

TNFD Beta Framework v0.1

A Guide for Financial Institutions

March 2022



Building a better
working world

Executive Summary

Background

- ▶ Nature loss presents both risks and opportunities for business, now and in the future. More than half of the world's economic output - US\$44tn of economic value generation - is moderately or highly dependent on nature¹.
- ▶ Currently, financial institutions and companies do not have the information they need to understand how nature impacts immediate financial performance, or the longer-term financial risks that may arise from both positive and negative impacts on nature by businesses.
- ▶ Better information will allow financial institutions and companies to incorporate nature-related risks and opportunities into their strategic planning, risk management, and asset allocation decisions.
- ▶ The Taskforce on Nature-related Financial Disclosures (TNFD) was launched in June 2021 with the mission to develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks. It aims to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. The initiative has been endorsed by Finance ministers of the G7 and the G20 Sustainable Finance Roadmap.
- ▶ In March 2022, the TNFD released the beta version (v0.1) of the TNFD framework for nature-related risks and opportunities. The release marked the beginning of an 18-month process of consultation and development together with a broad range of market players and stakeholders.
- ▶ A further three iterations of beta versions are planned - June 2022 (v0.2), October 2022 (v0.3) and February 2023 (v0.4) - prior to the release of the final version v1.0 of the framework in Q3 2023.

Objectives

This guide provides:

1. An outline of the three core components of the TNFD framework beta release
2. A description of the similarities of the TNFD framework with the TCFD framework and any new components, including TNFD development priorities for 2022+
3. An outline of how financial services firms should act now
4. A glossary of key terminology

How EY teams can support you

Our award winning² multidisciplinary teams can support you to understand how nature-related risks and opportunities impact your business, including via:

- ▶ Analysis of your impacts and dependencies on nature
- ▶ Improving your nature-related reporting and disclosures
- ▶ Defining a biodiversity strategy
- ▶ Development and implementation of an integrated biodiversity program
- ▶ Providing training programs on nature-related risks and opportunities

¹ New Nature Economy Report, WEF (2020)

² EY named a market leader for ESG and sustainability consulting services in 2022 by Verdantix: <https://research.verdantix.com/report/green-quadrant-esg-sustainability-consulting-2022>

Introduction: TNFD Framework - Beta release (v0.1) - 15 March 2022

The Taskforce has developed an initial release of disclosure recommendations that are closely aligned with the Taskforce on Climate-related Financial Disclosures (TCFD), while providing nature-specific guidance to all sectors. Additional sector-specific guidance will follow throughout 2022. The prototype framework marks the beginning of an 18-month process of consultation and development together with a broad range of financial institutions, prior to being finalised in 2023.

Framework development principles

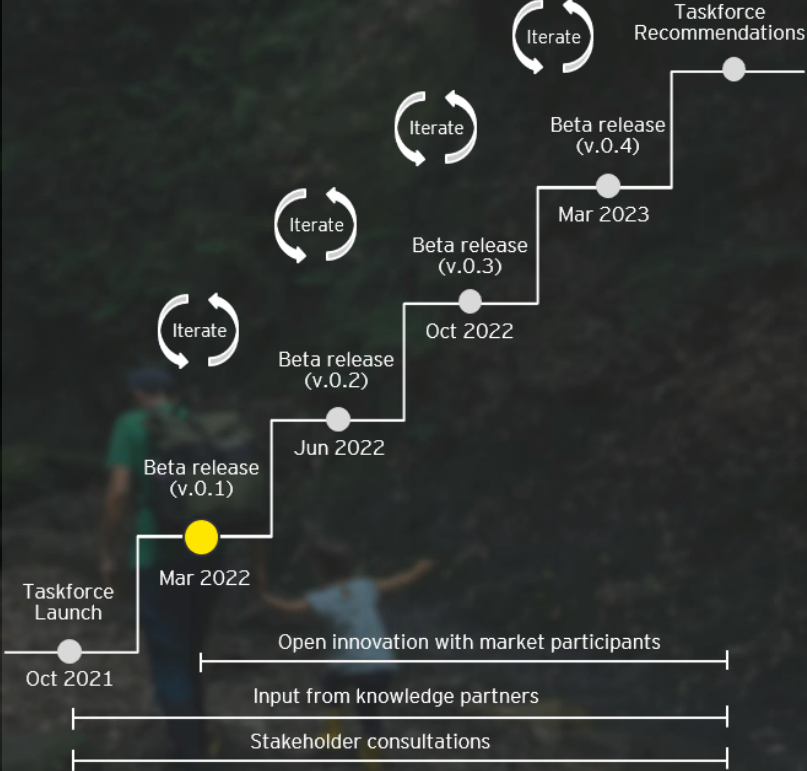


Structure

The beta version of the TNFD framework includes three core components:

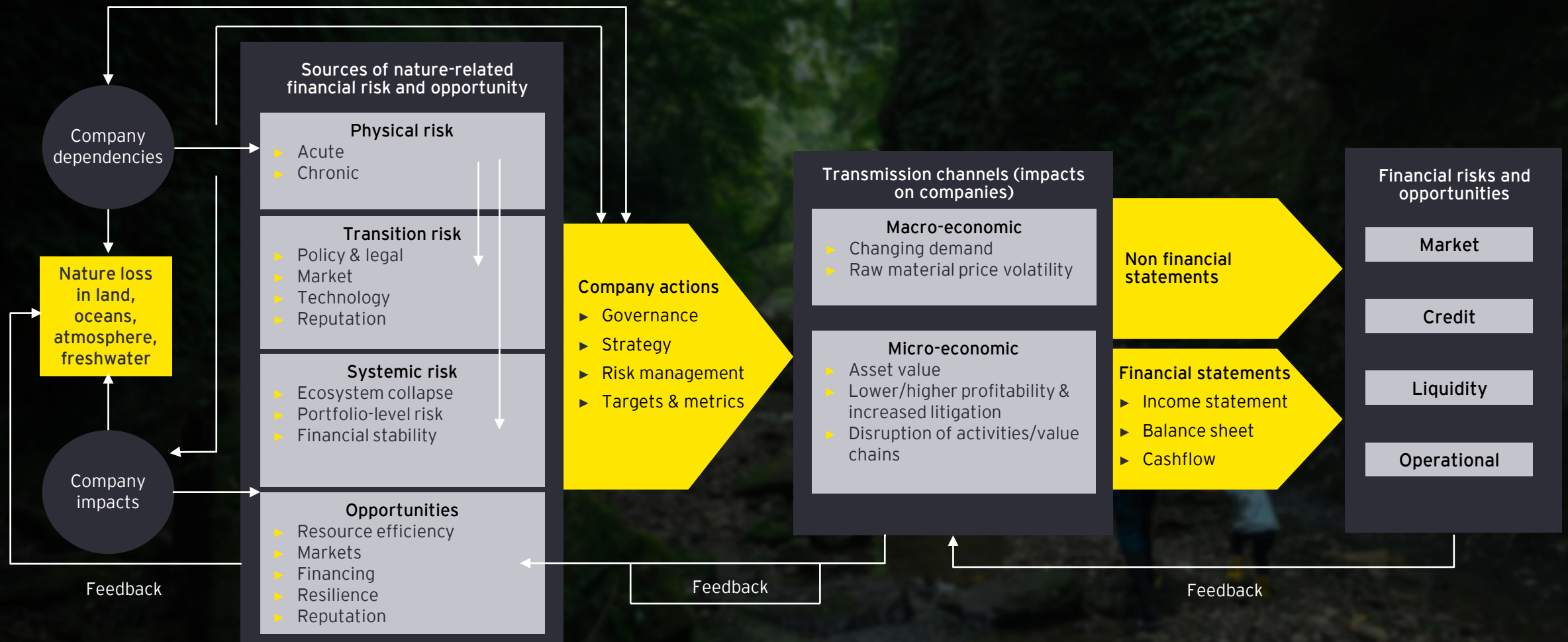
- 1. Fundamentals for understanding Nature for Market Participants:** An outline of fundamental concepts and definitions for understanding nature that TNFD recommends market participants use when assessing and disclosing their nature-related risks and opportunities.
- 2. Initial draft disclosure recommendations for nature-related risks and opportunities:** four general requirements and 11 disclosure recommendations across four pillars (Governance, Strategy, Risk Management and Disclosures).
- 3. Nature-related Risk & Opportunity Assessment Process (LEAP):** Proposed supplementary 'how-to' guidance on assessing nature-related risks and opportunities, based on demand from market participants for prescriptive guidance on this.

Timeline



Understanding Nature for Market Participants: How nature affects financial risk and company and investor performance

Grounded in science, the TNFD framework lays out a conceptual construct that enables a broad range of financial institutions to better understand nature, and establish a working language around it. Business and society both depend from different ecosystem services provided by nature-related assets, and impact the natural capital - resulting in risks and opportunities for financial institutions.

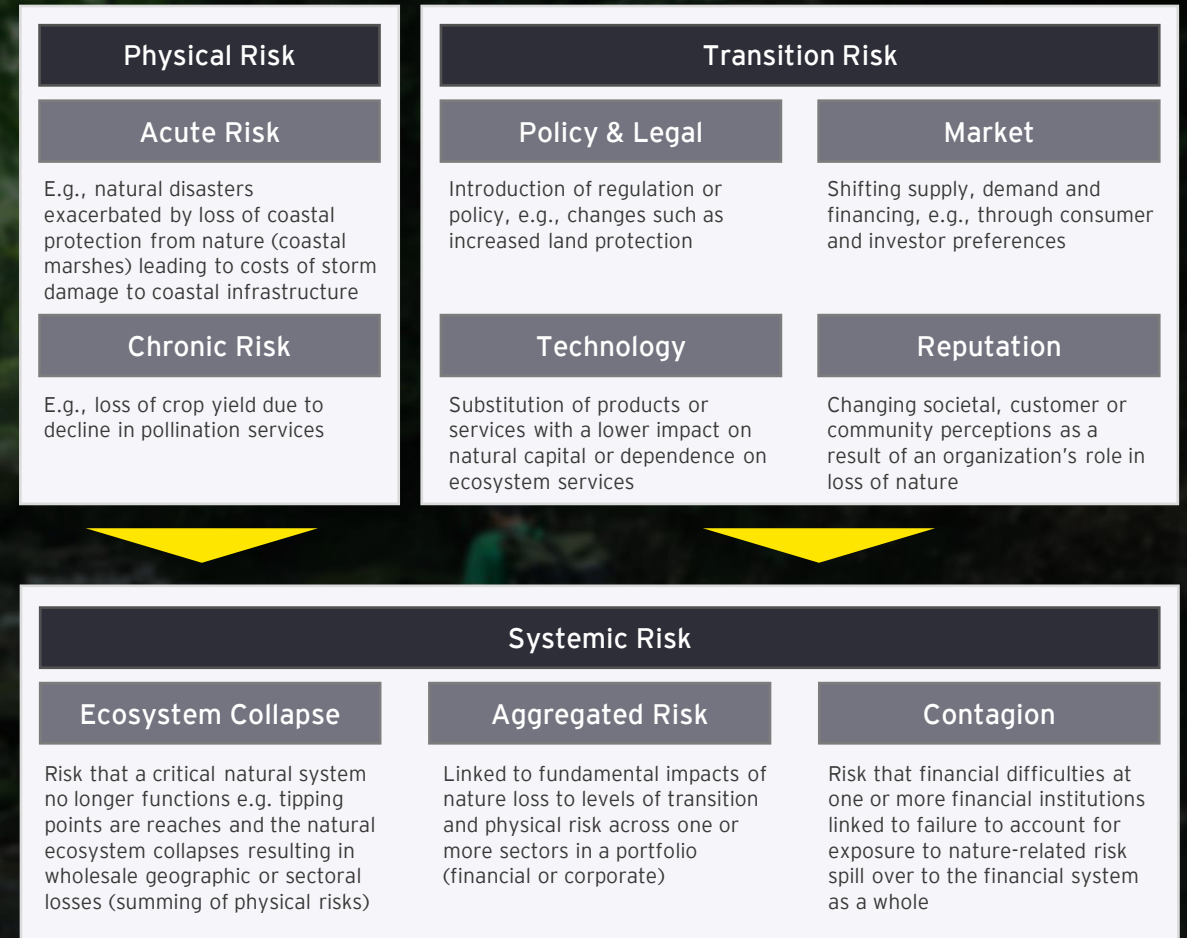


TNFD Definitions of Nature-Related Risks

The TNFD has provided definitions of the types of Nature-related risks which pose potential threats to an organization linked to its and other organizations' dependencies on nature and nature impacts.

- ▶ **Physical Risks** - Potential threats posed to an organisation linked to its and other organizations' dependencies on nature and nature impacts. These can derive from physical, transition and systemic risks.
- ▶ **Transition risks** - Risks that result from a misalignment between an organization's 's or investor's strategy and management and the changing regulatory and policy landscape in which it operates. Developments aimed at halting or reversing the damage to nature, such as government measures, technological breakthroughs, market changes, litigation and changing consumer preferences can all impact risks.
- ▶ **Systemic risks** - Risks arising from the breakdown of the entire system, rather than the failure of individual parts. Characterised by modest tipping points combining indirectly to produce large failures and cascading interactions of physical and transition risks (contagion), as one loss triggers a chain of others and stops systems from recovering their equilibrium after a shock.

There are close relationships between the different forms of risks. **Physical and transition risks** can interact and affect economic agents through various channels, before materialising into traditional sources of financial risk (e.g. credit or market risk). If enough organisations encounter the same risks in a region, then the whole region may suffer, resulting in **systemic risk**.



Initial Draft Disclosure Recommendations

The TNFD has developed an initial beta release of disclosure recommendations that are closely aligned with the climate-related disclosures produced by the TCFD to provide corporates with consistency and encourage early adopters to move quickly towards integrated climate-nature risk management and disclosure. The recommendations support better integration of sustainability disclosures into financial reports.

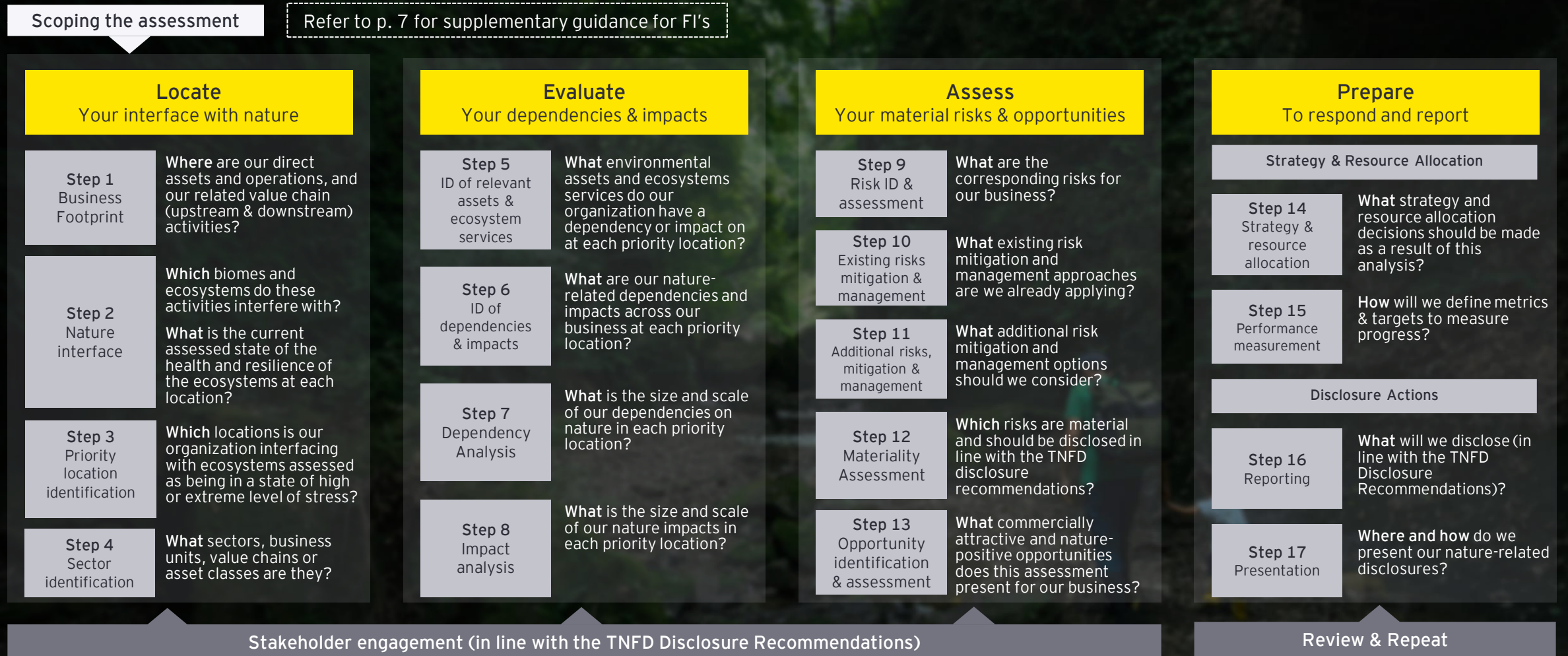
The framework has been developed to help corporates provide better information to support strategy and risk management at the board and management level, and ultimately improve capital allocation and asset valuation decisions.

General Requirements	Recommended Disclosures			
<ol style="list-style-type: none"> 1. Identification of material nature-related risks and opportunities should be based on an assessment of nature-related dependencies and nature impacts; 2. Consideration of the organization's interface with nature at specific locations should be integral to the assessment, recognising that nature-related dependencies and nature impacts occur in specific ecosystems; 3. Consideration should be given to how the organization ensures that the correct skills and competencies are available to assess nature-related risks and opportunities, and oversee strategies designed to respond to those risks and opportunities; and, 4. A statement should be provided regarding the scope of current disclosures and what further disclosures are planned in the future. 	<p>Governance</p> <p>Disclose the organization's governance around nature-related risks & opportunities</p>	<p>Strategy</p> <p>Disclose the actual and potential impacts of nature-related risks and opportunities on the organization's business, strategy and financial planning where material</p>	<p>Risk Management</p> <p>Disclose how the organization identifies, assesses and manages the nature-related risks</p>	<p>Metrics & Targets</p> <p>Disclose the metrics and targets used to assess and manage relevant nature-related risks and opportunities where such information is material</p>
	<p>Recommended Disclosures</p> <ol style="list-style-type: none"> A. Describe the board's oversight of nature-related risks and opportunities. B. Describe management's role in assessing and managing nature-related risks and opportunities 	<p>Recommended Disclosures</p> <ol style="list-style-type: none"> A. Describe the nature-related risks and opportunities the organization has identified over the short, medium and long term B. Describe the impact of nature-related risks and opportunities on the businesses, strategy, and financial planning C. Describe the resilience of the organization's strategy, taking into consideration different scenarios. D. Describe the organization's interactions with low integrity ecosystems, high importance ecosystems and areas of water stress. 	<p>Recommended Disclosures</p> <ol style="list-style-type: none"> A. Describe the organization's processes for identifying and assessing nature-related risk. B. Describe the organization's processes for managing nature-related risks C. Describe how processes for identifying, assessing and managing nature-related risks are integrated into the organization's overall risk management. 	<p>Recommended Disclosures</p> <ol style="list-style-type: none"> A. Disclose the metrics used by the organization to assess and manage nature-related risks and opportunities in line with its strategy and the management process B. <i>[Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks]* - Adaptation under consideration by TNFD</i> C. Describe the targets used by the organization to manage nature-related risks and opportunities and performance against targets



Nature-related Risk Assessment Process - Core LEAP approach (1/2)

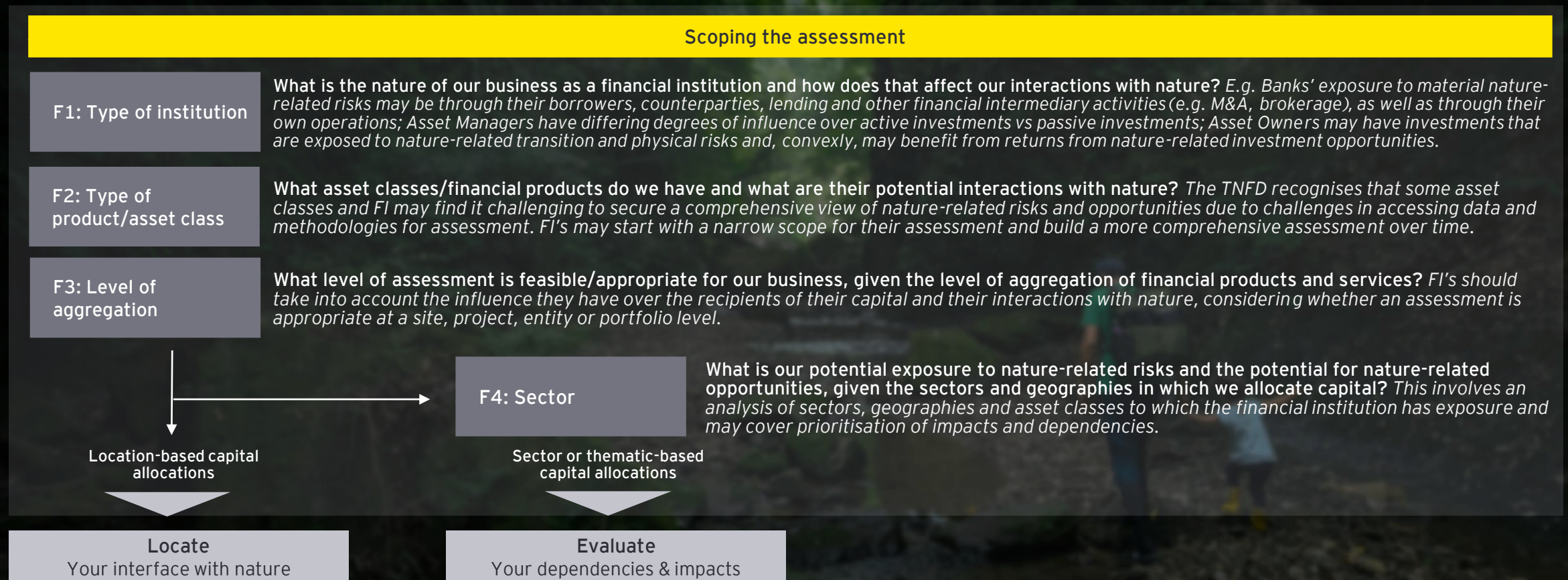
The TNFD has developed voluntary core guidance to support internal, nature-related risk and opportunity assessments within corporates and financial institutions



Nature-related Risk Assessment Process - LEAP approach for financial institutions (LEAP-FI) (2/2)

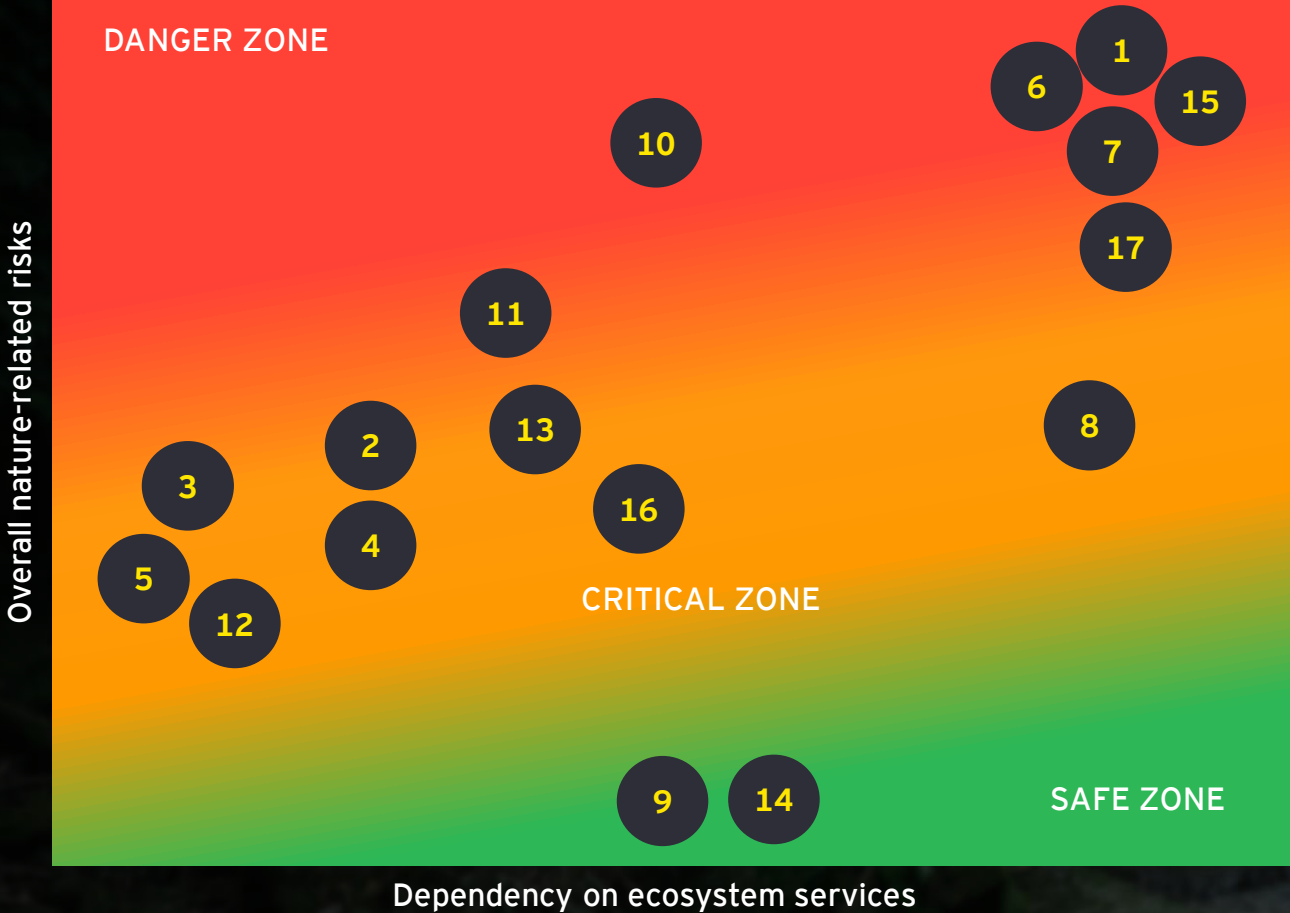
The TNFD have provided supplementary guidance for FI's, outlined below, to support the assessment of nature-related risks and opportunities in relation to **financed activities** (e.g. debt and equity investing, trading and insuring). Complex financial products such as derivatives are not included within the scope of the LEAP approach for financial institutions (LEAP-FI) approach.

LEAP-FI includes a *preceding* set of four guiding questions, designed to enable financial institutions to progress to the 'Locate' or 'Evaluate' phase of the core LEAP approach.



Directional estimate of overall nature-related risks for economic sectors

As nature-related risks become more severe, financial institutions could face different degrees of disruption depending on which sectors they have the most exposure to and their geographical location. As seen in the figure below, seven economic sectors could be exposed to significant disruption as risks become more severe; the next eight sectors could experience moderate disruption. This estimate does not take into account risks cascading from one business sector to the next, which could be severe.



Sectors:

- 1. Agriculture, Fishery & Livestock
- 2. Apparel & Textiles
- 3. Automotive
- 4. Chemical
- 5. Construction & Engineering
- 6. Food & Beverage
- 7. Manufacturing (paper, pulp, timber)
- 8. Manufacturing (others; e.g., metals)
- 9. Media & Entertainment
- 10. Mining & Quarrying
- 11. Oil & Gas
- 12. Pharmaceutical, Healthcare, Life Sciences & Biotech
- 13. Real Estate
- 14. Telecommunications & IT
- 15. Tourism, Travel & Hospitality
- 16. Transportation & Storage
- 17. Utilities (electricity, energy, water)

Danger Zone
Where business operation will potentially be highly disrupted

Critical Zone
Where business operation will potentially be moderately disrupted

Safe Zone
Where business operation will likely continue as business-as-usual

Source: Nature-related risks in the Global Insurance Sector, Sustainable Insurance Forum (2021)



TNFD vs TCFD: similarities, new components and TNFD development priorities for 2022+

The TNFD has used the TCFD framework as a starting point to ensure a consistent approach to disclosures and to enable organizations to tackle climate- and nature-related risks in tandem. However, there are important differences due to the specific qualities of the non-atmospheric realms of nature.

Similarities to TCFD	New Components	TNFD Development Priorities for 2022+
<ul style="list-style-type: none">▶ Disclosure recommendations based on the same four pillar approach▶ Building off of the 11 TCFD disclosure recommendations as a starting point▶ Alignment with ISSB as a global baseline for sustainability standards▶ A focus on opportunities alongside risks	<ul style="list-style-type: none">▶ A conceptual architecture and language system to help market participants understanding of nature▶ Integrated approach to climate-nature nexus▶ The importance of location-based analysis in nature-related disclosures▶ Focus on dependencies & impacts, leading to risks and opportunities▶ Supplementary 'how-to' guidance for nature-related risk assessment (LEAP & LEAP-FI processes)▶ Definition of nature-related financial risk as a systemic risk, in addition to a physical risk and transition risk	<ul style="list-style-type: none">▶ Additional releases with more information on metrics, targets, and data▶ Development of sector-specific guidance, including for the finance sector▶ Consideration of nature-risk scenarios and development of guidance in the approach to risk management and disclosure▶ Adaption of 'scope' concept for nature (direct/upstream/downstream)▶ Further integration of climate-nature nexus▶ Further consideration of approach to materiality▶ Broader and deeper engagement with local and indigenous communities

Next steps

Market participants are invited to explore the framework prototype and provide feedback via the TNFD's new online platform: <https://framework.tnfd.global/>

How should Financial Services firms act now?

1. **Understand your material nature-related dependencies and nature impacts** - identify and learn about your company's most material impacts and dependencies on nature and where they occur in your operations and across your value chain; assess risks and opportunities for your company - define targets, strategy and resources to act. For FI's, this includes direct operations, as well as lending, investing, underwriting and advisory activities.
2. **Review existing governance structures for nature-related risks and opportunities** - identify ownership for nature-related risks and opportunities; upskill the board, management and wider employees via training sessions.
3. **Develop an initial approach to measure, manage and report on progress** - Measure impacts and dependencies on nature with proposed indicators and disclose them for transparency; mature approach as best practice develops and in line with evolving TNFD framework.
4. **Engage with the TNFD** - Provide feedback on v0.1 beta framework and subsequent releases; join the TNFD forum or Knowledge Hub; engage on biodiversity at the policy level to help accelerate nature positive action.

How can EY teams support you?

1. **Analysis of your impacts and dependencies on nature** - help you identify, understand, and assess your company's most material nature-related dependencies and nature impacts across your value chain.
2. **Improving your nature-related reporting and disclosures** - help you identify the indicators relevant to your nature-related risks and engagements (consistent with your capacities and processes), and develop the information to be disclosed to align with the expectations of investors and best practices.
3. **Defining a biodiversity strategy** - working with you to develop a strategic approach to biodiversity in line with your ambition in the market; setting commitments and targets.
4. **Development and implementation of an integrated biodiversity program** - support you in building a biodiversity program roadmap with a view of core activities, resourcing required, and horizon scan of biodiversity specific regulations that are relevant to your business.
5. **Providing training programs on nature-related risks and opportunities** - supporting you to upskill your people: from the board to your wider employees.

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Glossary

Nature

The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment.

Dependencies

Aspects of ecosystem services that an organization or other actor relies on to function. Dependencies include ecosystems' ability to regulate water flow, water quality, and hazards like fires and floods; provide a suitable habitat for pollinators (who in turn provide a service directly to economies), and sequester carbon (in terrestrial, freshwater and marine realms).

Impacts

Changes in the state of nature, which may result in changes to the capacity of nature to provide social and economic functions. Impacts can be positive or negative. They can be the result of an organization's or another party's actions and can be direct, indirect or cumulative.

Nature-related risks

Potential threats posed to an organization linked to its and other organizations' dependencies on nature and nature impacts. These can derive from physical, transition and systemic risks.

Nature-related opportunities

Activities that create positive outcomes for organizations and nature by avoiding or reducing impact on nature, or contributing to its restoration. Nature-related opportunities can occur i) when organizations mitigate the risk of natural capital and ecosystem services loss and ii) through strategic transformation of business models, products, services and investments that actively work to halt or reverse the loss of nature, including by implementation of nature-based solutions (or support for them through financing or insurance).

Source: TNFD Beta Framework release v0.1

EY | Building a better working world

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