

ESG: GETTING READY SERIES

THE TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES



GOVERNANCE & SUSTAINABILITY
Part of the Horizon Scanning series

WHAT

The Taskforce on Nature-related Financial Disclosures (“TNFD”) disclosure framework (the “Framework”) was finalised in September 2023 and is expected to set the global standard for reporting on nature and biodiversity by corporate and financial institutions. The Framework provides guidance to organisations on how to assess and disclose their nature-related dependencies, impacts, risks and opportunities.

Like the disclosure framework from the Taskforce on Climate-related Financial Disclosures (“TCFD”), the Framework is arranged into four pillars: (i) governance; (ii) strategy; (iii) risk and impact management; and (iv) metrics and targets, which in turn, are broken down into 14 recommended disclosures. Supplementing these are conceptual foundations for nature-related disclosures, as well as a set of six general requirements regarding materiality, scope of disclosures, location of nature-related issues, integration with other disclosures, time-horizons, and engagement with affected persons. These apply in addition to the general requirements in the International Sustainability Standard Board’s (“ISSB”) sustainability disclosure standard (IFRS S1).

The Framework accommodates both ‘single’ and ‘double’ materiality approaches. It recommends that organisations use the ISSB’s approach when considering what is financially material to report, and to draw on the Global Reporting Initiative’s (“GRI”) standards when assessing which of the business’ external impacts on people and planet may be considered material. The Framework is also considered to be interoperable with the European Sustainability Reporting Standards, the reporting framework underpinning the EU’s Corporate Sustainability Reporting Directive (“CSRD”).

WHEN

At present, disclosure under the Framework is voluntary. However, widespread and potentially mandatory Framework-compliant reporting is considered likely in the future as, under the Kunming-Montreal Global Biodiversity Framework (“GBF”) that was adopted in 2022, virtually all states¹ have agreed to take legal, administrative or policy measures to encourage and enable businesses to assess, disclose and reduce biodiversity-related risks and negative impacts. The GBF encourages large and transnational companies and financial institutions in particular to carry out these risk assessments and provide such disclosures.

Meanwhile, the CSRD is kick-starting nature-related reporting in the EU starting in 2025, with a scope that is already as wide reaching as the Framework.

¹ Other than the US and the Vatican, although US President Biden in January 2021 issued an executive order directing federal officials to protect 30% of the country’s lands and ocean waters by 2030, essentially mimicking the GBF.

WHO

Notwithstanding disclosure against the Framework being voluntary, in January 2024, the TNFD reported that 320 early adopters from over 46 countries, including 106 financial institutions and representing over \$4tn in estimated market capitalisation, have committed to starting to make nature-related disclosures against its recommendations as part of their annual corporate reporting. Future incorporation into national legislative regimes is expected to increase the number of entities reporting in accordance with the Framework.

WHY

Natural capital is integral to more than half of the world's total GDP according to the World Economic Forum. Sectors such as agriculture, food, and construction are particularly vulnerable to a decline in natural capital. However, all businesses will face risks to their viability from nature degradation, be it through threats to resource availability, knock-on effects in supply chains, disruptions to transportation, or impacts such as physical risks from natural disasters. On the other hand, the GBF has precipitated a wave of regulations aimed at protecting and restoring natural ecosystems, and companies with large environmental footprints may soon face significant regulatory risks. A better understanding of the nature-related impacts, risks and opportunities belonging to a business is the first step in addressing and harnessing them.

For businesses, pre-emptive action to address nature-related vulnerabilities can help manage risks and differentiate them from their competition, particularly when it comes to accessing and raising finance. However, as biodiversity reporting differs more from conventional financial reporting than climate reporting, it pays to get ahead of the curve in developing familiarity with nature-related impacts, metrics, and considerations before regulations crystallise.

Given the interplay between nature and climate, an understanding of nature-related risks and opportunities can also be beneficial for climate action and supporting emissions reduction initiatives. Our [recent article on transition plan readiness](#) focusses on climate transition plans, but it is important for businesses to avoid considering climate and nature in isolation. The Nature Working Group of the UK's Transition Plan Taskforce's has recently released an advisory paper where they noted that natural ecosystems absorb roughly half of CO2 emissions and increase resilience to the effects of climate change. The converse also holds true, in that climate adaptation and mitigation strategies may often have negative impacts on natural environments. While there is no requirement to integrate climate and nature transition plans, the advisory paper also pointed out that transition plans which "address both climate and nature objectives [...] can capture synergies and trade-offs between climate and nature in one strategy."

GETTING READY

Start small.

The TNFD emphasises that the most important step to take for now is to begin assessing and disclosing against the Framework. Businesses do not have to provide all the recommended disclosures in their reporting right at the outset. The average respondent in a survey conducted by the TNFD suggested they would start with disclosure of half of the 14 recommended disclosures.

While the TNFD discourages organisations from letting 'the perfect be the enemy of the good', it is important to balance greenwashing risk against disclosures, and to carefully consider the style and verification of disclosures to make the most of nature-related reporting while limiting risk.

LEAP into action.

The TNFD has provided an easy-to-use implementation guide, telling organisations to:

- 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.

The outcomes of assessments conducted under the Framework will provide information on a business's reliance on nature. This can be helpful to present to senior stakeholders, to garner support and inform their business decision-making.

Deal with the data.

Currently, the qualitative and quantitative indicators and metrics needed to measure and report on nature are not as well-established as those for climate-related disclosures, and will vary by business, sector and geography. That being said, there are various other standards which can be used to support nature reporting, such as the GRI's 'GRI 101: Biodiversity 2024' standard, or targets for nature which have been released in May 2023 by the Science-Based Targets Network (building on the work of the climate-focussed Science Based Targets initiative). Data owners across an organisation should look to familiarise themselves with the new indicators and metrics suggested by the TNFD and consider what additional data might be required, and what data-collection systems may need to be put in place. That said, the Framework mirrors the TCFD's framework, so existing processes and policies may be adapted and utilised.

For companies wishing to look ahead, considering the appropriate assurance processes and expertise needed will allow them to pre-empt assurance requirements that may also be implemented under national regimes, and adequately prepare for nature-related corporate reporting.

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