

**C L I F F O R D**  
**C H A N C E**



**CONSULTATION  
ON NATURE-RELATED  
FINANCIAL DISCLOSURE  
FRAMEWORK –  
ADOPTING THE  
TCFD MODEL**



**– THOUGHT LEADERSHIP**

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## CONSULTATION ON NATURE-RELATED FINANCIAL DISCLOSURE FRAMEWORK – ADOPTING THE TCFD MODEL

Building on the progress made by the Task Force on Climate-related Financial Disclosures (the "**TCFD**"), companies are now likely to come under pressure to report and act on nature-related risks and opportunities associated with their business, in addition to climate-related risks. The Taskforce on Nature-related Financial Disclosures (the "**TNFD**"), another global market-led initiative modelled on the TCFD, published a [report](#) and an accompanying [online portal](#) on 15 March 2022 which represent a beta version of the TNFD's framework (the "**TNFD Framework**"). The TNFD Framework seeks to deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks. The TNFD Framework is open for ongoing comment through the interactive online platform until June 2023. In the interim, subsequent versions of the TNFD Framework are planned for release in June 2022, October 2022 and February 2023 with the final version due in Q3 2023.



**"Nature-based risks" is recognised as "potential threats posed to an organisation linked to its and other organisations' dependencies on nature and nature impacts. These can derive from physical, transition and systemic risks."**



The TNFD Framework aims to deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift from net nature-negative outcomes towards net nature-positive outcomes. It seeks to create a set of fundamental concepts and definitions for understanding nature that market participants can use when assessing and disclosing their nature-related risks and opportunities, as well as guidance as to how corporates and financial institutions can incorporate these nature-related risk and opportunity assessments into their enterprise strategy and risk management processes to inform corporate and capital allocation decisions, including those relating to reporting and disclosure.

The TNFD Framework sets out four key areas for nature-based disclosure which have been designed to be aligned with, and additive to, the TCFD disclosure recommendations. They are:

- Governance: the role of management in assessing nature-based risks and opportunities, and oversight by the board.
- Strategy: the actual and potential impacts of nature-related risks and

opportunities on the organisation's business, strategy and financial planning. Where material, this will need to cover: the nature-related risks and opportunities over different time periods, the resilience of the organisation's strategy and its interactions with low integrity ecosystems, high importance ecosystems or areas of water stress.

- Risk Management: how the organisation identifies, assesses and manages nature-related risks and how this is integrated into overall risk management.
- Metrics and Targets: where material, disclosure of the metrics used to assess and manage relevant nature-related risks and opportunities.

Alongside the disclosure recommendations, the TNFD has produced a beta version of an integrated assessment process for nature-related risk and opportunity management called [LEAP](#). This stands for:

- **L**ocate your interface with nature;
- **E**valuate your dependencies and impacts;
- **A**ssess your risks and opportunities; and
- **P**repare to respond to nature-related risks and opportunities and report.

Although LEAP is not, in itself, a disclosure recommendation or a mandated process by which to adhere to the disclosure recommendations, it provides useful guidance as to how the TNFD anticipates that risk management frameworks will need to function in order to comply with the requirements of the TNFD Framework. There are separate versions of LEAP for corporates and financial institutions, which provide useful guidance as to how the TNFD expects different entities to approach the analysis.

With half of the world's economic output *"highly or moderately dependent on nature"*, the TNFD's aim of encouraging businesses to shift from net nature-negative outcomes towards net nature-positive outcomes is laudable; both for the health of the environment and the economic health of the businesses themselves. By adopting the widely successful TCFD Framework approach, it is hoped that this nature-based framework will enable a consistent and integrated approach to sustainability reporting that has long been called for by market participants.

The TNFD proposal sits alongside a wider pool of sustainability initiatives that are being championed. In the UK, this is in the form of new Sustainability Disclosure Requirements ("**SDRs**"), as set out in the Government's paper "[Greening Finance: A Roadmap to Sustainable Investing](#)", and in the European Union, in its effort to deliver the [European Green Deal](#).

In the UK, the focus is on SDRs. These build on the UK's TCFD implementation across the economy and will cover three types of disclosure: corporate disclosure; asset manager and asset owner disclosure; and investment product disclosure. For companies this will, subject to consultation which is expected later this year, comprise reporting under the proposed International Sustainability Standards Board ("**ISSB**") standards and reporting of environmental impact using the UK Green Taxonomy. On 31 March 2022, the ISSB published exposure drafts of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures (which incorporates and adds to the

recommendations of the TCFD). The ISSB intends to expand its standard-setting to broader environmental and sustainability factors in the future, which may include incorporating and adding to the recommendations of the TNFD. The government has also said that, pending the introduction of further relevant international standards, interim measures may be considered, for example referencing relevant voluntary frameworks such as TNFD to ensure appropriate coverage of sustainability topics.

In the European Union, key initiatives include the European Commission's proposed Corporate Sustainability Reporting Directive ("**CSRD**") which, if enacted, will require large companies across Europe to disclose, in their management reports, information on their strategy, policies and risks regarding environmental matters. The CSRD is due to be reviewed by the European Parliament in spring 2022. Alongside the CSRD, in February 2022 the European Commission published its long-awaited proposal for a directive on mandatory human rights and environmental due diligence (now referred to as the Directive on corporate sustainability due diligence ("**CSDD**")). The CSDD would require large companies to carry out due diligence to identify and address adverse human rights and environmental impacts of their operations, subsidiaries and value chains, and to produce climate plans. These initiatives demonstrate a clear intention to elevate environmental considerations within the corporate agenda.

Despite its laudable aims, the TNFD Framework is still clearly in the developmental phase and further work is needed to define key elements of it before the framework is useable. The TNFD has itself identified eight topics as priority areas for further development (and is particularly welcoming feedback on those areas). A key area flagged as needing further consideration is determining the data and metrics to be used for reporting purposes. As of yet, there are no globally agreed metrics and targets for nature protection and restoration at global or national levels. While the anticipated [CBD Global Biodiversity Framework](#) may help to fill



**"Nature-based opportunities" is recognised as "activities that create positive outcomes for organisations and nature by avoiding or reducing impact on nature, or contributing to its restoration..."**



1. <https://tnfd.global/wp-content/uploads/2022/03/220321-TNFD-framework-beta-v0.1-FINAL.pdf>



this gap, it is not expected to be finalised until later in April 2022. Establishing clear, credible and consistent data and metrics will be crucial to creating a coherent and workable framework. Similarly, the approach to materiality is yet to be finalised. While the current draft framework aims to align itself with the emerging global baseline being developed by the ISSB, "enterprise value", final decisions and clear guidance on key concepts such as these will be vital for enabling a swift and effective uptake of the TNFD Framework.

Despite the TNFD Framework being a work in progress, the ultimate prospects for widespread adoption seem positive, given the success of the TCFD Framework so far. We therefore encourage corporates and financial institutions to begin considering the potential implications of it on their business(es) and engaging with the TNFD Framework accordingly. Whilst doing so, it may be useful to reflect upon:

### **1. The type of data required**

Nature-based risks are often location specific. Companies will be required to consider their interaction with nature across various locations. This is likely to require a more complex and fragmented approach to data collection, particularly for companies with complex value chains or organisations operating in many geographies. It may be useful to reflect now on the potential increased resources and new approaches that companies will need to implement.

### **2. How your company would be perceived through the lens of a nature-based analysis**

It is worth companies thinking about how their businesses would be perceived through the lens of a nature-based analysis before disclosure becomes widely implemented. Companies should also consider how they may need to alter their governance structure, management and risk processes to incorporate the TNFD Framework, undertake the necessary reporting and to take the necessary nature-related actions.

### **3. How the TNFD Framework fits in with disclosure requirements that already impact your business(es)**

While a nature-based analysis brings unique considerations, the knowledge gained from implementing similar ESG initiatives will provide useful material to assist with meeting the disclosure requirements under the TNFD Framework. For instance, the TNFD recognises the interrelationship between climate and nature, with plans to develop an integrated approach that reflects both, so data gained from disclosure under the TCFD could provide a useful resource.

### **4. The impact of your engagement**

Now is the opportunity to test the proposals and influence the future of the TNFD Framework. Corporates are therefore encouraged to participate in the online pilot testing of the beta framework when it commences in June 2022.

If you would like to understand how the TNFD Framework might apply to your organisation or would like any further information about the other sustainability initiatives mentioned in this briefing, please contact Nigel Howorth, Anneke Theelen, Michael Coxall or your usual Clifford Chance contact.

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