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

The Taskforce on Nature-related Financial Disclosures has released the fourth and final beta version of the TNFD Framework. The fourth beta release is part of an 18-month consultation and development process to improve the Framework's relevance, usability and effectiveness. The fourth beta release provides a full representation of the Framework for the first time, including additional guidance by sector and biome and a recommended set of disclosure metrics. In September 2023, the TNFD plans to publish the final Framework for market adoption. In this Alert, we provide both an overview of the fourth beta version of the Framework and the final 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. According to 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 they need to understand (1) how nature impacts an organization's immediate financial performance or (2) the longer-term financial risks that may arise from how an 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 integrate 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 publication of the fourth beta release follows the December 2022 United Nations Biodiversity Conference (COP15) in Montreal, Canada, during which over 190 states committed to the Kunming-Montreal Global Biodiversity Framework. The GBF serves as a guide for global action on nature through 2030, including four overarching goals and 23 targets, to address the loss of biodiversity and restore natural ecosystems. The GBF is expected to serve as the international policy backbone for the TNFD Framework in the same way that the Paris Agreement serves as the backbone for the TCFD Framework.

### The First, Second and Third Beta Releases

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

### The Fourth Beta Release

While the fourth beta release maintains the Framework's core components, it contains several substantive updates, including the following, as further discussed in this Alert:

- Reduces the proposed recommended disclosures from 15 to 14, removing one of the "Metrics & Targets" recommended disclosures;

- Adopts a new approach to the disclosure of metrics, including tiers of applicable metrics dependent on an organization’s sector and business; and
- Adjusts the LEAP approach, including updating scoping questions for corporates, updating guidance on the “Locate” phase and adding new guidance on the methods for assessing nature-related risks and metrics to assess responses to nature-related dependencies, impacts, risks and opportunities.

The TNFD also released draft guidance alongside the updated version of the Framework relating to:

- The use of scenario analysis for nature-related issues by corporates;
- Engagement with affected stakeholders;
- Risk assessment methods; and
- Application of the Framework to four sectors (i.e., financial institutions, agriculture and food, mining and metals and energy) and four biomes (i.e., tropical forests, rivers and streams, the marine shelf and intensive land use systems).

## Disclosure Recommendations

The fourth beta release retains the four-pillar structure of the TCFD and incorporates all 11 of the TCFD recommended disclosure topics, plus three additional recommended disclosure topics specific to nature. The retention of the original 11 TCFD recommended disclosure topics is intended to provide consistency and enable market participants to begin integrating nature- and climate-related issues. The four pillars of the TNFD are:

- Governance (contains two recommended disclosures);
- Strategy (contains four recommended disclosures);
- Risk and Impact Management (contains five recommended disclosures); and
- Metrics and Targets (contains three recommended disclosures).

### *Reduced Number of Recommended Disclosures*

The fourth beta release reduced the proposed recommended disclosures from 15 to 14. Recommended “Metrics and Targets” disclosure D was eliminated. This item called for a description of how targets on nature and climate are aligned and contribute to each other and any trade-offs.

### *Metrics and Targets Pillar: Disclosure Metrics*

The introductory language of the Framework’s “Metrics and Targets” pillar instructs organizations to disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities where such information is material. The fourth beta release creates tiers of applicable metrics for companies to disclose under this pillar. The tiered approach to disclosure indicators and metrics is intended to support comparability across and within sectors.

- **Core Global Disclosure Metrics:** Metrics that will be broadly relevant to organizations across sectors and reflected in global policy priorities, including the GBF. These metrics relate to climate change (as set forth in the TCFD Framework), land/freshwater/ocean-use change, pollution/pollution removal, resource use/replenishment, nature-related risks and nature-related opportunities.

The TNFD strongly encourages organizations to report all core global metrics relevant to their business model, sector(s), biome(s) and priority locations on a comply or explain basis.

- **Core Sector Disclosure Metrics:** Metrics that will be applicable to certain sectors. Core sector disclosure metrics will be outlined in additional TNFD guidance for each sector.
- **Additional Disclosure Metrics:** Metrics that will reflect variation across and within sectors and across different biomes. For example, the farming of livestock involves different nature-related issues than the farming of grains, fruits and vegetables.

Many of the disclosure metrics are drawn from existing standards and seek to strike a balance between being science-based and yet practical for market participants to apply as part of the annual reporting cycle and on a limited assurance basis. The approach is designed to permit organizations to signal their alignment to global policy goals, such as the GBF, similar to the way companies are currently aligning climate reporting and net zero transition planning to the goals of the Paris Agreement.

Additionally, to help evaluate impacts across value chains, the TNFD has adapted the concept of “scopes” used in climate reporting (i.e., scope 1, 2 and 3) to nature-related assessments and reporting by implementing the following categories:

- Direct operations;
- Upstream;
- Downstream; and
- Financed activities (for financial institutions).

## LEAP Approach

As covered in our first beta release Alert ([here](#)), the LEAP approach is intended to be practical “how to” guidance on nature-related risk and opportunity analysis for corporates and financial institutions to embed into their internal enterprise risk and portfolio management processes. Recognizing that organizations will have different starting points for their nature-related assessments, LEAP is designed with iterative components for analysis rather than a linear step-by-step application. The LEAP approach involves four core phases of analytical activity, following an initial scoping of organizational priorities:

- **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 fourth beta release includes updates and additions to LEAP guidance in response to feedback received from market participants and report preparers. The updated LEAP approach includes four main revisions:

- **Scoping:** Updated the scoping questions for corporates to apply before starting the LEAP analysis, following a similar structure to the scoping questions for financial institutions previously updated in the third beta release.
- **“Locate” Phase:** Revised the criteria for identifying priority locations.
- New guidance on the three methods for assessing nature-related risks.
- New guidance on metrics to assess responses to nature-related dependencies, impacts, risks and opportunities.

## Approach to Target-Setting

The fourth beta release includes an updated approach to target-setting, including a recommendation that corporates applying the Framework (1) set science-based targets for nature using cross-sector frameworks under development such as the Science Based Targets Network (SBTN) framework and (2) align with the TNFD disclosure metrics, the GBF's monitoring framework and other international treaties and global policy goals.

The fourth beta release includes published draft guidance on target-setting that provides the following:

- A discussion of considerations to take into account when setting targets for nature;
- Target design features that can help ensure that targets best support an organization's wider impact and risk management objectives; and
- Illustrative examples of targets an organization might set that would align with TNFD metrics and the GBF.

The TNFD and the SBTN previously published joint guidance for corporates setting science-based targets for nature in November 2022. An updated draft of the joint guidance based on the SBTN v1 publication is expected to be released later in 2023.

## Approach to Scenario Analysis

Like the TCFD, the TNFD recognizes the utility and importance of scenario analysis to help organizations develop and test the resilience of their organization's strategy, given complex uncertainties. Through appropriate scenario analysis, organizations can explore the possible consequences of nature loss and climate change, the ways in which governments, markets and society might respond, and the implications of these uncertainties for the resilience of an organization's strategy and financial planning. The fourth beta release includes a toolbox on scenario analysis that contains guidance and practical tools, templates and methods. The toolbox includes a step-by-step approach to assess the resilience of an organization, focused on critical uncertainties.

The toolbox approach is intended to reflect the need for flexibility and adaptability for different types of organizations and a recognition that conducting climate-related scenario analysis has been challenging for many organizations.

## Additional Guidance (by Sector and Biome)

While the fourth beta release only contains disclosure metrics for two sectors (financial institutions and agriculture and food) and one biome (tropical forests), the TNFD has released additional guidance covering four sectors (financial institutions, agriculture and food, mining and metals and energy) and four biomes (tropical forests, rivers and streams, the marine shelf and intensive land use systems).

The TNFD plans to publish additional guidance for all sectors and biomes between June and September 2023.

## Approach to Stakeholder Engagement

The fourth beta release includes draft guidance for market participants on engagement with affected stakeholders.

## Timeline Moving Forward

The TNFD is accepting feedback on the fourth beta release of the Framework until June 1, 2023. As previously noted, in September 2023, the TNFD expects to publish the final TNFD Framework for market adoption.

In addition to further guidance by sector and biome, the final TNFD Framework is expected to include (1) case studies and use cases, (2) lessons learned and practical insights from pilot testing, (3) an updated scenarios guidance toolkit,

including information for financial institutions, (4) guidance on transition plans and (5) new guidance on linkages between climate and nature.

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

### **About Ropes & Gray's ESG, CSR and Business and Human Rights Compliance Practice**

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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](#).