

TNFD Publishes Finalized Recommendations for Nature-Related Disclosures

TNFD looks to raise natural capital on par with climate in organizations' disclosure of sustainability-related impacts, dependencies, risks, and opportunities.

Key Points:

- Natural capital is quickly rising in importance for various public and private sector actors.
- The Taskforce on Nature-related Financial Disclosures' recommendations are likely to serve as a catalyst for further expectations in this area.
- Organizations may wish to start developing a strategy on natural capital to reflect these expectations.

On September 18, 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) [published](#) recommendations for organizations' assessment, management, and disclosure of nature-related issues (the Recommendations). These recommendations were the result of a two-year engagement process, featuring several beta versions to receive and process commentary from a range of stakeholders. The process builds on several years of growing attention to the fundamental role of nature — including the [2022 Global Biodiversity Framework](#) that nearly 200 countries adopted in a Paris Agreement-type moment for nature.

Several high-profile companies, asset managers, and civil society organizations have endorsed TNFD. Paired with emerging regulatory attention on nature and biodiversity, this endorsement is likely to speed adoption of the Recommendations — which many anticipate will follow a similar path as the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) took with climate. As such, companies need to be aware of these developments and start considering a plan forward.

This Client Alert provides an overview of the Recommendations, as well as next steps and parallel developments in the market. It also highlights initial steps that organizations should consider in developing their nature-related strategies.

Summary of the Recommendations

The Recommendations draw heavily from the TCFD framework, though recontextualized for nature. They incorporate many of the same foundational concepts — such as a taxonomy of risks, varying time horizons, and the need to capture not only direct operations but also upstream and downstream value chain impacts — as well as recommended disclosure organized around the now ubiquitous pillars of

governance, strategy, risk [and impact] management, and metrics and targets. The Recommendations also carry over the recommended disclosures from the TCFD (see below) to the nature context, forming the bulk of the ultimate disclosure list.

However, TNFD has also recognized several unique challenges associated with the broader remit of nature, which have contributed to several additional concepts and features of the Recommendations as compared with the TCFD. These include three additional recommended disclosures: (1) stakeholder rights and engagement; (2) priority locations; and (3) value-chain risk and impact management. These reflect broad trends regarding the role of value chains and the incorporation of human rights and related social considerations into overall perceptions of sustainability, as well as the explicitly local essence of nature specifically.

The chart below lays out these recommended disclosures.

Governance	Strategy	Risk & Impact Management	Metrics & Targets
A. Board oversight of nature-related dependencies, impacts, risks, and opportunities	A. Nature-related dependencies, impacts, risks, and opportunities the organization has identified over the short, medium, and long term	A1. The organization's processes for identifying, assessing, and prioritizing nature-related dependencies, impacts, risks, and opportunities in its direct operations	A. The metrics used by the organization to assess and manage material nature-related risks and opportunities in line with its strategy and risk management process
B. Management role in assessing and managing nature-related dependencies, impacts, risks, and opportunities	B. The effect nature-related dependencies, impacts, risks, and opportunities have had on the organization's business model, value chain, strategy, and financial planning, as well as any transition plans or analysis in place	A2. The organization's processes for identifying, assessing, and prioritizing nature-related dependencies, impacts, risks, and opportunities in its upstream and downstream value chains	B. The metrics used by the organization to assess and manage dependencies and impacts on nature
C. The organization'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 organization's assessment of, and response to, nature-related dependencies, impacts, risks, and opportunities	C. The resilience of the organization's strategy to nature-related risks and opportunities, taking into consideration different scenarios	B. The organization's processes for managing nature-related dependencies, impacts, risks, and opportunities	C. The targets and goals used by the organization to manage nature-related dependencies, impacts, risks, and opportunities and its performance against these targets and goals
	D. The locations of assets and/or activities in the organization's direct operations and, where possible, upstream and downstream value chain(s) that meet the criteria for priority locations	C. Describe how processes for identifying, assessing, prioritizing, and monitoring nature-related risks are integrated into and inform the organization's overall risk management process	

To support the rollout of these disclosures, TNFD has also developed a suite of tools and guidance to help organizations undertake the necessary considerations and assessments. We have provided additional detail on some of the key tools and guidance below.

The LEAP Approach to Risk and Impact Management

“LEAP” is a process that TNFD has developed to help organizations structure and conduct the necessary diligence to inform their nature-related strategy and disclosures. It is a mnemonic for the series of phases associated with the approach:

- **Locate** the interface with nature — This phase focuses on identifying the most significant sources of nature-related dependencies, impacts, risks, and opportunities to help organizations prioritize and focus their diligence in the intermediate phases. It does this by helping to filter issues through three lenses: sector, value chain, and geography, and it may include the production of heat maps or high-level materiality assessments.
- **Evaluate** dependencies and impacts on nature — This phase is meant to develop an organization’s understanding of its impacts and dependencies on nature, including the relative gravity and/or importance of such connections. It involves the assessment of various natural capital criteria associated with the sectors, value chains, and locations identified in the “Locate” phase for relevant impact and dependency pathways, and the relative scale of such impacts and dependencies.

TNFD notes that this stage is consistent with the [Natural Capital Protocol \(NCP\)](#), and recommends organizations refer to the NCP for additional details;

- **Assess** nature-related risks and opportunities — This phase distills the identified impacts and dependencies from the above phase into business-intelligible risks and opportunities, including prioritization of such risks and opportunities. In this phase, the familiar taxonomy of physical and transition risks associated with climate change (along with the introduction of systemic risks) can be deployed to help translate nature-related considerations into organizations’ existing risk management processes, as well as prioritizing such risks and opportunities based on their magnitude, likelihood, and other nature-specific criteria.
- **Prepare** to respond to nature-related risks and opportunities and to report on material nature-related issues (note, TNFD does not take a rigid stance on materiality and is designed to work with a financial materiality and/or impact materiality lens) — This phase takes the learnings from the previous phases to help determine a strategy to respond to items identified, which may include the development of internal governance and risk management processes, establishment of nature-related goals, and/or the production of nature-related disclosures.

TNFD provides more detailed guidance on the LEAP approach [here](#).

Priority Locations

TNFD recognizes that an organization’s direct operations and upstream and downstream value chain may necessarily incorporate a wide variety of geographic locations, such that there is a need to prioritize. Priority locations are meant to help organizations identify areas for such prioritization.

Priority locations are defined as locations that are material (i.e., where the organization has identified material nature-related impacts, dependencies, risks, and/or opportunities) and/or sensitive, (i.e., where there is greater potential fallout associated with the management of natural capital). TNFD identifies five

characteristics to determine if a location is sensitive: areas important for biodiversity; areas of high ecosystem integrity; areas of rapid decline in ecosystem integrity; areas of high physical water risk; and areas of importance for ecosystem service provision, including benefits to Indigenous Peoples and local communities (IPLCs) and stakeholders. Meeting any one of these criteria will qualify an area as ecologically sensitive. The LEAP guidance identified above includes certain metrics and datasets that can be used in making this determination.

Core and Sector Metrics

Recognizing that natural capital lacks a single metric equivalent to the role greenhouse gas (GHG) emissions plays for climate change, TNFD has also developed a suite of metrics to help inform organizations' approach to the metrics and targets pillar of the Recommendations.

The Recommendations break these metrics into a few categories, including a set of core metrics which are themselves divided into global and sector-specific metrics. The core global metrics currently consist of 14 indicators (what is being measured) and related metrics (how it is being measured) that, in addition to metrics on GHG emissions informed by TCFD and [ISSB's IFRS S2](#), are meant to provide a general overview of an organizations' nature-related performance against various drivers of nature change.

These indicators are:

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|--|---|
| 1. Total spatial footprint | 11. Value of assets, liabilities, revenues, and expenses assessed as vulnerable to nature-related physical risks |
| 2. Extent of land/freshwater/ocean-use change | 12. Description and value of significant fines/penalties received/litigation action in the year due to negative nature-related impacts |
| 3. Pollutants released to soil, by type | 13. Amount of capital expenditure, financing, or investment deployed towards nature-related opportunities, by type, with reference to a government, regulator, or third-party taxonomy, if relevant |
| 4. Wastewater discharged | 14. Increase and proportion of revenue from products and services producing demonstrable positive impacts on nature, with a description of impacts |
| 5. Waste generation and disposal | |
| 6. Plastic pollution | |
| 7. Non-GHG air pollutants | |
| 8. Water withdrawal and consumption from areas of water scarcity | |
| 9. Quantity of high-risk natural commodities sourced from land/ocean/freshwater | |
| 10. Value of assets, liabilities, revenues, and expenses assessed as vulnerable to nature-related transition risks | |

The Recommendations also include additional placeholder indicators/metrics for other drivers that do not currently have widely accepted metrics (including regarding invasive species and the overall state of nature). TNFD suggests disclosing on these core global metrics on a "comply or explain basis".

Core sector metrics are specific to sector and are expected to be published on a rolling basis. Sector metrics have been published in the [additional guidance for financial institutions](#), and draft sector metrics have been proposed in [draft form](#) for several other priority sectors, including: apparel and textiles; extractives and mineral processing; construction materials; oil and gas; food and agriculture; aquaculture;

engineering and construction services; real estate; electric utilities and power generators; and forestry management. The draft also identifies several other priority sectors for 2024.

Beyond these core global and sector metrics, TNFD also contemplates additional core and sector metrics, which can inform organizations' specific circumstances in relation to nature-related issues, as appropriate and relevant. Additional global metrics are included in the Recommendations, with additional sector metrics to be included with relevant sector guidance.

Guidance on Specific Topics

In addition to the sector guidance noted above, TNFD has produced guidance on various specific topics related to the Recommendations.

[Biome Guidance](#): As TNFD has noted, nature is explicitly local. So the biome guidance aims to support the assessment of natural capital considerations for six specific biomes, including guidance for the LEAP approach and relevant metrics for assessment.

[Nature Scenario Analysis](#): Unlike climate change, there is no set of clear reference scenarios that have crystallized for natural capital. This guidance provides a collection of tools, templates, and techniques for organizations to conduct scenario analysis in light of that absence. This includes outlining a workshop approach for qualitative scenario analysis bases on various axes of uncertainty, as well as more advanced approaches and tools, including potential simulations, models, and data platforms that can help drive further analysis.

[IPLC and Stakeholder Engagement](#): This guidance relates to TNFD's recommended disclosure on engagement with IPLCs and affected stakeholders. It outlines guidance for meaningful engagement with groups, including both an overview of generally applicable standards as well as considerations specific to the natural capital assessment and management process.

[Value Chain](#): Unlike the above guidance, the value chain guidance is a discussion paper outlining a proposal on how organizations can approach the analysis of their upstream and downstream value chains. In particular, it focuses on characteristics of value chains that can create challenges in assessing nature-related issues, as well as considerations to approach these issues and how value chains are considered in related frameworks and standards.

Next Steps for Natural Capital

The publication of the Recommendations is not the end of TNFD's work. As noted above, several more specific guidance documents are being developed to help facilitate the adoption of the TNFD framework.

However, the Recommendations mark a change in the status of efforts on natural capital globally. Biodiversity- and ecosystem-related laws have been climbing up the agenda in both the public and private sectors. For example, several institutional investors — including the [Nature Action 100](#) (NA100) group established in late 2022 — have laid out engagement priorities on natural capital. Regulators too are wading into the fray, with the European Union including a suite of environmental standards (including on pollution, water and marine resources, and biodiversity and ecosystems) for companies subject to the Corporate Sustainability Reporting Directive. The ISSB has also listed biodiversity, ecosystems, and ecosystem services among the [potential priorities](#) for its next two-year work plan.

In many instances, these private and public sector actors have noted that they are paying significant attention to the work of the TNFD. And TNFD has taken significant efforts to promote alignment with this

broader ecosystem to facilitate uptake by various stakeholders. As such, the time of “wait and see” for organizations on their approach to natural capital disclosures is swiftly coming to a close.

6 Steps Organizations Can Take

Organizations can take several steps to get started as the world moves into the next phase of its relationship with natural capital. TNFD has even published a [quick-start guide](#) for adoption of the Recommendations. However, below we lay out six steps that organizations can take to start building a holistic strategy around natural capital.

1. **Determine the relative importance of natural capital to the organization.** Not every company will have the same degree of interface with, or reliance on, nature. Different industries and geographies have different ESG risk profiles. As with ESG matters generally, organizations will need to consider how natural capital interacts with their particular business and its relative importance compared to other topics. Organizations in some industries — particularly the priority sectors for initiatives such as TNFD and NA100 — may face more substantial and immediate pressure from stakeholders to provide disclosures on their approach to natural capital.

However, even organizations that do not believe natural capital issues are “material” to them will likely need to undertake some additional investigation and analysis to demonstrate that conclusion to stakeholders’ satisfaction.

2. **Recognize that sustainability efforts cannot remain siloed.** Consideration of human rights, Indigenous rights, and climate change are all built into the tapestry of the Recommendations. This reflects a growing recognition that sustainability cannot be achieved in a series of distinct vacuums. It requires coordination and integration across workstreams. This applies not just to ESG topics, but also between business functions. While not solely applicable to natural capital, the introduction of this topic may serve as an avenue to assess the integration of current sustainability efforts and make changes, as appropriate.
3. **Educate and involve key stakeholders.** Related to this integration is the input of various stakeholders, internal and external. Many organizations are still focused on their approaches to climate change, let alone a topic as multifaceted as natural capital. As such, boards and management may need to be educated on the increasing prominence of natural capital for the company’s operations in order to provide the necessary level (and quality) of expected oversight. However, it is also important to educate and involve groups that are on the frontlines of the relevant operations.

This education should also, at least in part, be tailored to the particular stakeholder’s role. A chief financial officer may need to understand how nature-related issues are being incorporated into access to capital considerations. And discussions with procurement should cover the potential sourcing risks and mitigation measures that are core to these considerations. When executed well, this tailored approach can help to increase buy-in from parties that may be reluctant to add additional ESG layers to what are already complex functions.

4. **Leverage existing efforts and expertise.** Most organizations are not starting from zero on ESG matters when it comes to natural capital. Organizations should consider what processes they already have in place, or could adapt, to incorporate natural capital into their overall sustainability strategy. This may include existing policies, processes, or data collection mechanisms, among others. Organizations should also identify where they have internal expertise that they can use to accelerate

this process. This may come from a variety of teams, including procurement; environmental, health, and safety; legal; audit; and others teams central to operations and stakeholder management.

5. **Identify where external support can help.** Although many aspects of a natural capital strategy can be developed and executed in-house, organizations should consider involving third-party support in some areas. This may include looking to best practices and guidance published by TNFD and other actors in civil society, procuring various tools or datasets, and engaging subject-matter experts on particular risks and geographies if such expertise is not available in-house. However, given the general evolution of ESG expectations to date, this should also likely involve audit and legal professionals with the requisite understanding of natural capital and ESG more broadly from the early stages.
6. **Prepare to iterate.** Much of ESG is a matter of continual improvement, which is no different for natural capital. Organizations should not become paralyzed by trying to develop a perfect strategy to manage the scope and novelty of natural capital from the outset. Pre-planning and conscientious deliberation are important to developing a well-reasoned approach, including understanding how information learned and actions taken may impact other obligations (including under various regulatory regimes). But organizations will only be able to learn some things once they have actually started the work associated with assessing and addressing these topics.

Organizations should accept this in developing their strategy and establish a plan based on their own particular circumstances. This may include doing a pilot study on particular geographies or business units before rolling out initiatives across the organization, sub-dividing the Recommendations and establishing specific milestones for each set, marking specific time periods for re-evaluation of new processes, or other solutions. Even the focus on priority interfaces before lower-priority ones is a form of iteration in this space. At this stage, it is not about having some single, right answer to a company's natural capital strategy; it's about asking the right questions, and finding the answers that can move the organization forward.

Latham's ESG team will continue to monitor developments on the rapidly evolving topic of natural capital.

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