



Snapshot: TNFD Framework

October 2023

ESG and impact investing advisory with the goals of value enhancement and risk management.

Blue Dot Capital is a sustainable finance consultancy. We partner with financial services firms to support the end-to-end development and execution of ESG and impact investing programs, capabilities, and products. Our clients and partners include traditional and alternative investment managers, family offices, and data providers.



New York, NY



www.bluedotcapital.co



hello@bluedotcapital.co

Introduction

Biodiversity loss and ecosystem collapse are serious environmental and economic issues. Given that an estimated \$44 trillion of economic value generation, or the equivalent of 50% of global GDP, relies on nature and related services, environmental degradation poses a significant risk to global economies, financial institutions, and companies¹.

"Nature is no longer a corporate social responsibility issue, but a core and strategic risk management issue alongside climate change. It needs to be brought into the strategy, risk management, and capital allocation decisions of business and finance, with fully integrated climate and nature considerations."

TNFD Recommendations (2023)

Companies and investors are increasingly disclosing efforts to mitigate risks associated with business dependence on natural capital. Nature-related frameworks can potentially have an accelerated adoption because of the precedent established and institutional knowledge gained through the adoption and implementation of climate-related disclosure frameworks and standards in recent years.

In September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) developed a set of recommendations that provides a broad framework for organizations to disclose nature-related risks and opportunities. In this snapshot, we provide an overview of the key global biodiversity-related policy developments that laid the groundwork for the TNFD framework and delve deeper into the TNFD disclosure recommendations.

Background – Global Focus on Biodiversity

Global policy action addressing biodiversity spans four decades. In 1988, the UN Environment Programme (UNEP) established a working group on biological diversity. As a culmination of the working group negotiations, the Convention on Biodiversity (CBD) was ratified in 1993, becoming the first global agreement to comprehensively address various aspects of biological diversity². The CBD is currently comprised of 196 parties³.

At the UN Biodiversity Conference in 2022, governments across the globe reiterated that addressing nature loss is key to fulfilling the Sustainable Development Goals and adopted the Global Biodiversity Framework (GBF). Building on CBD's strategic plans, GBF set four goals for the mitigation of biodiversity risks over the next seven years and committed 188 countries to 23 targets for 2030, including the protection of 30% of the planet's lands, oceans, coastal areas, and inland waters by 2030⁴.

GBF Target 15

Take legal, administrative, or policy measures to encourage and enable business, and in particular to ensure that large and transnational companies and financial institutions:

- Regularly monitor, assess, and transparently disclose their **risks, dependencies, and impacts on biodiversity** including with requirements for all large as well as transnational companies and financial institutions along their operations, supply and value chains, and portfolios.
- Provide **information needed to consumers** to promote sustainable consumption patterns.
- **Report on compliance** with access and benefit-sharing regulations and measures, as applicable.

in order to progressively reduce negative impacts on biodiversity, increase positive impacts, reduce biodiversity-related risks to business and financial institutions, and promote actions to ensure sustainable patterns of production⁴.

Over 100 jurisdictions around the globe have introduced policies or regulations addressing biodiversity-related impacts to varying extents⁵, such as the EU taxonomy regulation and France's Energy-Climate law⁶. In September 2023, the Network for Greening the Financial System (NGFS) - a coalition of over 100 central banks and financial supervisors working on climate and green finance issues - published the beta version of its Conceptual Framework for nature-related financial risks⁷. As each country works to meet its GBF-agreed target contributions, additional regulatory oversight and disclosure obligations are expected.

The financial sector is also initiating efforts to combat biodiversity loss. Nature Action 100 – a global coalition of investors collectively representing over \$23 trillion in assets – is engaging with 100 companies accounting for \$9 trillion of market capital on their preparedness to mitigate nature-related risks⁸.

TNFD was formally launched in June 2021 to help companies and financial institutions prepare for and mitigate the biodiversity risks as called for by GBF Target 15. **TNFD comprises 40 corporations, market services providers, and financial institutions representing \$20 trillion in assets under management⁹.**

Understanding the TNFD Framework

The TNFD framework aims to enable organizations to report and act on evolving nature-related risks. TNFD's risk management approach mirrors that of the Taskforce for Climate-related Financial Disclosures (TCFD) and is based on TCFD's four key pillars: Governance, Strategy, Risk Management, and Metrics and Targets. In these four pillars are 14 recommended disclosures for organizations to include in their financial filings.

TNFD recommended disclosures

Governance	Strategy	Risk & impact management	Metrics & targets
Disclose the organization's governance of nature-related dependencies, impacts, risks and opportunities.	Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organization's business model, strategy and financial planning where such information is material.	Describe the processes used by the organization to identify, assess, prioritize and monitor nature-related dependencies, impacts, risks and opportunities.	Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.
Recommended Disclosures	Recommended Disclosures	Recommended Disclosures	Recommended Disclosures
<p>A. Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities</p> <p>B. Describe the management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities</p> <p>C. Describe the organization's human rights policies and engagement activities, and oversight by the board and management, with respect to Indigenous Peoples, Local Communities, affected and other stakeholders, in the organization's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.</p>	<p>A. Describe the nature-related dependencies, impacts, risks and opportunities the organization has identified over the short, medium, and long term.</p> <p>B. Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organization's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.</p> <p>C. Describe the resilience of the organization's strategy to nature-related risks and opportunities, taking into consideration different scenarios.</p> <p>D. Disclose the locations of assets and/or activities in the organization's direct operations, and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.</p>	<p>A. (i) Describe the organization's processes for identifying, assessing and prioritizing nature-related dependencies, impacts, risks and opportunities in its direct operations.</p> <p>(ii) Describe the organization's processes for identifying, assessing and prioritizing nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s).</p> <p>B. Describe the organization's processes for managing nature-related dependencies, impacts, risks and opportunities.</p> <p>C. Describe how processes for identifying, assessing, prioritizing and monitoring nature-related risks are integrated into and inform the organization's overall risk management processes.</p>	<p>A. Disclose the metrics used by the organization to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.</p> <p>B. Disclose the metrics used by the organization to assess and manage dependencies and impacts on nature.</p> <p>C. Describe the targets and goals used by the organization to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.</p>

Source: TNFD (2023)

Interoperability

The TNFD framework seeks to align with ESG frameworks and standards, corporate target-setting frameworks, and global policy goals and targets. Besides aligning with the TCFD recommendations and GBF Target 15, the TNFD framework was developed in close coordination with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI)⁹. ISSB announced its plans to publish educational materials by the end of the year covering how nature loss is addressed in the S2 climate standard¹⁰. TNFD's additional guidance references specific ISSB and GRI reporting standards and also bases the sector guidance on SASB's SICs classification¹¹. CDP announced its intent to align with TNFD framework¹². TNFD also worked with the science-based targets network (SBTN) to publish guidance for corporates on science-based targets for nature which elaborates on how TNFD and SBTN fit together¹³.

Materiality

The TNFD framework accounts for both financial and double materiality approaches, catering to the material information needs of capital providers – in accordance with the ISSB's IFRS Standards and TCFD recommendations – as well as impact-focused stakeholders – in accordance with the GRI Standards.

General Requirements

The TNFD framework lays down six general requirements that the report preparers are expected to apply. The general requirements apply to the four pillars of recommended disclosures and describe application of materiality, scope of disclosures, location of nature-related issues, integration with other sustainability-related disclosures, time horizon considered, and engagement of indigenous peoples and affected stakeholders⁹.

Disclosure Metrics

The TNFD framework provides extensive guidance on metrics and indicators for all nature-related issues – dependencies, impacts, risks, and opportunities – and an organization's responses to these, classifying the metrics into:

- **Core global metrics:** A small set of core disclosure metrics covering dependencies, impacts, risks, and opportunities. Core global metrics are further divided into:
 - Core global metrics, which cover all sectors.
 - Core global metrics, which are sector specific.
- **Additional metrics:** Additional metrics are recommended, but not mandatory, and can be used flexibly based on specific considerations for the business activities, sector(s), biomes, and priority locations.

A full list of the core global metrics and additional metrics can be found in Annex 1 and 2 of the TNFD recommendations respectively.

TNFD acknowledges the current data gaps associated with nature-related metrics and provides specific guidance for the use of proxy data in disclosures. TNFD states “organizations should view use of proxy data as a transitional measure until higher traceability can be achieved.”⁹ A landscape assessment of data providers that are working to close nature-related data gaps is provided in TNFD's Data Discussion Paper¹⁴.

Scope

The TNFD recommendations provide a risk management and disclosure framework designed to identify, assess, manage, and disclose nature related issues. This framework is applicable to financial institutions and companies of all sizes. TNFD has proposed sector specific guidance for the following sectors:

- **Apparel and textiles**
- **Construction materials**
- **Food**
- **Food and beverage retail**
- **Restaurants**
- **Utilities**
- **Infrastructure**
- **Real estate**
- **Forestry and paper**

TNFD plans to expand sector specific guidance to other sectors in 2024 including biotechnology and pharmaceuticals, alternative energy, metals and mining, beverages, chemicals, semiconductors, and marine transportation. For sectors not currently covered by TNFD additional guidance, TNFD recommends seeking guidance from organizations such as SASB and GRI¹¹.

LEAP Approach

TNFD outlines an approach to risk and opportunity assessment called the Locate, Evaluate, Assess, and Prepare (LEAP) approach. LEAP approach is the recommended process for TNFD disclosure and gives organizations a clear pathway to disclose in line with TNFD recommendations as follows:

- **Locate:** Identify interfaces with nature.
- **Evaluate:** Review dependencies and impacts on nature.
- **Assess:** Identify the material risks and opportunities.
- **Prepare:** Respond to the analysis done in the previous phases. This is done by updating strategy and resource allocation and performing the disclosure actions⁹.

Further Work

Beyond publishing recommendations, TNFD's next phase of work includes encouraging and scaling voluntary market adoption of the recommendations. TNFD's priorities include:

1. Further development of guidance by sector and biome.
2. Alignment and input to standards and other reporting initiatives.
3. Market capacity building to support and accelerate nature-related corporate reporting.
4. Data and analytics availability and quality.
5. Scenario analysis.
6. Case studies and example disclosures.
7. Targets and transition planning.
8. TNFD content.

Sources

1. <https://www.weforum.org/reports/nature-risk-rising-why-the-crisis-engulfing-nature-matters-for-business-and-the-economy/>
2. <https://www.cbd.int/history/>
3. <https://www.cbd.int/information/parties.shtml>
4. <https://www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf>
5. <https://www.unpri.org/download?ac=11357>
6. <https://www.unpri.org/pri-blog/cbd-cop15-what-does-the-global-biodiversity-framework-mean-for-investors/8777.article>
7. <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-conceptual-framework-nature-related-financial-risks-launch-event-paris>
8. <https://www.natureaction100.org/nature-action-100-announces-companies-start-of-investor-engagement-process-to-catalyze-greater-action-on-nature-loss/>
9. https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf?v=1695118661%0D
10. https://www.responsible-investor.com/issb-to-prompt-firms-to-consider-climate-nature-nexus-through-existing-standards/?utm_source=newsletter-daily&utm_medium=email&utm_campaign=ri-daily-bronze&utm_content=27-09-2023%20%0D
11. https://tnfd.global/wp-content/uploads/2023/09/Discussion_paper_on_proposed_sector_disclosure_metrics_v1.pdf?v=1695138341%20%20
12. <https://www.cdp.net/en/articles/media/cdp-announces-intention-to-align-with-tnfd-framework-and-drive-implementation-across-global-economy>
13. https://tnfd.global/wp-content/uploads/2023/09/Guidance_for_corporates_on_science_based_targets_for_nature_v1.pdf?v=1695138398
14. https://tnfd.global/wp-content/uploads/2022/03/TNFD_DataDiscussionPaper.pdf

Contributors:
Kathleen Ellis, Senior Associate
Bhavana Poosarla, Senior Associate

