporated into the release and its accompanying documents. The second beta release also notes that the Taskforce is continuing to consider other issues raised by feedback providers and expects to incorporate these into future releases.

The Second Beta Release

The second beta release builds on the framework of the first release, including feedback from market participants and other stakeholders. The three main additions include:

1. A first draft architecture for metrics and targets and draft guidance for impact and dependency metrics (*i.e.*, the “Evaluate” phase metrics);
2. A proposed approach to specific guidance; and
3. An update to the LEAP-FI approach for financial institutions.

The TNFD also released the following complementary guidance materials and case studies alongside the updated version of the Framework:

- Additional guidance to support pilot testing that will run through June 2023;
- Additional draft guidance on the “Evaluate” phase of the TNFD’s LEAP approach for impact and dependency analysis;
- Additional draft guidance on the “Locate” phase of the TNFD’s LEAP approach for nature interface and priority location identification; and
- An updated case study including a hypothetical forestry company’s application of LEAP. This builds on the case study included in the TNFD Data Discussion Paper, first released alongside the first beta release of the Framework.

Approach to Metrics and Targets

The TNFD designed its approach to metrics and targets around six features:

1. Distinguishing between “Assessment Metrics” to be used internally by report preparers for assessment purposes to inform management decisions (including what to disclose) and “Disclosure Metrics” to be used in external disclosures for report users.

Assessment Metrics are intended to help inform internal decision making and would not be required to be disclosed (*i.e.*, not part of TNFD-aligned disclosure) unless specified in the Disclosure Metrics. Assessment Metrics would stem from the L-, E-, A- and portions of the P-phases of the LEAP analysis.

Disclosure Metrics would be required to be disclosed to market participants in line with the TNFD’s disclosure recommendations.

2. A focus on cross-sector metrics initially, aligned with the approach of the TCFD and built on the work of standard-setting bodies.
3. Configuring to support end-to-end nature-related risk management and disclosure.
4. A common global set of “core” Disclosure Metrics to enable comparability within and across sectors, while also recognizing the need to accommodate additional disclosures based on the specific needs of each sector and different regulatory requirements across jurisdictions.
5. Periodic reviews of the measurement architecture to ensure it continues to be fit for purpose, based on further development of scientific knowledge, data and measurement innovation and reporting requirements.
6. Alignment with emerging global, national and local policy target-setting frameworks to encourage coordinated action, including the UN Sustainable Development Goals, the post-2020 Global Biodiversity Framework currently being negotiated and corporate target-setting approaches such as those being developed by the Science Based Targets Network.

The second beta release includes both initial considerations for target setting and draft guidance, and an illustrative set of indicators and metrics for the assessment of nature-related dependencies and impacts. The TNFD intends to add specificity regarding metrics and targets in subsequent releases. The TNFD will not make final decisions on “core” and “additional” Disclosure Metrics until the final release of the Framework in September 2023.

Approach to Specific Guidance

Many market participants expressed in their feedback that a nature-related risk and opportunity assessment is new and unfamiliar and that additional sector-, realm-, biome-, and nature-related issue-related guidance would be helpful. In response, the TNFD has decided to approach the development of specific recommendations and guidance using the following structure:

- **Sector specific:** Guidance tailored to the economic sector (financial or non-financial) in which organizations conduct business.

The second beta release sets out the TNFD’s proposed sector classification and priority sectors for the development of additional guidance in future beta releases (as further discussed below).

- **Nature-related issue specific:** Guidance tailored to specific nature-related issues – dependencies, impacts, risks and opportunities – that are relevant for a particular organization and across sectors.

This is not included in the second beta release but will be added in future releases.

- **Realm specific:** Guidance linked to the nature realms defined by the TNFD (ocean, freshwater, land and atmosphere), and possibly also by biome.

This is not included in the second beta release but will be added in future releases.

Approach to Sector Classification

While the draft disclosure recommendations in the first beta release of the Framework were sector agnostic, applying both to financial institutions and corporates, the second beta release attempts to provide specific recommendations and guidance based on the distinct characteristics of an organization.

- The TNFD’s proposed **non-financial sector** classification is based on the Sustainable Industry Classification System, developed by the Sustainability Accounting Standards Board to group companies based on shared sustainability risks and opportunities.
- The TNFD plans to organize guidance for the **financial sector** into the four major financial services industries previously identified and defined by the TCFD: banks; insurance companies; asset managers; and asset owners. The TNFD will also add development finance institutions as a guidance area, given their important role in nature-related financing in emerging markets.

Proposed Priority Sectors

The TNFD has created a list of priority sectors for which to develop sector-specific guidance/recommendations. This initial priority list is comprised of sectors and industries that the TNFD has determined are more susceptible to financial impacts than others due to their exposure to dependencies and impacts on nature, as well as potential opportunities to create positive outcomes such as avoiding or reducing impacts on nature or contributing to its restoration.

For non-financial sectors, the prioritized thematic sectors are:

- Food and beverage;
- Renewable resource and alternative energy;
- Infrastructure;
- Extractives and mineral processing;
- Health care;
- Resource transformation;
- Consumer goods; and
- Transportation.

For the financial sector, banks, insurance companies, asset managers, asset owners and development finance institutions are considered priorities for the development of additional guidance.

LEAP-FI Update

In the first beta release of the Framework, the TNFD proposed LEAP, for use by both corporates and financial institutions, and a second approach called LEAP-FI, which is an extended LEAP approach that specifically applies to financial institutions.

The second beta release contains an enhanced version of LEAP-FI, which includes a preliminary set of scoping questions prior to the LEAP approach. The scoping questions are meant to help financial institutions prioritize and focus their effort as they assess their financial portfolios. The scoping questions include:

- **Type of Business:** What is the nature of our business as a financial institution? What are the main functional units within our business?

- **Entry Points:** In which sectors/geographies do we allocate capital? What asset classes/financial products do we have and what are their potential interactions with nature? What biomes/ecosystems do our financial activities interact with and how?
- **Type of Analysis:** What level of assessment is feasible/appropriate for our business, given the level of aggregation of financial products and services?

LEAP-FI is designed to enable financial institutions to progress to the “Locate” or “Evaluate” phase of LEAP, as appropriate for their specific business activities, the type of asset classes/ financial products and the appropriate level of aggregation in their portfolio. A revised approach for LEAP-FI is expected to be included in the fourth beta release in February 2023.

Timeline Moving Forward

The TNFD expects to release a third beta version in November 2022 and a fourth beta version in February 2023 before distributing final disclosure recommendations in September 2023. The TNFD is accepting feedback on the second beta release of the Framework until September 23, 2022 and will work to incorporate this feedback into subsequent releases. Near-term priorities for the TNFD in this next release include the following:

- Developing the initial approach to scenarios;
- Continuing to build the approach to metrics and targets, with guidance on risk, opportunity and response Assessment Metrics and initial guidance on targets;
- Developing specific guidance for priority sectors/realms/biomes/nature-related issues, including guidance for financial institutions; and
- Launching and running a Data Catalyst to crowd-in market knowledge and experience developing solutions to nature-related assessment needs and data gaps.

For additional information on providing feedback, engaging in pilot testing, or otherwise participating in the stakeholder engagement process, see our Alert summarizing the first beta release of the TNFD Framework [here](#).

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In addition, Ropes & Gray is a member of the TNFD Forum, a consultative grouping of institutional supporters who share the vision and mission of the TNFD and make themselves available to contribute to the work and mission of the Taskforce.

For further information on the practice, click [here](#).

Briana Armand (summer associate) also contributed to this Alert.