

TNFD recommendations for sustainability reporting: nature matters

Major changes are underway for sustainability reporting and disclosure, changes which extend well beyond climate change and embrace extensive nature-related risks and opportunities. On 23 September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) issued 14 recommended disclosures (the recommendations) and guidance on their implementation. While the recommendations are voluntary in nature, the government has pledged to consider how they should be incorporated into domestic policy and legislation. Other jurisdictions are likely to follow the UK in this.

It will be useful for organisations to consider the likely impact of the recommendations, how they align with other environmental reporting standards and how to prepare for their implementation.

Safeguarding nature

According to a 2020 report by the World Economic Forum, over half of global GDP, which is equivalent to around \$52 trillion, is moderately or highly dependent on nature and its services, and the remainder is indirectly dependent on it (www.weforum.org/press/2020/01/half-of-world-s-gdp-moderately-or-highly-dependent-on-nature-says-new-report/). In December 2022, the United Nation's (UN) international biodiversity conference, COP 15, marked a significant step forward in the global ambition for nature conservation. Almost 200 governments agreed to safeguard at least 30% of the planet's land and sea areas, and to require large companies and financial institutions to disclose their impacts and dependencies on nature by 2030 by way of the global biodiversity framework (GBF) (www.un.org/sustainabledevelopment/blog/2022/12/press-release-nations-adopt-four-goals-23-targets-for-2030-in-landmark-un-biodiversity-agreement/). The recommendations are expected to play a key role in achieving these goals.

Alignment with the TCFD

The recommendations provide organisations with a risk management and disclosure framework for identifying, assessing, managing and, where appropriate, disclosing nature-related issues. Like the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD), the recommendations promote disclosure across four pillars:

LEAP approach

To help organisations to identify and assess nature-related issues and inform their disclosures, the Taskforce on Nature-related Financial Disclosures has developed a voluntary four-stage "LEAP" approach:

- Locating an organisation's interface with nature.
- Evaluating dependencies and impacts.
- Assessing risks and opportunities.
- Preparing to respond and report on nature-related risks and opportunities.

- Governance.
- Strategy.
- Risk and impact management.
- Metrics and targets.

In addition to 11 recommendations transposed from the TCFD, the TNFD includes three new recommendations relating to stakeholder engagement, the location of assets and activities in priority locations, and value chain identification.

The recommendations follow the TCFD's approach of requiring the disclosure of risks, which can be physical, transitional or systemic, and opportunities. However, the recommendations extend beyond climate to include nature-related impacts that affect oceans, freshwater, land and atmosphere. In this way, the recommendations align with environmental reporting under the Paris Agreement and the GBF.

The recommendations include six general requirements that apply to the four pillars. An organisation should:

- Determine and disclose its approach to materiality in its reporting.
- Describe the scope of its nature-related assessments and disclosures by assessing its value chain for nature-related dependencies, impacts, risks and opportunities.
- Disclose the geographic location in which the organisation and its value chain

interacts with nature. Organisations should improve the geographic precision of data and its traceability as their understanding and methodology improve.

- Endeavour to provide users with an integrated and holistic picture of its financial position, and how this relates to other sustainability-related disclosures.
- Disclose the short, medium and long-term expectations in light of its assets, in response to nature-related risks and opportunities that manifest over time.
- Disclose its engagement with various stakeholders, especially indigenous peoples, in assessing the organisation's nature-related dependencies, impacts and opportunities (see box "LEAP approach").

Achieving alignment

Therefore the recommendations build on the TCFD disclosures. Organisations already reporting in line with the TCFD should be in a stronger position to comply with the recommendations. The recommendations also accommodate the materiality approach used by the Global Reporting Initiative and the new EU sustainability reporting standards that apply under the Corporate Sustainability Reporting Directive (2022/2464/EU). In addition, the recommendations are in line with target 15 of the GBF for corporate reporting, which calls for the assessment and disclosure of nature-related risks, impacts and dependencies. This will enable organisations to align their corporate reporting with global policy goals, as they are currently doing for climate-related issues. This alignment is

likely to encourage further uptake of the currently voluntary recommendations.

Preparing for TNFD reporting

Organisations can prepare for TNFD reporting under the recommendations by:

- Assessing the completeness and quality of the data that needs to be disclosed on nature-related dependencies, risks, impacts and opportunities, and ensuring that value chain partners are collecting and reporting the relevant data and analytics.
- Considering how the recommendations could be best applied to an organisation, identifying areas of focus and priorities and hurdles that may be faced, and monitoring, evaluating and adapting the disclosures as necessary.
- Using the LEAP approach to identify and measure nature-related dependencies, risks, impacts and opportunities, and communicating them effectively to stakeholders.
- Ensuring access to the appropriate skills and resources, either internally or externally, to support the TNFD disclosures.

- Becoming familiar with the “getting started” guidance issued by the TNFD, and considering joining capacity groups such as the TNFD forum and the TNFD community of practice (<https://tnfd.global/recommendations-of-the-tnfd/getting-started-with-tnfd/>).

The TNFD has also issued sector-specific guidance for financial institutions on how nature-related risks and opportunities are to be considered in investment selection and the process for identifying, assessing and monitoring nature-related risks in portfolios (<https://tnfd.global/publication/additional-disclosure-guidance-for-financial-institutions/>). Financial institutions should consider this guidance in their nature-related disclosures to help meet the expectations of stakeholders.

Nature-positive economy

The recommendations come at an important juncture. The UN’s 2022 State of Finance for Nature report indicated that the financing flows that are available to address nature-based solutions currently total around \$154 billion a year, which is less than half the annual investment required by 2025 and only a third of the annual investment needed by 2030 to limit climate change to below 1.5°C, halt biodiversity loss, and achieve land degradation neutrality (https://wedocs.unep.org/bitstream/handle/20.500.11822/41333/state_finance_nature.pdf?sequence=3).

Achieving widespread and early adoption of the TNFD will be challenging, due to the lack of data available to populate the required metrics and calculate risks and dependencies, and the need to build greater awareness around nature-related financial risks and opportunities. Nevertheless, TNFD reporting is likely to move to a stronger legal footing, as has been the case with the TCFD framework. It is likely that more jurisdictions will adopt the recommendations as they align with the GBF goal of halting and reversing biodiversity loss by 2030. Organisations should review the recommendations and begin preparing for voluntary disclosures. Through reporting, organisations can show stakeholders their commitment to supporting the global transition to a nature-positive economy.

Matthew Townsend is a partner, and Danae Wheeler and Jasmin Fraser are associates at Allen & Overy LLP.

The recommendations are available at: https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf.
