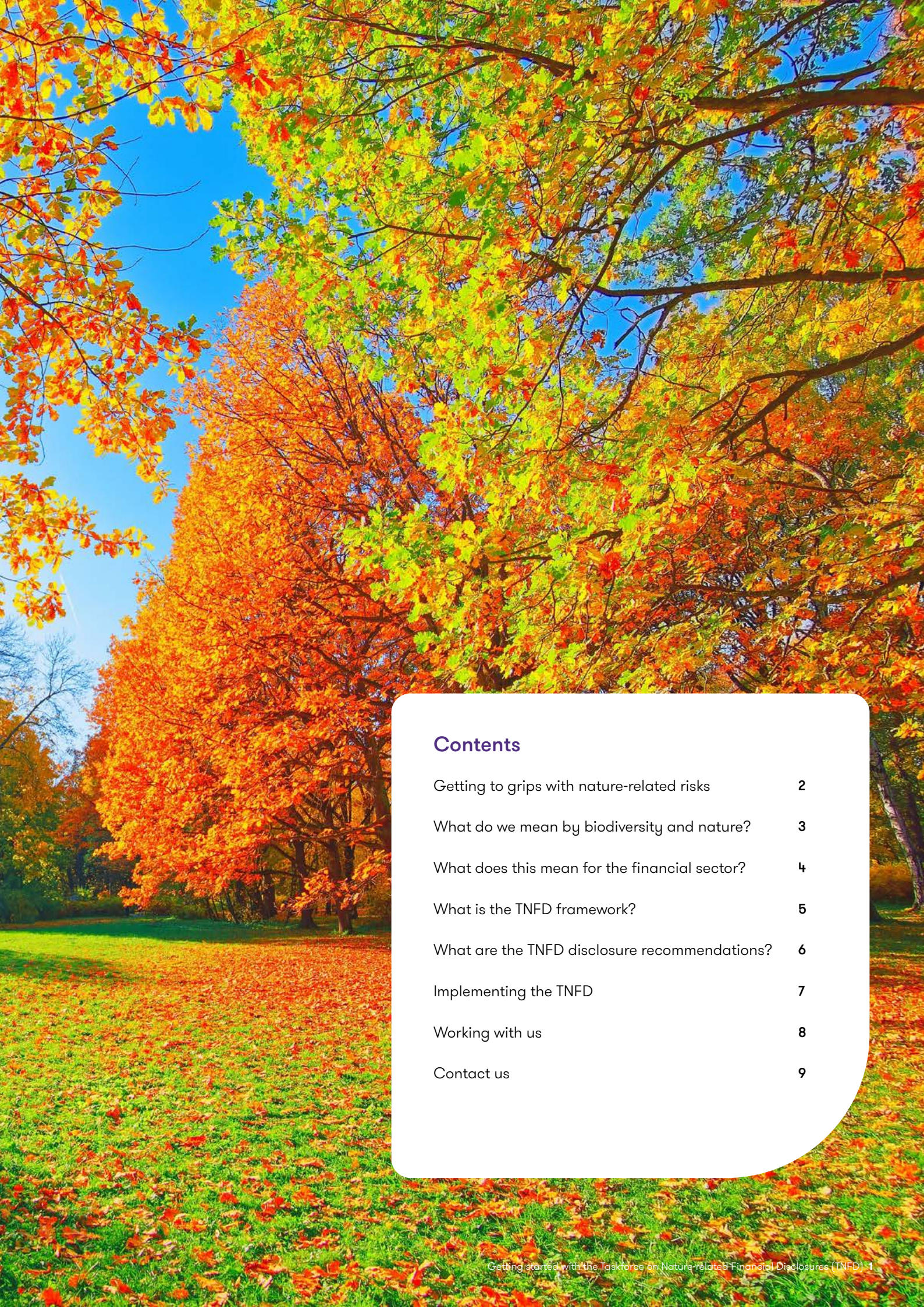


# Getting started with the Taskforce on Nature-related Financial Disclosures (TNFD)

Managing nature and biodiversity  
risks in the financial sector

2023





## Contents

Getting to grips with nature-related risks	2
What do we mean by biodiversity and nature?	3
What does this mean for the financial sector?	4
What is the TNFD framework?	5
What are the TNFD disclosure recommendations?	6
Implementing the TNFD	7
Working with us	8
Contact us	9

# Getting to grips with nature-related risks

The financial sector is increasingly concerned about the financial risks due to nature and biodiversity loss. What are the key concerns and what can firms be doing now to mitigate the risks?

Biodiversity and nature relate to every business sector across the globe by providing essential ecosystem services through raw materials, ingredients for medicines, and leisure and cultural benefits, amongst others. But nature is on the decline, with a knock-on effect on the key business services. This creates a systemic risk to the financial system, which could jeopardise stability.

These risks need to be effectively managed to ensure business models remain sustainable in the long term. As such, firms need to identify new opportunities for nature positive investment, supporting projects and businesses that will help to protect biodiversity and nature. That's where the Taskforce on Nature-related Financial Disclosures (TNFD) framework comes into play.

The TNFD has developed a risk management and disclosure framework for organisations to report and act on nature-related risks. It aims to help organisations – of every size, across every sector that interacts with nature – to participate in global supply chains and the financial system. The framework helps firms structure their metrics, set meaningful targets and standardise their disclosure practices. Ultimately, this will improve transparency, boost accountability and encourage investment.

While participation is voluntary, it could follow the same trajectory as Taskforce on Climate-related Financial Disclosures (TCFD) – which has since become an integral element of the disclosure landscape, and been incorporated into the International Sustainability Standards Board. Getting an early start can help firms ensure their business model is sustainable in the long term, while helping to maintain stability across the financial sector.



**Rashim Arora**  
Managing Director



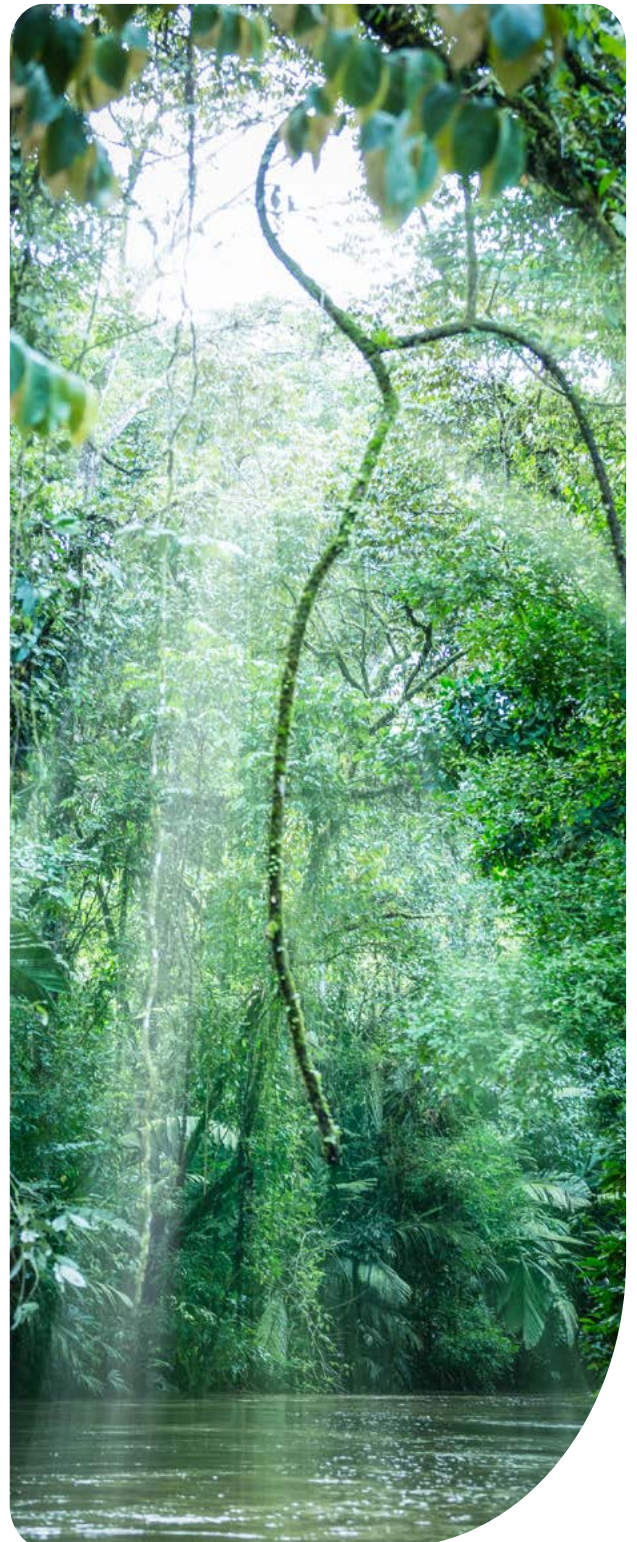
**Irina Velkova**  
Director

# What do we mean by biodiversity and nature?

Biodiversity is the range of all life on Earth, from plants to trees, to animals and humans. The term nature is much broader and refers to biodiversity, plus geological features, pollution and the world's climate. Ultimately, they form and maintain our planet's ecosystem. But the world is facing global decline in both nature and biodiversity.

The UN Environment Programme highlights five key causes behind nature and biodiversity loss:

- **Changing land use:** This is the biggest driver of biodiversity loss, primarily through agricultural expansion leading to deforestation and land degradation.
- **Climate change:** Oceans, soil and forests act as carbon sinks and carbon storage. Rising temperatures can degrade these areas, reducing their effectiveness and ultimately increasing the amount of carbon released into the atmosphere.
- **Use of natural resources:** Over exploitation of animals and plants can affect their ecosystem and threaten other species in the food-chain.
- **Pollution:** Waste products and chemicals can pollute land, air and water. This includes non-selective insecticides, affecting plants and insects. Additional nitrogen in the air is increasing global warming and presents additional health concerns for humans and animals.
- **Invasive species:** As animals and plants become displaced from their natural habitats, they adapt to new environments. Competing for the same natural resources, these species affect local ecosystems and food chains, with long-term implications for biodiversity including extinctions of plants and animals.



# What does this mean for the financial sector?

Biodiversity and nature loss are a systemic risk. As such, regulators are increasingly concerned about how the financial sector is identifying and managing those exposures. It will take time to put these processes in place, and balance-sheet impacts may be direct or indirect.

Direct exposures include events that can impact the following:

- **Supply chain** – Disruption to the supply chain can affect availability of goods and services, including third party IT providers.
- **Operations** – Extreme weather events, such as flooding, can affect access to business premises or critical business infrastructure.
- **Reputational risk** – Service disruption, and its underlying nature-related causes, can cause a negative reaction from customers.
- **Increase in frequency and severity of credit events** – Nature loss and extreme weather events can lead to a rise in defaults for lenders.
- **Increase in frequency and intensity of insurance losses** – Extreme weather events or gradual environmental change can cause physical damage to property, leading to greater exposures for insurers.

Indirect exposures are harder to identify and include:

- **Investments** – It is particularly challenging for investors to identify nature-related risks within their direct investments, or indirect investments such as pension funds.
- **Viability of business model through product offerings** – As businesses change behaviours to reduce the impact on nature, this will affect product lines and the wider business model.
- **Liquidity challenges** – Exposures to nature-related risks will affect the firm's ability to raise finance at a reasonable cost with an immediate impact on liquidity.

## Transmission channels

These risks can affect the sustainability of your business model in three ways:

**Physical risks:** This refers to any risks due to the direct, physical impacts of biodiversity loss. For example, this may include the impact of flooding, droughts, species loss, raw material shortages, or infectious disease. These risk may crystallise slowly or follow a sudden extreme event.

**Transition risks:** This refers to any risks due to legislation, regulation or government intervention to slow or halt the effects of nature or biodiversity loss. It includes the cost of change, reliance on technology, or evolving consumer and investor expectations. Ideally, change will be gradual to control these risks and give businesses time to adapt. However, short-dated government pledges, extreme weather, political events or humanitarian disasters can prompt rapid change and heighten transition risk.

**Liability risks:** Firms are under increased scrutiny to make sure they behave ethically and do not cause harm to ecosystems, nature or biodiversity. Businesses that don't take the necessary steps to prevent undue harm, or who do not make accurate disclosures, may face legal action from members of the public, investors, or other organisations.

# What is the TNFD framework?

The TNFD has developed a risk management and disclosure framework for organisations to report and act on nature-related risks.

Encouraging investment towards nature-positive outcomes, the TNFD ultimately aims to tackle nature and biodiversity loss. Disclosure elements will improve transparency and accountability, while creating a comparable framework for companies that legally need to disclose information to regulators or other stakeholders. Most importantly, TNFD will make it easier for investors to identify the companies that align with their values and reduce the risk of greenwashing.

The TNFD framework consists of three elements:

- 1 A summary of the concepts and definitions that market participants can use to assess and disclose nature-related issues.
- 2 Guidance for financial institutions and corporates to assess nature-related issues and incorporate them into their enterprise strategy and risk management processes.
- 3 Recommended disclosures for nature-related issues.

The TNFD framework recommends that corporates applying nature-related targets should use science-based targets such as those created by the cross-sector Science Based Targets Network (SBTN). As best practice, these should include both qualitative and quantitative metrics that align with the TNFD and other global policies or approaches, such as the Global Biodiversity Framework's monitoring framework.

## Alignment with other frameworks

With comparable themes, language, and structure to the Task Force on Climate-related Financial Disclosures (TCFD), the TNFD framework will feel familiar to the financial sector – albeit with different goals. This is by design to encourage early adoption. While the TCFD focuses on the financial impact of climate change, the TNFD looks at the financial impact of nature-related changes and how to direct finances towards nature-positive outcomes.

In addition to the TCFD, the TNFD also draws from (and feeds into) other frameworks, such as the International Sustainability Standards Board (ISSB), the Global Reporting Initiative (GRI) and the European Financial Reporting Advisory Group (EFRAG) among others. This alignment is essential to aid adoption and reduce the need for duplicate risk management approaches.

## Using the LEAP approach

The TNFD framework includes the LEAP approach, designed as an internal due diligence process to help firms understand and manage their interactions with nature. The approach is not a mandatory element of the TNFD framework, but can be a useful tool to help firms get started. There are four key steps within the LEAP approach:

**Locate** their interface with nature. Firms need to think about their business footprint, the biomes and ecosystems they interact with, the locations they impact, and the sectors or business units affected.

**Evaluate** dependencies and impacts. This includes identifying environmental assets and ecosystem services, finding any dependencies or impacts, and undertaking a dependency and impact analysis.

**Assess** risks and opportunities for the business. Firms need to consider their existing mitigating controls and opportunity management processes, establish where they need to undertake further work, and consider material elements for inclusion in the TNFD disclosure.

**Prepare** to respond to those risks and opportunities and report on them. This includes strategy and resource allocation, and disclosure actions – such as what to include in the disclosure and how (and where) to present those findings.

# What are the TNFD disclosure recommendations?

TNFD consists of 14 recommended disclosures and describes the link between the value chain to nature as: direct operations, upstream, downstream and financed. It has also given additional guidance on the use of scenario analysis, including tools and templates, to inform strategy and improve resilience over key topics that are specific to nature.

## TNFD requirements

### Governance

Disclose the organisation's governance of nature-related dependencies, impacts, risks and opportunities.

### Strategy

Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation's business model, strategy and financial planning where such information is material.

### Risk and impact management

Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities.

### Metrics and targets

Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

## Recommended disclosures

A. Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.

B. Describe management's role in assessing and managing nature-related dependencies, impacts, risks and opportunities.

C. Describe the organisation'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 organisation's assessment of, and response to, nature-related dependencies, impacts, risks and opportunities.

A. Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term.

B. Describe the effect nature-related dependencies, impacts, risks and opportunities have had on the organisation's business model, value chain, strategy and financial planning, as well as any transition plans or analysis in place.

C. Describe the resilience of the organisation's strategy to nature-related risks and opportunities, taking into consideration different scenarios.

D. Disclose the locations of assets and/or activities in the organisation's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations.

A. (i) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its direct operations.

A. (ii) Describe the organisation's processes for identifying, assessing and prioritising nature-related dependencies, impacts, risks and opportunities in its upstream and downstream value chain(s).

B. Describe the organisation's processes for managing nature-related dependencies, impacts, risks and opportunities.

C. Describe how processes for identifying, assessing, prioritising and monitoring nature-related risks are integrated into and inform the organisation's overall risk management processes.

A. Disclose the metrics used by the organisation to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process.

B. Disclose the metrics used by the organisation to assess and manage dependencies and impacts on nature.

C. Describe the targets and goals used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and its performance against these.

Source: Recommendations of the Taskforce on Nature-related Financial Disclosures, September 2023



# Implementing the TNFD

When embedding the TNFD framework, you will need to take an agile and bespoke approach to meet your business' needs. That includes alignment with ESG and wider business strategies, while meeting key organisational objectives and client needs.

Below, we highlight some of the key considerations when embedding the TNFD framework.

## 1. Getting started

- Define your firm's objectives in relation to biodiversity and nature.
- Identify key stakeholders – both internal and external to your firm.
- Undertake gap analysis against your current framework (if already in place).
- Establish a road map with key milestones and deliverables.
- Design and deliver appropriate training and guidelines for employees and third parties, as relevant

## 2. Integration within governance and strategy

### Governance

- Establish how the board and management oversee risks, opportunities and impacts relating to nature-related dependencies.
- Define appropriate governance structures, including board involvement, key committees, working groups, escalation protocols and reporting.
- Define key roles and responsibilities.

### Strategy

- Identify and disclose the risk and opportunities in the short-medium-and long-term arising from nature-related activities.
- Consider their effect on strategy, business and financial planning – including notes on strategic resilience regarding nature-related dependencies, or any specific activities or assets in priority areas.

## 3. Risk identification and assessment

### Risk identification

- Map the firm's activities, looking both upstream and downstream on the value chain, to identify your nature-related exposures and dependencies.

### Risk assessment

- Decide on the purpose of the exercise, whether it is for risk valuation, index benchmarking or financial valuations.
- Account for all sources of risks, covering physical, transitional and liability risk exposures.
- Undertake stress and scenario testing analysis.
- Understand the drivers and the implications of nature-related risks to your balance sheet and solvency position.

### Business response

- Draw on the risk identification and assessment exercise to understand the implications for existing and future management actions.
- Consider how you can integrate the results into the wider risk management framework, for example in the risk appetite or through interaction with existing policies.

## 4. Reporting and disclosures

- Identify disclosure requirements applicable to your business.
- Evaluate methods for data collection and reporting templates.
- Design reporting process and mechanisms in line with business model.
- Consider adopting voluntary targets and how to align them with science-based targets.
- Align to voluntary reporting standards.

# Working with us

Our team of experienced ESG professionals can help you embed the TNFD framework across your organisation. Drawing synergies with existing regulations and frameworks, including TCFD, our team can help you adopt the new disclosure framework with minimal business disruption and full alignment to wider strategic goals. Our specialists offer best in class regulatory expertise, supported through extensive work across the financial services sector and with UK regulators.

Our team can help you in the key areas listed below.

## Developing your TNFD framework

- Develop your nature-related strategy.
- Carry out a gap analysis and remediation plan.
- Build a project road-map.
- Undertake a risk assessment.
- Support to embed the framework across existing risk management practices.
- Assess your supply chain for sustainability.
- Support your new product strategy.

## Designing your disclosure and reporting processes

- Support your reporting and disclosure processes.
- Help to integrate the TNFD with other regulatory frameworks including operational resilience.
- Support with alignment to wider reporting requirements such as the ICAAP, ORSA or non-financial reporting.
- Resource augmentation to draft the TNFD disclosure, in part or in full.

## Implementing your bespoke TNFD framework

- Advisory or resource augmentation to put the TNFD framework into practice.
- Help to design appropriate governance structures.
- Support to design and tailor processes and procedures.
- Incorporate TNFD framework at operational level.
- Bespoke board and employee training.

## Assurance programmes

- Assurance over your TNFD programme to demonstrate compliance and effectiveness.
- Benchmarking against general market practice and or your sector or size specific peer group.



# Contact us



**Rob Benson**

Partner

**T** +44 (0)20 7865 2415

**E** rob.m.benson@uk.gt.com



**David Morrey**

Partner

**T** +44 (0)20 7865 2657

**E** david.morrey@uk.gt.com



**Paul Young**

Managing Director

**T** +44 (0)20 7865 2781

**E** paul.l.young@uk.gt.com



**Rashim Arora**

Managing Director

**T** +44 (0)20 7865 2594

**E** rashim.arora@uk.gt.com



**Irina Velkova**

Director

**T** +44 (0)20 7865 2687

**E** irina.a.velkova@uk.gt.com

**GRANTTHORNTON.CO.UK**

© 2023 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication. DS4723

