

**Taskforce on Nature-related
Financial Disclosures**

Framework

The TNFD Nature-Related Risk and Opportunity Management and Disclosure Framework

Beta v0.2 Summary

June 2022

Summary

An introduction to TNFD

The Taskforce on Nature-related Financial Disclosures (TNFD) was established in 2021 in response to the growing appreciation of the need to factor nature in financial and business decisions. The TNFD is a global, market-led initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.

The TNFD is adopting an open innovation approach, centered around the release of several beta versions of the framework for feedback and pilot testing with market participants and other stakeholders, and expert input from a wide range of knowledge and implementation partners.

Following the release of beta v0.1 in March 2022 and this beta v0.2 in June 2022, the Taskforce will release v0.3 and v0.4 of the beta framework in November 2022 and February 2023, before the launch of the Taskforce's final recommendations in September 2023.

The TNFD framework – an overview

TNFD framework beta v0.1

The first beta version of the TNFD framework included three core components:

- An outline of fundamental concepts and definitions for understanding nature that the TNFD recommends market participants use when assessing and disclosing their nature-related risks and opportunities;
- Guidance for corporates and financial institutions to incorporate nature-related risk and opportunity assessment into their enterprise strategy and risk management processes to inform a range of corporate and capital allocation decisions, including those related to reporting and disclosure; and
- The TNFD's draft disclosure recommendations for nature-related risks and opportunities.

TNFD framework beta v0.2

This v0.2 beta release of the TNFD framework builds on v0.1 (Figure 1). The three core components of the framework have not changed in v0.2. Based on feedback from a range of market participants and other stakeholders, beta v0.2 makes several enhancements based on market feedback and three significant additions:

- A first draft architecture for metrics and targets, and draft guidance on, and an illustrative set of, dependency and impact metrics;
- A proposed approach to specific guidance; and
- An update to LEAP-FI.

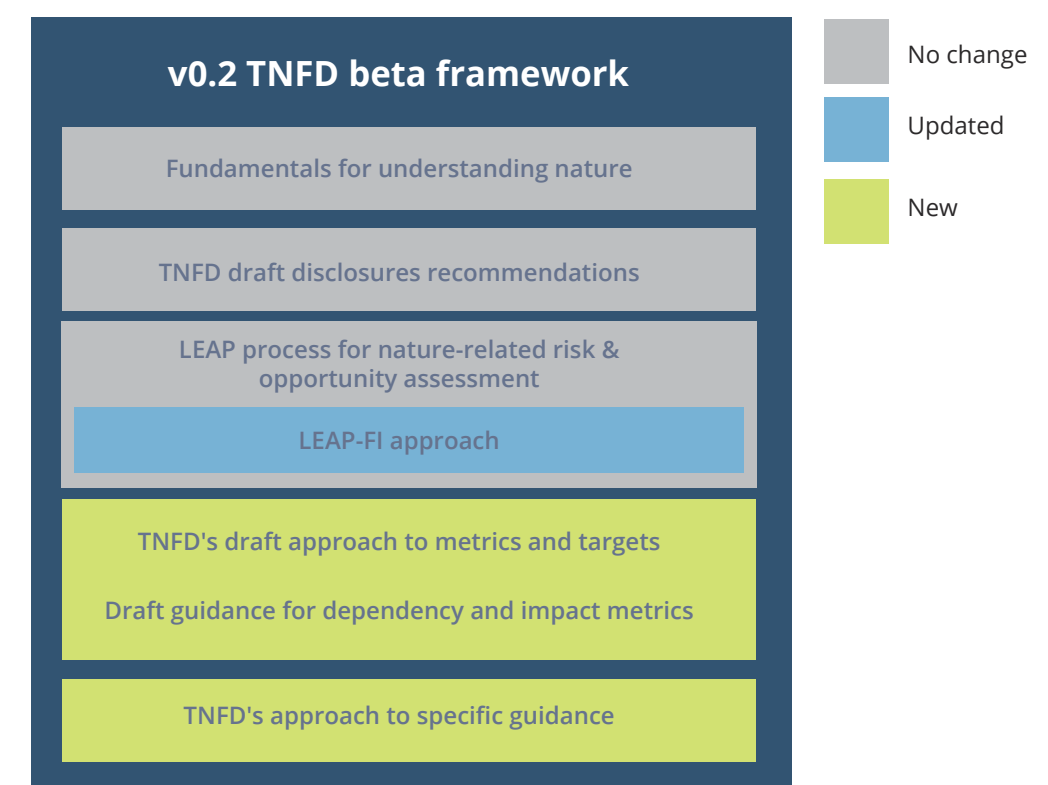
These additions are reflected in the TNFD's interactive online platform, which now represents beta v0.2 of the TNFD framework in its entirety.

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Alongside the updated framework itself, the Taskforce are also releasing complementary guidance and case studies:

- Additional piloting guidance to support pilot testing that will run from July 2022 to 1 June 2023.
- Additional draft guidance on the 'Evaluate' phase of the TNFD's LEAP approach for Dependency and Impact Analysis for corporates (E3 and E4).
- Additional draft guidance on the TNFD LEAP Approach Locate Phase for Nature Interface and Priority Location Identification (L2 and L3).
- An updated case study on a hypothetical forestry company application of LEAP and related metrics and data sources. This builds on the case study included in the TNFD Data Discussion Paper, first released alongside the TNFD beta v0.1.

Figure 1: Overview of beta v0.1 and v0.2

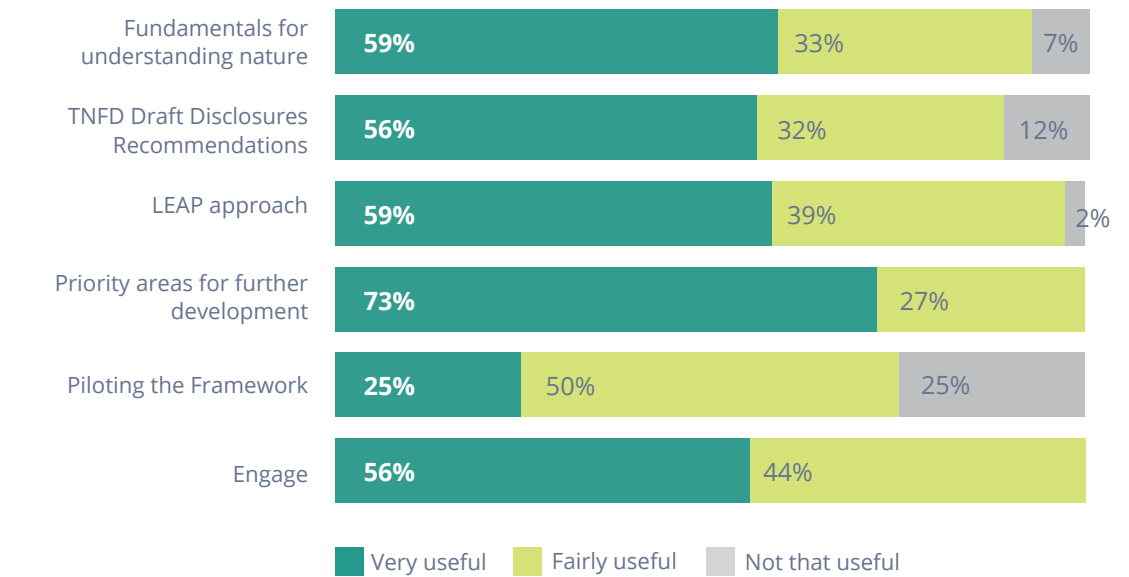


Feedback on beta v0.1 released in March 2022

Since the v0.1 beta release, the Taskforce has received significant feedback from a range of market participants (see box). In general, market participants welcomed the TNFD's open innovation process and reported finding each component of the first beta version of the framework useful (see figure 2).

- The beta framework has been viewed over 30,000 times online from viewers in over 70 countries. Over 500 pieces of topical feedback were received through the TNFD online portal for the beta framework (framework.tnfd.global) or sent directly, from 138 organisations or individuals, in 37 countries.
- Responses were received from financial institutions and corporates from a variety of sectors including the consumer goods, industrial, utility and material sectors, as well as public sector institutions, academic and research organisations, business associations, and intergovernmental, civil society and conservation organisations.
- 70 of those who responded provided detailed, qualitative feedback.
- The remaining 68 provided quantitative feedback on the utility of different elements of the TNFD framework.
- Based on those respondents who identified their country, feedback was provided from 37 countries across Africa, Asia, Europe, the Middle East, North America, Oceania and South America.
- The 10 countries with the most respondents providing feedback (in order of feedback received) were the United Kingdom, Japan, Australia, France, the United States, Canada, Singapore, Brazil, Germany and Norway.
- The TNFD Secretariat has also convened outreach and feedback meetings with market participants across sectors and jurisdictions.

Figure 2: Feedback on usefulness of components of v0.1 release



A number of areas for improvement emerged from the feedback with three overall themes:

- More specific guidance would be helpful, particularly 'how to' guidance related to the LEAP approach, with more case studies and illustrative examples;
- Some specific technical aspects of the core components of the v0.1 framework (definitions, disclosure recommendations and the LEAP approach) need further development and clarification; and,
- The TNFD should continue to expand its 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.

Where appropriate, feedback has been incorporated into this v0.2 update release and its accompanying documents. A number of other important issues raised by feedback providers remain under consideration by the Taskforce and will be incorporated into future releases.

TNFD's approach to metrics and targets

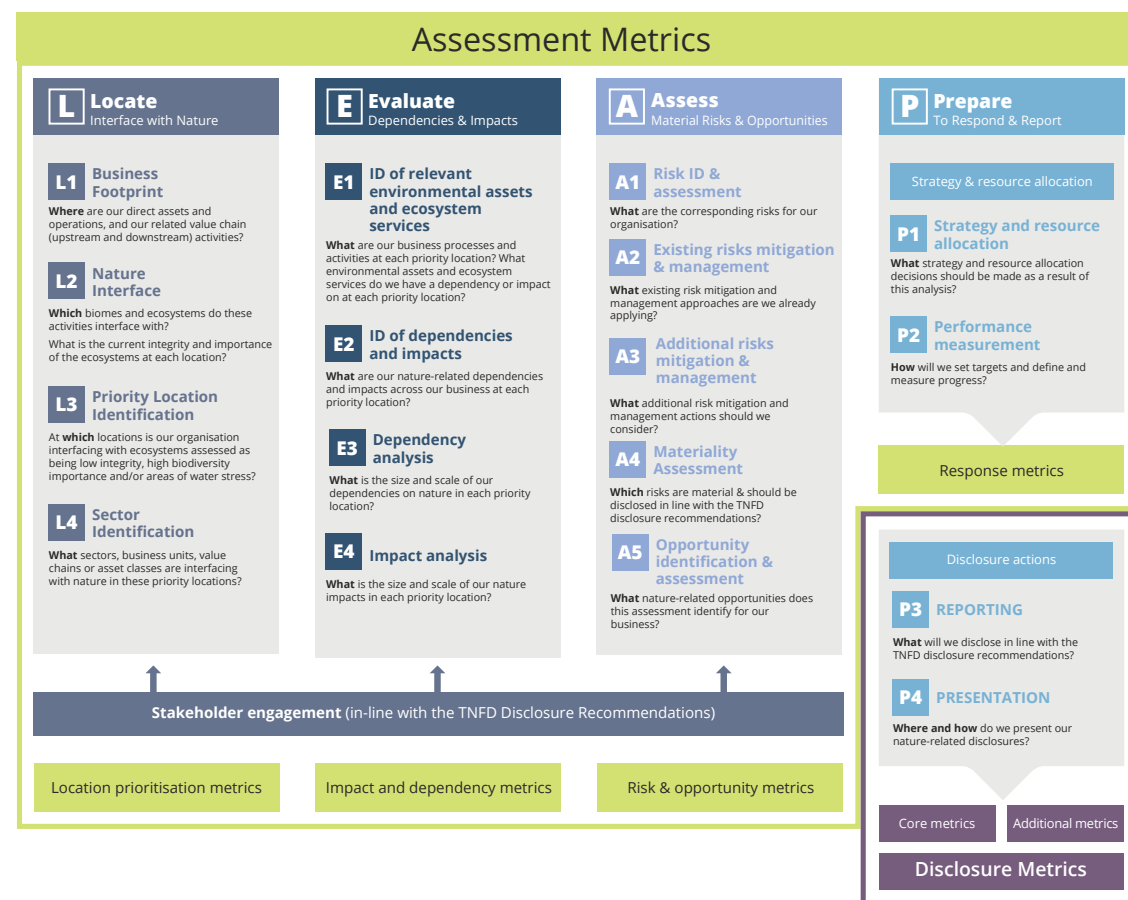
The TNFD's approach in the v0.2 release to nature-related measurement and target setting includes:

- An integrated, overarching architecture for nature-related indicators, metrics and targets, including cross-industry metrics categories;
- Draft guidance and an illustrative set of indicators and metrics for the assessment of nature-related dependencies and impacts, to support pilot testing;
- Initial considerations for target-setting.

The TNFD's approach to metrics and targets is built around six key design features:

1. Distinguishes between 'Assessment Metrics' 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;
2. Focuses on cross-sector metrics to begin with, aligned with the approach of the Task Force on Climate-related Financial Disclosures (TCFD) and builds on the work of standard-setting bodies;
3. Configures to support end-to-end nature-related risk management and disclosure, following the LEAP approach introduced in the v0.1 release of the TNFD framework;
4. Provides a common global set of 'core' disclosure metrics (specifics to be provided in future releases) to enable comparability within and across sectors, while also recognising the need to accommodate 'additional' disclosures based on the specific needs of each sector and different regulatory requirements across jurisdictions;
5. Enables 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; and
6. Aligns with emerging global and national policy target setting frameworks, such as the Global Biodiversity Framework (GBF) and corporate target-setting approaches such as those being developed by the Science Based Targets Network (SBTN).

Figure 3: Types of metrics in the context of the LEAP approach



The approach to nature-related metrics and target-setting will increase in specificity over subsequent releases of the beta framework through collaborative, staged development of guidance on metrics and targets.

In the v0.3 and v0.4 beta releases in November 2022 and February 2023, the TNFD will provide further draft guidance on risk, opportunity and response Assessment Metrics, Disclosure Metrics and target-setting. The Taskforce will not make final decisions on 'core' and 'additional' Disclosure Metrics until the final release v1.0 in September 2023.

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Initial considerations for TNFD target-setting

Conceptually, metrics and targets (and data) need to line up at three different levels – global (the level of coordinated international policy), national (the level of national regulation and law) and local (the ecosystem level where business interfaces with nature).

With respect to global action on climate change, this 'architecture for action' is fully developed. But for coordinated global action to tackle nature loss and achieve global targets that address nature loss, the architecture for action is largely incomplete. The TNFD is engaging international actors developing nature-related targets at the global, national and local level to encourage coordinated action.

At the global level, the TNFD seeks to align with the environment-related Sustainable Development Goals and the post-2020 GBF currently being negotiated through the UN CBD COP15 process. At the organisational level, the TNFD also seeks to align with the corporate target-setting approach being developed by the SBTN.

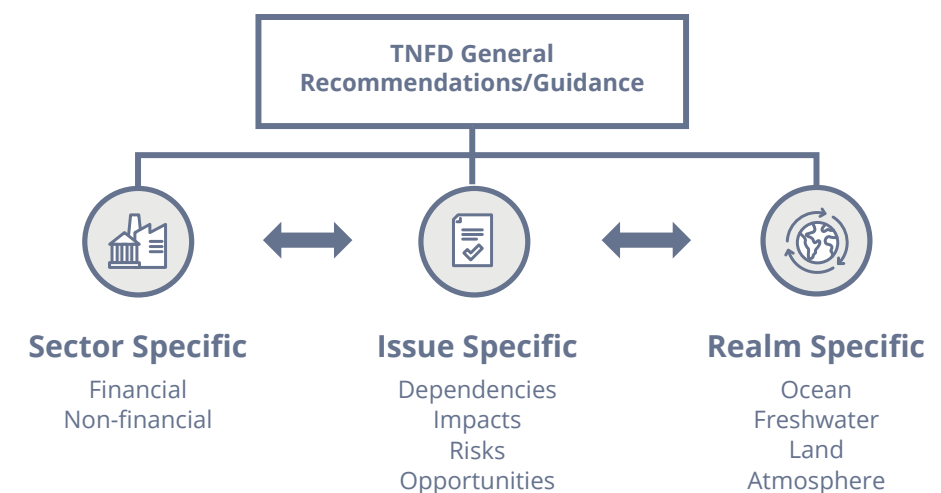
TNFD's approach to specific guidance

Many market participants have been clear that nature-related risk and opportunity assessment is new and unfamiliar. The TNFD has received feedback from market participants that they need additional guidance, including sector-specific guidance, but also by realm, biome and nature-related issue.

The TNFD will therefore approach the development of specific recommendations and guidance using the following structure (Figure 4):

- 1. Sector specific:** Guidance tailored to the economic sector in which organisations conduct business. (The TNFD's proposed sector classification and priority sectors for the development of additional guidance are set out in v0.2. In forthcoming v0.3 and v0.4 releases, the TNFD will develop additional guidance).
- 2. Nature-related issue specific:** Guidance tailored to specific nature-related issues – dependencies, impacts, risks and opportunities – that are relevant for a particular organisation and across sectors. (Not yet developed for v0.2 – to be added in future releases).
- 3. Realm specific:** Guidance linked to the nature realms defined by the TNFD (ocean, freshwater, land and atmosphere), and possibly also by biome. (Not yet developed for v0.2 – to be added in future releases).

Figure 4: Structure for the TNFD specific guidance



Towards sector-specific guidance: TNFD sector classification & sector prioritisation

The draft disclosure recommendations in the beta v0.1 of the TNFD framework are sector agnostic and apply both to financial institutions and corporates. The TNFD's first attempt at providing specific guidance based on the distinct characteristics of an organisation was the development of two versions of LEAP: the LEAP approach for corporates (including financial institutions as corporates) and LEAP FI, a version of LEAP specifically tailored towards financial institutions as providers or managers of capital, which has been updated in the v0.2 release (see below).

TNFD's Proposed Approach to Sector Classification

The TNFD's proposed non-financial sector classification is based on the **Sustainable Industry Classification System® (SICS®)**, developed by SASB to group companies based on shared sustainability risks and opportunities. This has been adopted by the ISSB for the global baseline they are developing for sustainability disclosure. The TNFD has adopted SICS® to align as closely as possible to this emerging global baseline under development by the ISSB.

The specific guidance the TNFD develops will be designed to be interoperable with different sector and industry classification schemes.

For the financial sector, the TNFD will organise guidance into the four major financial services industries identified and defined by the TCFD (banks, insurance companies, asset managers, asset owners), with the addition of Development Finance Institutions, given their important role in nature-related financing in emerging markets, including in many nature hotspots.

TNFD's proposed priority sectors

The TNFD has developed an initial list of non-financial priority sectors and finance sector priority industries. For non-financial sectors, The TNFD will prioritise eight thematic sectors, 13 sub-sectors and 18 industries for development of the TNFD sector-specific guidance/recommendations moving forward. While the TNFD recognises that every non-financial sector is affected by nature-related risks and opportunities, the TNFD's initial priority list includes sectors and industries that are more likely to be financially impacted than others due to their exposure to dependencies and impacts on nature. It also considers the sector's potential opportunities – activities that create positive outcomes for organisations and nature by avoiding or reducing impact on nature, or contributing to its restoration. The eight thematic sectors are:

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

All five of the financial industry sectors identified above are also considered to be priorities for the development of additional guidance.

LEAP-FI update

In the v0.1 release of the beta framework, the TNFD proposed an internal risk and opportunity assessment approach, called LEAP, for use by both corporates and financial institutions. This prescriptive 'how to' guidance was developed and proposed based on extensive feedback during the preparatory phase for establishing the TNFD. A wide cross-section of market participants indicated that they would value guidance not only on what to report and disclose; but also how to embed nature considerations into enterprise and portfolio risk management processes.

Recognising the unique needs of the financial services sector, the TNFD v0.1 beta framework released in March included a LEAP approach for financial institutions (LEAP-FI) as providers or managers of capital. This v0.2 update contains an enhanced version of LEAP-FI that supersedes the 0.1 beta version in the March release (Figure 5).

In addition to the four phases of the LEAP approach for corporates (Locate, Evaluate, Assess and Prepare) presented in beta, LEAP-FI v0.2 sets out a preceding set of scoping questions to help financial institutions prioritise and focus effort as they assess their financial portfolios. 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. The key enhancement made to LEAP-FI is clearer recognition that as providers of capital, financial institutions will likely have different entry points into the assessment of nature-related risks, including based on the level of aggregation and scale of their capital portfolios.

Figure 5a : Scoping questions for LEAP-FI v0.2

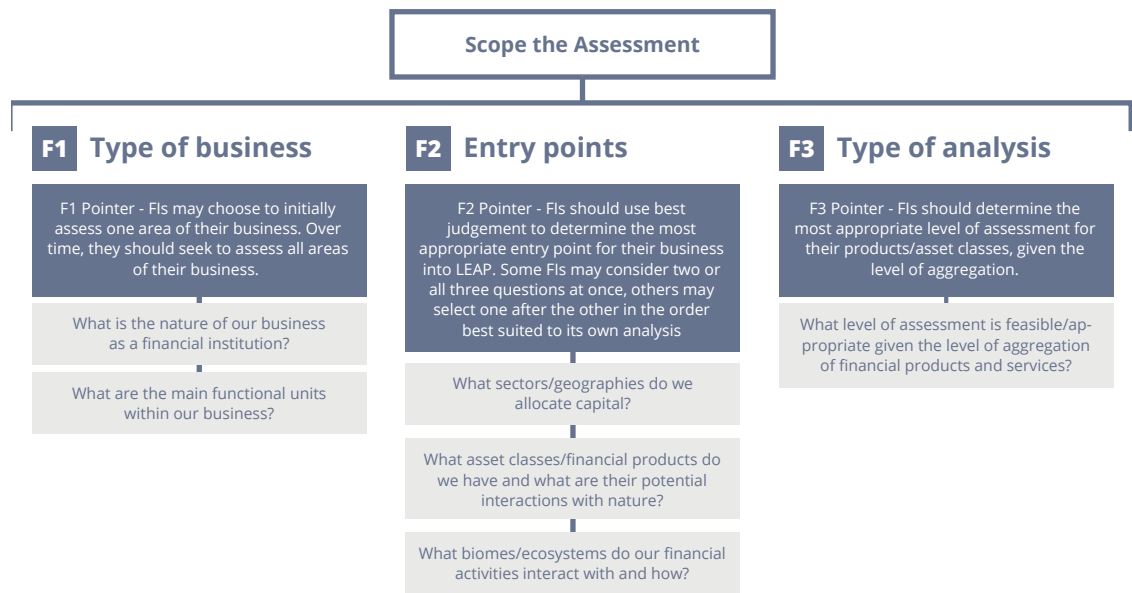


Figure 5b: LEAP-FI v0.2 – Overview



A revised approach for LEAP-FI will be included in the v0.4 release in February for additional review and comment.

Priority areas for further framework development

The near-term highest priorities for the Taskforce’s work in the next phase of framework development before the v0.3 release in November 2023 are:

- 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.

The Taskforce will continue to work with knowledge partners and see feedback from a wide range of market participants and other stakeholders through multiple consultation channels, including the TNFD Forum, consultation meetings and pilot testing of the beta framework.

Engage – Co-create the TNFD framework

The TNFD’s open consultation period will continue until 1 June 2023. The TNFD invites market participants and other stakeholders to:

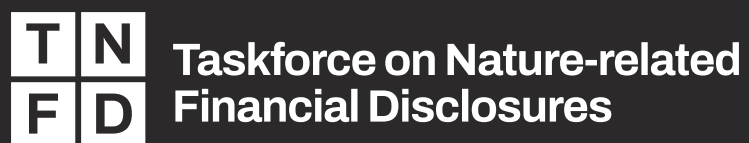
- **Review and comment on the beta framework:** Organisations can review the draft framework and provide feedback via the [TNFD online platform](#).
- **Pilot test the framework:** Corporates and financial institutions keen to explore how the TNFD framework would apply in their specific organisational context can pilot test the framework independently and, in some cases, through collaborative industry efforts. The [TNFD piloting guide](#), released alongside beta v0.2, provides detailed information for organisations interested in piloting the framework.
- **Participate in consultation discussions:** Based on the feedback provided by market participants, the TNFD will convene focus group discussions about key emerging themes, technical areas of the framework or by geography or sector – to engage feedback providers in further detail.

While the TNFD will accept feedback on a rolling basis, feedback for each iterative release of the beta framework will be evaluated according to the schedule outlined below (Table 1).

All feedback, irrespective of when it is provided, will be reviewed and evaluated before the final recommendations are published in September 2023.

Table 1 – Timeline of beta releases with deadlines for feedback prior to each release

Beta release	Release date	Deadline for feedback on this release
v0.1	15 March 2022	25 May 2022
v0.2	28 June 2022	23 September 2022
v0.3	November 2022	24 January 2023
v0.4	February 2023	1 June 2023
v1.0 (final)	September 2023	



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