

# TNFD framework finalised providing blueprint for assessing biodiversity risks and opportunities


## In brief

- Biodiversity loss presents a material financial risk for companies and investors.
- In September 2023, the TNFD recommendations were finalised providing a framework to help entities analyse and manage nature-related risks and opportunities.
- The key outcomes from the final recommendations are a set of required disclosures, and confirmation of 14 core metrics which all entities complying with the framework will be required to report as far as possible.
- Reporting is currently voluntary, with clarification needed on how and when this will be made mandatory for UK companies.
- Investors should proactively look to understand the underlying risks and opportunities relating in their portfolios.

**In September 2023 the Taskforce on Nature-Related Financial Disclosures (TNFD) recommendations were finalised to provide a framework helping entities to identify, assess, and manage risks related to nature, as well as how to disclose these risks. In this briefing note we summarise the key outcomes of that final framework, and what the key implications are for investors.**

It's increasingly clear that the environment is the foundation for our economy and society, and it is degrading rapidly; 35% of the world's forest area has been destroyed, and 90% of the world's marine fish stocks are fully exploited. Estimates suggest that industries that are highly dependent on nature generate 15% of global GDP, or \$13tn. In addition, it's recognised that mitigating and reversing biodiversity loss will meaningfully address climate change. You can read more about biodiversity and key risks for investors [here](#).

In 2022, global governments committed to ambitious goals and targets under the Kunming-Montreal Global Biodiversity Framework (GBF) to halt and reverse nature loss by 2030. As we have seen with carbon emissions, a key part of any progress in relation to biodiversity goals will be disclosure standards.

 **The TNFD framework provides a welcome blueprint for companies to report on key sources of nature-related risks and opportunities, which will help investors address this key issue in their portfolios.**

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## Overview of TNFD

TNFD is intended to provide companies and financial institutions with a risk management and disclosure framework to identify, assess, manage and disclose nature-related issues. It includes 14 recommended disclosures covering nature-related dependencies, impacts, risks and opportunities. The full framework can be found [here](#).

The recommendations have been designed to be consistent with the language, structure and approach of both the Task Force on Climate-related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB) to enable integrated climate and nature-related reporting, and to accommodate the different approaches to materiality, given the highly location and sector-dependent nature of biodiversity risks and opportunities.

## Summary of the Four Pillars and 14 Disclosures of TNFD

1 Governance	2 Strategy	3 Risk Management	4 Metrics and Targets
1. Describe the board's oversight of nature-related issues.	4. Describe the nature-related issues identified over the short, medium and long term.	8. Describe the processes for identifying, assessing and prioritising nature-related issues in direct operations, and...	12. Disclose the metrics used to assess and manage material nature-related risks and opportunities.
2. Describe management's role in assessing and managing nature-related issues.	5. Describe the effect nature-related issues have had on the organisation's strategy.	9. in upstream and downstream value chain(s).	13. Disclose the metrics used to assess and manage dependencies and impacts on nature.
3. Describe the organisation's human rights policies and engagement activities, and oversight of Indigenous Peoples and Local Communities, affected.	6. Describe the resilience of the organisation's strategy to nature-related issues under different scenarios.	10. Describe the processes for managing nature-related issues.	14. Describe the targets and goals used to manage nature-related issues and its performance against these.
	7. Disclose the locations of assets and activities.	11. Describe how nature-related issues are integrated into the overall risk management processes.	

# TNFD has developed guidance to support provision of consistent and comparable information.

## 1. A set of recommended metrics

**There are 14 Core metrics that all entities should report on (as far as possible).** There are two types of metric - relating to (i) Dependencies and impacts on nature, and (ii) Nature-related risks and opportunities to the organisation

Nature-related dependencies and impacts	Nature-related risks and opportunities
<ul style="list-style-type: none"> <li>• Total spatial footprint of the entity</li> <li>• Extent of land/water use change</li> <li>• Pollutants released (split by type)</li> <li>• Wastewater discharged</li> <li>• Waste generation and disposal</li> <li>• Plastic pollution</li> <li>• Non-Greenhouse Gas air pollutants</li> <li>• Water consumption from areas of water scarcity</li> <li>• High-risk natural commodities sourced</li> </ul>	<ul style="list-style-type: none"> <li>• Value of assets and liabilities that are vulnerable to nature-related: <ul style="list-style-type: none"> <li>• transition risks, and</li> <li>• physical risks</li> </ul> </li> <li>• Fines due to negative nature-related impacts.</li> <li>• Capex / investment towards nature-related opportunities.</li> <li>• Increase and proportion of nature-positive revenue.</li> </ul>

There is then a long list of possible additional metrics suggested to be used where relevant for a given entity.

## 2. The LEAP Approach to help entities to identify and assess nature-related issues:

L	<b>Locate</b> interfaces with nature.
E	<b>Evaluate</b> dependencies and impacts.
A	<b>Assess</b> risks and opportunities.
P	<b>Prepare</b> to respond to nature-related risks and opportunities, and report on them.

## 3. Scenario Analysis - Overview of 4 scenarios that entities can use when assessing their resilience to nature-based risks. **These scenarios are set out below with our summary of what they broadly represent:**

- **Ahead of the game** - Timely progress made on climate and nature focused policies leading to low experienced loss. Companies and countries, driven by social demand, are determined to meet the moment of opportunity.
- **Go fast or go home** - Once in a century events become once in a decade events, forcing fast and bold policy decisions to protect ecosystems. Some corporates will likely experience a very rapid drop-off in essential ecosystem services, contributing to global economic slowdown.
- **Sand in the gears** - Environmental assets are degrading fast, conflicting and ambiguous signals from market and non market forces stops corporates from taking action despite experiencing significant negative outcomes from loss of ecosystem.
- **Back of the list** - Nature based issues get sidelined by other priorities such as belated action on carbon reduction. Organisations turn towards a strategy of reducing short-term harm to environmental assets and pull away from long-term planning.

## 4. Guidance for specific sectors and ecosystems, and guidance on engagement with indigenous Peoples and local communities.

## Summary and key takeaways for investors.

The final TNFD framework will increase focus by businesses and investors on biodiversity issues and increase transparency around exposure to key risks and opportunities. Pressure and regulation on businesses to internalise costs associated with nature degradation creates risks for investors not taking these into account; whilst also creating opportunities for companies which thrive in the nature transition.

Investors will await guidance on how the disclosure framework will be rolled out to institutions. Reporting for companies is currently voluntary, however the UK Government is expected to soon be implementing Biodiversity Net Gain legislation, and the Environmental Audit Committee Chair has called on government to consider making TNFD mandatory for companies, like TCFD. As a reference point, the TCFD framework was finalised in 2017, and became a requirement for UK companies and large pension schemes in 2021. Given the learnings from TCFD, it could be reasonable to expect this process to be fast-tracked for TNFD.

**In the meantime, there's still lots that can be done and we recommend the following actions:**

- **Engage** - Speak to your investment managers to understand what actions they are taking to account for biodiversity-related risks in their investments.
- **Assess** - Whilst it will take time for the core metrics to become reported widely, there are measures currently available which can be used to identify key sources of risk in your current portfolio (for example exposure to companies with ties to deforestation, or operations in areas of high ecosystem disturbance).
- **Invest** - Consider switching your investments to sustainable funds which:
  - Invest in companies contributing to the preservation or restoration of biodiversity (aligned to themes such as sustainable materials or the circular economy); and/or
  - Directly finance nature-positive real assets such as peatland restoration, woodland creation, or seagrass planation - which may generate nature-based credits for income.

**If you'd like to learn more about how to embed nature-based considerations into your investment strategy, please get in touch with Alex Quant.**



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**Alternatively, please speak to your usual XPS Investment contact.**

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