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

Earlier this month, the Taskforce on Nature-related Financial Disclosures released the third beta version of the TNFD Framework. The third beta release is part of an 18-month consultation and development process to improve the Framework’s relevance, usability and effectiveness. In September 2023, after four rounds of beta versions, the TNFD plans to release its final recommendations for the Framework. In this Alert, we provide both an overview of the third beta version of the Framework and next steps in 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, 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 and Second Beta Releases

For more information on the first beta release and second beta release, see our prior Alerts [here](#) and [here](#), respectively.

The Third Beta Release

While the third beta release maintains the Framework’s core components, it includes a number of substantive updates, including the following:

- Revising the recommended disclosures to include nature-related “dependencies and impacts” alongside “risks and opportunities”;
- Adding new draft disclosures on traceability, stakeholder engagement and alignment of climate and nature targets;
- Previewing an adaptive approach to applying the Framework;
- Introducing a streamlined version of the LEAP approach, to help enhance usability;

- Introducing an updated approach to metrics and targets, including two new types of assessment metrics (exposure and magnitude) and guidance on science-based target-setting; and
- Releasing draft disclosure guidance for financial institutions.

The TNFD also released the following complementary materials alongside the updated version of the Framework:

- Two discussion papers covering the TNFD’s proposed approach to scenario analysis and societal dimensions of nature-related risk management and disclosure; and
- A Tools Catalogue to assist report preparers in applying the LEAP approach.

Disclosure Recommendations

Dependencies and Impacts on Nature

Since the Framework was built using the disclosure approach and guidance developed by the TCFD, adaptations were needed to align with the TNFD’s focus on nature. In this regard, the third beta release made the following updates:

- Replaced the TCFD’s focus on “impact on climate” disclosures (i.e., GHG emissions-related disclosures) with a new focus on nature-related “dependencies and impacts”; and
- Added “nature-related dependencies and impacts” alongside “risks and opportunities” to a number of the disclosure recommendations.

The Taskforce believes these changes are important given the specific characteristics of nature-related dependencies, impacts, risks and opportunities on: (1) traceability; (2) the quality of stakeholder engagement; and (3) the alignment of climate and nature targets, given the growing importance of integrated transition planning to achieve both net zero and nature positive goals in tandem.

New Disclosure Recommendations

In line with the above, the Framework’s original “Risk Management” third pillar is now “Risk & Impact Management.” This pillar is meant to describe how the organization identifies, assesses and manages nature-related dependencies, impacts, risks and opportunities. Consistent with the intent of this pillar, the third beta release modifies the existing recommended disclosures and adds two new recommended disclosures (new language *italicized*):

- The organization’s processes for identifying and assessing nature-related *dependencies, impacts, risks and opportunities*.
- The organization’s processes for managing nature-related *dependencies, impacts, risks and opportunities*.
- How processes for identifying, assessing and managing nature-related risks are integrated into the organization’s overall risk management.
- *The organization’s approach to locate the sources of inputs used to create value that may generate nature-related dependencies, impacts, risks and opportunities.*
- *How stakeholders, including rights-holders, are engaged by the organization in its assessment and response to nature-related dependencies, impacts, risks and opportunities.*

The fourth pillar, “Metrics and Targets,” also has new recommended disclosures (new language *italicized*):

- 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 metrics used by the organization to assess and manage direct, upstream and, if appropriate, downstream dependencies and impacts on nature.*
- The targets used by the organization to manage nature-related *dependencies, impacts*, risks and opportunities and performance against targets.
- *Describe how targets on nature and climate are aligned and contribute to each other, and any trade-offs.*

Adaptive Approach to Disclosure – “Core” vs. “Enhanced” Disclosures

To facilitate the applicability and uptake of the Framework, the third beta release provides a range of recommended disclosures intended to support reporting preferences. However, the TNFD is developing a flexible approach to adoption of recommended disclosures that will likely distinguish between “core” disclosures that constitute a baseline of TNFD adoption and additional disclosure recommendations that represent “enhanced” disclosure. The objective of this revision will be to ensure the framework is relevant and usable to corporates and financial institutions everywhere, accommodates different preferred or required approaches to materiality and encourages increasing ambition in disclosure over time.

LEAP Approach

As covered in our first beta release Alert ([here](#)), the LEAP approach is 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. 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.

The third beta release includes a more streamlined LEAP approach to risk and opportunity assessment. The updated LEAP approach includes four main revisions:

- **Scoping:** Scoping questions added for corporates to apply before starting the LEAP analysis (in addition to the scoping guidance for financial institutions that was included in the second beta release).
- **“Evaluate” Phase:** New guidance on evaluating impact mitigation and positive impacts on nature.
- **“Assess” Phase:**
 - Consolidation of the Assess phase from five to four components, by combining the opportunities and risks identification components.
 - New draft guidance for the assessment of nature-related risks and opportunities.

- **Updated Characterization of Stakeholder Engagement:** Revised language from “stakeholder engagement” to “stakeholder, including rights-holder, engagement.” This change is intended to reflect the engagement approach and requirements that may be required with rights-holders, as distinct from other types of stakeholders. Rights-holder engagement will be further detailed in additional guidance in the fourth beta version.

Approach to Metrics and Targets

The third beta release sets out an approach to measurement required for the Assess phase of LEAP and provides illustrative examples of metrics for all categories of nature-related risks and opportunities. The measurement approach includes the following:

- Exposure metrics (based on nature-related dependencies and impacts identified during the Evaluate phase of LEAP); and
- Magnitude metrics (used to assess financial implications of nature-related risks and opportunities).

The third beta release also includes guidance on science-based target-setting, based on a five-step approach under development by the Science Based Targets Network.

Guidance for Financial Institutions

The TNFD has published industry-specific draft guidance to assist financial institutions in applying the disclosure recommendations, including a set of illustrative assessment and disclosure metrics. The financial institution metrics are comprised of four types: (1) dependency metrics; (2) impact metrics; (3) risk metrics; and (4) opportunity metrics. For each type of metric, the guidance provides categories and subcategories, including illustrative metrics, examples and potential ways in which the metrics can be broken down (e.g., by sector, ecosystem service, country or biome).

Timeline Moving Forward

The TNFD is accepting feedback on the third beta release of the Framework until February 14, 2023. The TNFD expects to release a fourth beta version in March 2023, after which it will conduct a 60-day formal consultation before distributing final disclosure recommendations in September 2023.

For the fourth beta version, the TNFD plans to develop two disclosure metrics annexes for implementation of disclosure recommendations relating to (1) nature-related risks and opportunities and (2) impacts and dependencies on nature. The second of these annexes will be centered on metrics for both positive and negative impacts on (1) land/ocean/freshwater use change, (2) climate change, (3) resource use/replenishment, (4) pollution/pollution removal and (5) invasive alien species introduction/removal. The second annex also will focus on the four realms of ocean, freshwater, land and atmosphere.

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](#).