Taskforce on Nature-related Financial Disclosures

Additional Guidance – LEAP (A1-A4)

The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework

Beta v0.3 Annex 3.1 Guidance on the Assess Phase of LEAP

November 2022

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Annex 3.1: Guidance on the Assess Phase of LEAP

The TNFD recommends that organisations use the four components of the Assess phase of LEAP outlined below to assess the nature-related risks and opportunities to their organisation. The LEAP components adapt and build on the TCFD steps for assessing climate-related risks.1 As with TCFD guidance, the Assess components also relate to integrating nature-related risks into existing enterprise and portfolio risk management processes.

> Based on feedback from pilot testers, the Taskforce has decided to streamline the Assess phase by combining previous components A1 (risk identification) and A5 (opportunity identification) into one component, A1 (risk and opportunity identification), and incorporating 'opportunities' into components A2, A3 and A4 as well (see Section 4.4).

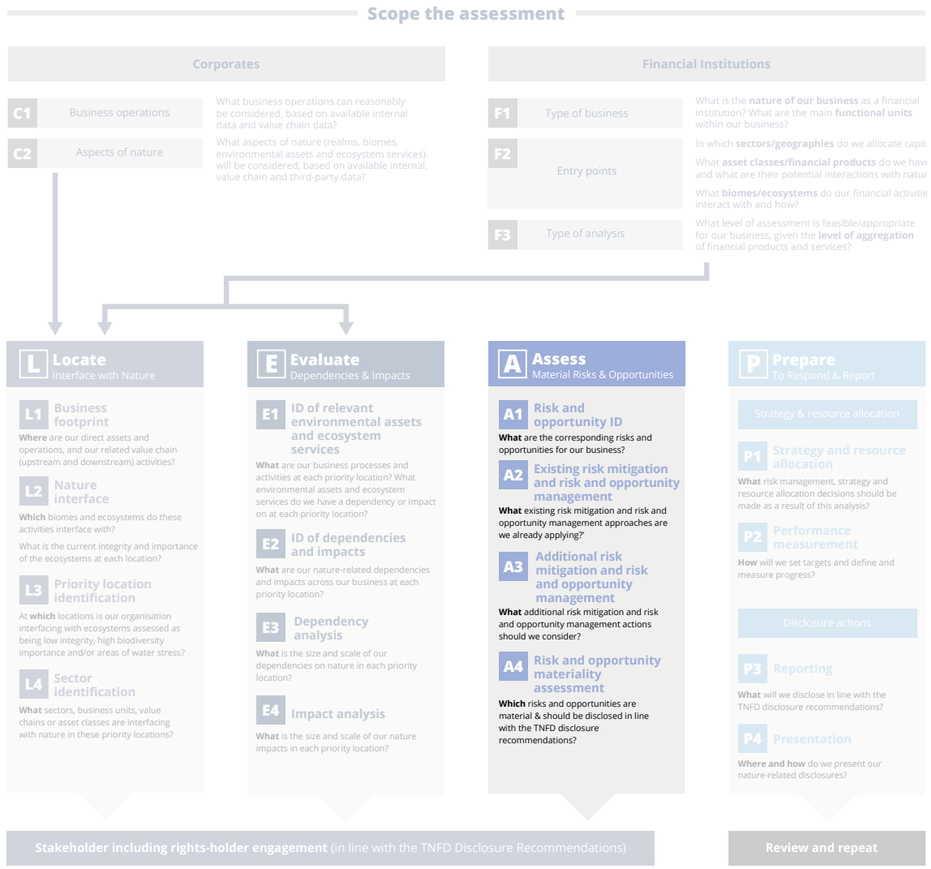
Before starting the Assess phase of LEAP, organisations should apply the Locate and Evaluate phases, referring to the TNFD framework online platform and the TNFD additional guidance on impact and dependency analysis and measurement.

1 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

The Assess phase of LEAP – v0.3 update

Component of LEAP	Overarching question and supplemental guidance	Related TCFD Step
Assess (A1) Risk and Opportunity Identification	*What are the corresponding risks and opportunities for our business?* Based on the evaluation of dependencies and impacts on nature (the Evaluate phase of LEAP), identify the organisation's nature-related risks and opportunities.	Not applicable for climate-related risks
ASSESS (A2) Existing Risk Mitigation and Risk and Opportunity Management	*What existing risk mitigation and risk and opportunity management approaches are we already applying?* Identify the specific risk mitigation and risk and opportunity management processes and elements that may need to be adjusted to integrate nature-related risks and opportunities, as well as the functions and departments responsible for those processes and elements.	TCFD Step 2
ASSESS (A3) Additional Risk Mitigation and Risk and Opportunity Management	*What additional risk mitigation and risk and opportunity management actions should we consider?* Incorporate nature-related risks and opportunities into the existing risk and opportunity taxonomy and inventory used by the organisation. This includes mapping nature-related risks to existing risk categories and types, referring to the TNFD risk and opportunity register as a useful resource.	TCFD Step 3
ASSESS (A4) Risk and opportunity Measurement & Materiality Assessment	*Which risks and opportunities are material and should be prioritised?* Adapt existing risk and opportunity management processes and key elements based on information gained in the previous components of LEAP, including prioritisation and measurement of risks and opportunities.	TCFD Step 4

Figure: Assess phase of LEAP



A1 – Risk and Opportunity Identification

What are the corresponding risks and opportunities for our business?

Based on the evaluation of dependencies and impacts on nature (the Evaluate phase of LEAP), organisations should identify nature-related risks and opportunities.

Box: TNFD's definitions of nature-related risks and opportunities

The TNFD has defined **nature-related risks** as potential threats posed to an organisation linked to its dependencies and wider society's dependencies on nature and nature impacts. These can derive from physical, transition and systemic risks.

The TNFD has defined **nature-related opportunities** as activities that create positive outcomes for organisations and nature by creating positive impact on nature or mitigating negative impacts on nature.

Drivers of exposure to nature-related risks and opportunities

The exposure of the organisation to the nature-related risk or opportunity is driven by:

- The presence of a corporate's operations or value chain – or a financial institution's deployed capital – in locations that meet the TNFD criteria for high-risk ecosystems (i.e. in areas of low ecosystem integrity, high biodiversity importance and/or area of water stress - the LOCATE phase of LEAP); and,
- An organisation's dependencies and impacts on nature (the EVALUATE phase of LEAP).

The identification of nature-related risks and opportunities can also be informed by an understanding of the wider context and driving forces affecting transition risks and nature-related opportunities, including but not limited to:

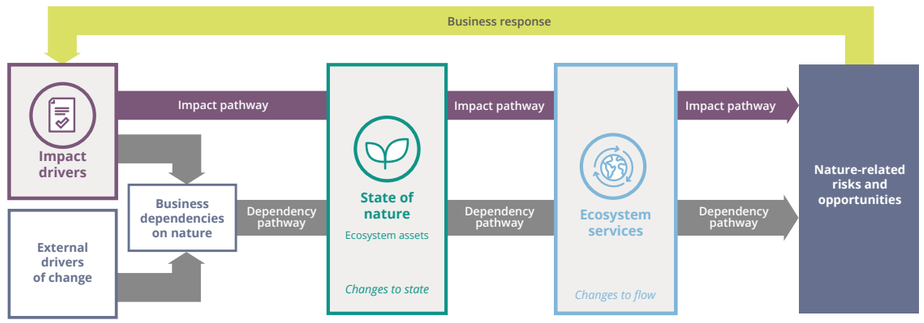
- Local and international policy and regulatory contexts;
- Technological innovation;
- Changes in market dynamics; and
- Changes in consumer preferences and demand.

Scenario analysis can support thinking on how these driving forces may evolve under plausible futures. For more on scenarios, see the TNFD discussion paper on its proposed approach to scenario analysis.

The link with dependencies and impacts on nature

Nature-related risks and opportunities arise from an organisation's dependencies and impacts on nature, as illustrated in the figure below.

Figure: Connections between nature-related dependencies, impacts, risks and opportunities



Nature-related risks can result from both dependencies and impacts on nature. Dependencies and impacts can lead to nature-related risks through:

1. Changes to the **state of nature** itself, caused by business impact drivers or external impacts/trends;
2. Changes to the **flow of ecosystem services** associated with the changes to the state of nature; and,
3. **Impacts to society** resulting from business impacts on nature that may affect the organisation, for example, through lack of access to land due to damaged stakeholder relations, or damage to reputation following the release of pollutants that affect the health of local communities.

Nature-related opportunities can occur:

1. When organisations **avoid, reduce, mitigate or manage nature-related risks**, for example, connected to the loss of nature and its associated ecosystem services that the organisation and society depend on; or
2. Through the **strategic transformation** of business models, products, services, markets and investments that actively work to halt or reverse the loss of nature, including by implementation of conservation, restoration and nature-based solutions (or support for them through financing or insurance).[2]

While business opportunities can arise from restoring and mitigating existing damage through reconstructive or compensatory measures, business actions that avoid or minimise negative impacts on nature should be prioritised (following mitigation hierarchy principles or the SBTN AR3T framework).[3,4] Nevertheless, reducing negative impacts on nature does not equate to contributing to nature positive outcomes. Actions should ideally go beyond risk reduction and contribute to a nature-positive future by influencing the threats and pressures that drive nature loss and degradation globally.[5] The TNFD's categories of negative and positive impacts stemming from drivers of change in the state of nature illustrate these differences (see Evaluate phase guidance).

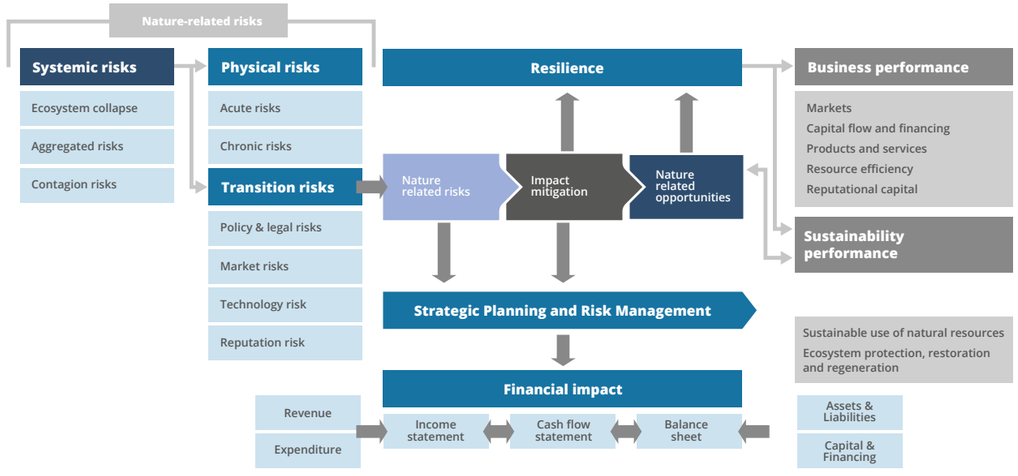
2 TNFD (2021) Nature in Scope
3 Adapted from: WWF (2022) A Biodiversity Guide for Business
4 SBTN (2020)
5 Adapted from: WWF (2022) A Biodiversity Guide for Business

Figure: The SBTN AR3T Action Framework mitigation hierarchy[6]

Financial implications for an organisation of nature-related risks and opportunities

Nature-related risks and opportunities have financial implications for an organisation through changes to its revenue streams, cost base and potentially cost of capital (through, for example, re-ratings of its credit risk or insurance premiums). In addition, they can change the valuation of assets and influence financing conditions. These transmission channels can have a positive or negative effect on credit, operational, market, liquidity, liability, reputational and strategic risk and opportunity. The figure below illustrates these links.

Figure: Links between nature-related risks and opportunities, business performance and financial implications for the organisation



6 Adapted from: SBTN (2020)

Potential financial implications of nature-related risks

Financial risk category	
Credit risk	Credit risks increase if nature-related risks reduce borrowers' ability to repay and service debt (income effect) or banks' ability to fully recover the value of a loan in the event of default (wealth effect).
Market risk	Reduction in financial asset values, including the potential to trigger large, sudden and negative price adjustments where nature-related risk is not yet incorporated into prices. Nature-related risk could also lead to a breakdown in correlations between assets or a change in market liquidity for particular assets, undermining risk management assumptions.
Liquidity risk	Banks' access to stable sources of funding could be reduced as market conditions change. Nature-related risks may cause banks' counterparties to draw down deposits and credit lines.
Operational risk	Increasing legal and regulatory compliance costs associated with nature-sensitive investments and businesses.
Liability risk	As laws, regulations and case law related to an organisation's preparedness for nature action evolves, the incident or probability of contingent liabilities arising from an organisation may increase.[7]
Reputational risk	Increasing reputational risks to financial institutions based on changing market or consumer sentiment.

7 Adapted from TCFD Implementing the Recommendations of the TCFD, Appendix Table A1.3

The TNFD nature-related risk and opportunity registers

Organisations can create a register of nature-related risk and opportunities most relevant to their business or portfolio (refer to the TNFD templates for nature-related risk and opportunity registers for examples of how this could look in practice).

For organisations that undertake scenario analysis to support their nature-related strategy and risk management decision making, a risk and opportunity register can usefully inform internal scenario thinking and be informed by it as relevant trends and critical uncertainties shift over time. For more on scenario analysis, see discussion paper on 'The TNFD's proposed approach to scenario analysis'.

Guiding principles for the preparation of the risk and opportunity register are as follows:

- The risk and opportunity register should be completed for **each stage of the value chain** (upstream, downstream and direct operations). Where this is not possible, the area of the value chain with the greatest potential dependencies and impacts on nature should be prioritised in the first instance;
- Where an organisation is unable to identify whether a risk exists, the impact on the organisation of the risk, or where significant assumptions have been made, for example, due to a lack of data, this risk should still be **identified and assessed as far as possible** as a precautionary measure;
- To ensure a dynamic view of nature-related risks and opportunities, organisations should consider both **current and future** risks and opportunities. The risk management process should identify long-term risks, as well as short- and medium-term risks. Recognising that some nature-related risks may have implications beyond the timeframes typically used by organisations, the TNFD encourages organisations to consider the appropriate timeframe for identifying and assessing risks, including the risks that may arise in the long term. This should ideally involve the use of scenarios to explore how risks and opportunities (and the drivers of risks and opportunities) may change in the future.8

Annex 3.2 provides illustrative nature-related risks and opportunities categories and indicators, building on the TNFD's definitions and categories of nature-related risks and opportunities. Illustrative nature-related risk and opportunity risk registers are available on the TNFD online platform.

8 The proposed TNFD approach to scenarios is set out in the Scenarios Discussion Paper in the v0.3 beta framework. Draft guidance on scenarios will be included in the v0.4 release, and reflected in updates to this guidance on the Assess phase of LEAP.

A2 – Existing Risk Mitigation and Risk & Opportunity Management

What existing risk mitigation and risk and opportunity management approaches are we already applying?

Organisations should identify the specific risk mitigation and risk and opportunity management processes and elements that may need to be adjusted to integrate nature-related risks and opportunities, as well as the functions and departments responsible for those processes and elements. (Aligned with Step 2 of TCFD).

An important aspect of integrating nature-related risks and opportunities into existing processes is to understand how risk and opportunity management and strategic planning tie together and the relevant key stakeholders. In this regard, it may be helpful to review key governance, strategy setting and risk management elements and then identify the various functions involved in risk management activities that support strategic planning. Refer to TCFD for further details on their related Step 2.[9]

Key principles for integrating nature-related risks and opportunities into existing risk and opportunity management frameworks

The TNFD adopts five principles for integrating nature-related risks and opportunities into existing risk and opportunity management frameworks. The TNFD aligns with the TCFD's four principles (interconnections, temporal orientation, proportionality and consistency) and adds an additional nature-specific principle of 'location-based' to emphasise that dependencies and impacts on nature are specific to particular locations.

9 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

Figure: The TNFD's principles for integrating nature-related risks and opportunities into risk and opportunity management frameworks

Location-based

Nature-related risks and opportunities should be analysed based on an assessment of nature-related dependencies and impacts that considers location specifics (in the Locate and Evaluate phases of the LEAP approach).

Interconnections

Integrating nature-related risks and opportunities into existing risk and opportunity management requires analysis and collaboration across the company. The principle of interconnections means all relevant functions, departments and experts are involved in the integration of nature-related risks and opportunities into the company's risk and opportunity management processes and in the ongoing management of nature-related risks and opportunities.

Temporal orientation

Nature-related physical, transition and systemic risks and nature-related opportunities should be analysed across short, medium and long-term time frames and should consider natural variabilities across time horizons (e.g. seasonality) for operational and strategic planning. This may require extending beyond traditional planning horizons.

Proportionality

The integration of nature-related risks and opportunities into existing risk management processes should be proportionate in the context of the company's other risks, the materiality of its exposure to nature-related risks, and the imperfections for the company's strategy.

Consistency

The methodology used to integrate nature-related risks should be used consistently within a company's risk management processes to support clarity on analysis and developments and drivers of change over time.

A3 – Additional Risk Mitigation and Risk & Opportunity Management

What additional risk mitigation and risk and opportunity management actions should we consider?

Organisations should incorporate nature-related risks and opportunities into the existing risk and opportunity taxonomy and inventory used by the organisation. This includes mapping nature-related risks to existing risk categories and types, referring to the TNFD risk and opportunity register as a useful resource. (Aligned with Step 3 of TCFD).

The TNFD recommends that nature-related risks and opportunities are integrated into existing enterprise or portfolio risk management processes using the categories or sub-categories already in use by the organisation to manage other types of risks. Commonly used risk categories include financial, operational and strategic. However, most organisations also have additional risk categories.[10] The table below shows examples of nature-related risks for each of these common categories.

Sample of risk categories, risk types and nature-related risks

Category	Sub-category	Nature-related risk examples	Nature risk category
Financial	Credit risk Liquidity risk Tax strategy	Creditworthiness is eroded as an agricultural company's crop yield projection is highly impacted by the decline of pollinators	Physical risk (chronic)
		Mining company's costs increase from taxes and fees on groundwater use	Transition risk (legal and policy)
Operational	Supply chain Raw material availability Business continuity	Supply chain disruptions occur because of droughts / extreme weather impacts in supply regions exacerbated by ecosystem degradation (impact on production)	Physical risk (acute)
		Costs increase on raw materials due to sustainable forestry practice requirements	Transition risk (policy and legal)
Strategic	Competitive landscape Changing consumer sentiment	Shift in consumer preferences toward products that are produced from recycled, regenerative, renewable, biodegradable, ethically responsibly sourced organic materials	Transition risk (market)

Aligned with TCFD, integrating nature-related risks and opportunities into existing processes involves determining whether such risks will be treated as:

- stand-alone risks and opportunities;
- cross-cutting drivers of existing risks and opportunities; or
- a combination of both.

10 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

Once determined, the organisation can appropriately incorporate the nature-related risks and opportunities into the company's risk and opportunity taxonomy.[11] A comprehensive risk and opportunity register should consider the interconnections with other environmental and social risks, such as climate, as well as contribution to systemic risks.

Box: Considering interconnections with other risks, in particular climate and social risks

An organisation's risk and opportunity assessment, management and decision-making should consider the interconnections with other types of environmental and social risks and the organisation should prioritise business responses that manage multiple risks.

In particular, the TNFD recommends that assessments of nature-related risks should recognise the connections and feedback loops with **climate-related risks** (e.g. risks associated with increased temperatures, droughts or floods that are increased by nature loss). When identifying and assessing nature-related risks and opportunities, organisations should refer to the TCFD framework and connect their nature-related risk and opportunity assessment to their climate-related risk assessment to understand synergies, trade-offs and mutually reinforcing risks and opportunities.

The TNFD also recommends that organisations consider not only the nature-related risks and opportunities arising directly from business impacts on nature, positive or negative, that affect the business' own dependencies, but also the **risks and opportunities that arise as a consequence of the impacts on society**. Nature provides vital ecosystem services that businesses, economies and societies rely on, such as the provision of clean water, clean air and the reduction of carbon from the atmosphere).

Box: Considering contributions to nature-related systemic risks

Addressing nature-related risks and harnessing nature-related opportunities, particularly through strategic transformation and circular economy models, can influence the drivers of nature loss globally and contribute to reducing systemic risks. Where possible, organisations should consider connections between physical and transition risks, and possible systemic risks. They should consider both their exposure to systemic risk and how their operations contribute to the reduction and management of systemic risk. When performing the prioritisation and assessment of risks and opportunities, organisations should consider whether, and the extent to which, the risk or opportunity affects progress on environmental priorities at a systemic level, including at the global scale of the Sustainable Development Goals, safe operating spaces within planetary boundaries, and the global targets of the Convention on Biological Diversity's Global Biodiversity Framework.

Once an organisation has determined how nature-related risks and opportunities fit into the risk and opportunity taxonomy and risk and opportunity categories, it should consider updating its risk and opportunity inventory, which may include possible risk responses and assign a risk owner. Refer to TCFD for further details.[12]

11 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure
12 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

A4 – Risk and Opportunity Measurement and Materiality Assessment

Which risks and opportunities are material and should be prioritised?

Organisations should adapt existing risk and opportunity management processes and key elements based on information gained in the previous components of LEAP, including the prioritisation and measurement of risks and opportunities.

Measurement and prioritisation are fundamental to the management of risks and opportunities.

Measurement of nature-related risks and opportunities

Organisations should identify a set of metrics for the risks and opportunities identified, including, as far as possible, Assessment Metrics for the financial impacts on the organisation. Metrics for individual risks and opportunities during the assessment may be at the site, project, product/service or location level.

The TNFD recommends nature-related risks and opportunities are assessed through the use of:

1. **Exposure metrics,** based on nature-related dependencies and impacts (refer to the Evaluate phase of LEAP); and
2. **Magnitude metrics**, which can be used to assess the financial implications to the organisation of nature-related risks and opportunities.

Determining the financial implications of nature-related risks and opportunities generally involves an organisation assessing its:

1. potential for damages or benefits against identified risks and opportunities;
2. planned responses; and,
3. response effectiveness.

Forward-looking analyses are especially important (see the TNFD scenarios discussion paper for the TNFD's proposed approach to scenarios).

The table below contains illustrative metrics for the exposure to risk and opportunity, based on impacts and dependencies, and the financial implication of risk and opportunities to the organisation.

Illustrative indicators

Type	Risk	Example	Exposure indicators	Magnitude metrics
Physical risk				
Acute risk	Changes in the state (condition and/or extent) of ecosystems on which the organisation is dependent or has an impact, resulting in changes to the flow of ecosystem services	Degradation of freshwater habitat due to pollutants released by the organisation and other stakeholders	Quantity and concentration of pollutants emitted (impact driver) Change in mean species abundance in freshwater ecosystems (ecosystem condition) Concentration of pollutants in water (ecosystem condition)	Costs associated with the relocation of operations and suppliers Reduction in revenue due to interruption of operations/ supply chain Increased costs due to interruption of operations/ supply chain Restoration costs Value of assets/revenue dependent on area Number of locations/business lines/facilities exposed
	Changes to species on which the organisation is dependent or has an impact (e.g. composition, population size, level of connectivity associated with species ranges) resulting in changes to the flow of ecosystem services provided	Reduction in keystone species an ecotourism company is dependent on	Change in population numbers of keystone species (species) Changes to annual visitor rates (ecosystem service)	Reduction in revenue due to interruption of operations (e.g. reduced ticket sales) Write-offs and early retirement of existing assets Costs associated with the relocation of operations and suppliers Restoration costs Costs related to substituting existing products/services Value of assets/revenue dependent on area Number of locations/business lines/facilities exposed

Table continued

Type	Risk	Example	Exposure indicators	Magnitude metrics
Chronic risk	Changes to species on which the organisation is dependent (e.g. composition, population size, level of connectivity associated with species ranges) resulting in changes to the flow of ecosystem services provided	Reduction in crop yield due to change in abundance of pollinators	Change in abundance of pollinators (species) Changes to crop yield (ecosystem service)	Increased costs of natural inputs/reduced supply Increased capital expenditure on adaptation, e.g. mechanical pollinators Reduction in revenue due to interruption of operations/ supply chain Increased costs due to interruption of operations/ supply chain Costs associated with the relocation of operations and suppliers Costs related to substituting existing products/services Value of assets/revenue dependent on area Restoration costs Number of locations/business lines/facilities exposed
	Changes in the state (condition and/or extent) of ecosystems on which the organisation is dependent or has an impact, resulting in changes to the flow of ecosystem services	Inability of ecosystem to provide protection against storms/ flooding due to increased natural disasters (associated with climate change)	Occurrence/ increase of storms/ floods in area (external impact driver)	Increased capital expenditure on infrastructure repair Increased capital expenditure on adaptation Reduction in revenue due to interruption of operations Increased costs due to interruption of operations/ supply chain Write-offs and early retirement of existing assets Restoration costs Costs associated with the relocation of operations and suppliers Value of assets/revenue dependent on area Number of locations/business lines/facilities exposed Insurance costs

Table continued

Type	Risk	Example	Exposure indicators	Magnitude metrics
Transition risk				
Policy and legal	Changes to legislation/ regulations aimed at achieving nature-positive outcomes/ reducing negative-nature outcomes	Degradation of freshwater habitat due to pollutants released by the organisation that exceeds legal limits	Quantity and concentration of pollutants emitted into water (impact driver)	Increased costs of personnel and monitoring of activities required Increased compliance costs Increased fines and penalties Losses due to delays in operations/permit denials Reduced revenue due to reduction in production capacity/loss of license of operate Costs related to substituting existing products/services/ processes Costs related to the loss of operating areas Clean-up costs
Technology	Requirements to transition to more efficient, resilient and less environmentally damaging technologies	Failure of nature-friendly technological innovation	Reduction in negative impact drivers expected as a result of innovation (impact driver)	Increased expenditure for research and development of new and alternative technologies Increased costs of operations required to achieve nature-related goals Write-offs and early retirement of existing assets
Market	Shifting customer/ investor values or preferences to products and/or services that are nature-positive/have lower impacts on nature	Increased cost of plant-based inputs the organisation uses in the production process due to increased demand	Amount of input used in the production process (ecosystem service)	Increased production/raw material costs Costs related to substituting existing products/services

Table continued

Type	Risk	Example	Exposure indicators	Magnitude metrics
Reputation	Changes in sentiment towards the organisation/ brand due to impacts on nature	Company is responsible for an oil spill	Total number of recorded oil spills (impact driver) Volume of spill (impact driver) Change in biodiversity intactness (ecosystem condition) Change in catch numbers of fish in local fisheries (ecosystem service) Decline in recreational value of area (ecosystem service)	Reduction in revenue due to lower demand for products and services Increased costs due to increased employee turnover/ strikes Increased operational costs due to reduction in loyalty of suppliers or stakeholders Costs related to substituting existing products/services

Opportunities – business and sustainability performance

Sustainability performance opportunity	Business performance opportunity	Example	Exposure indicators	Magnitude indicators
Sustainable use of natural resources: Transition to processes with reduced negative impacts on nature/ increased positive impacts on nature: Reduced pollution and waste	**Transmission mechanisms:** **Resource efficiency** (transition to processes with reduced negative impacts on nature/ increased positive impacts on nature) **Markets** (access to new and emerging markets)	An organisation adopts internal processes that reduce the levels of pollutants emitted to freshwater	Reduction in total freshwater discharge in areas with water stress (impact driver) Water quality in area (ecosystem condition)	Reduced operational and compliance costs Increased market valuation through resilience planning Access to new sources of finance
Ecosystem protection, restoration and regeneration Direct restoration, conservation or protection of ecosystems or habitats	**Other transmission mechanisms:** Reputational capital	An organisation invests in the restoration of an area of degraded mangrove with the purpose to increase resilience of infrastructure	Area of degraded land restored (impact driver) Improvement in ecosystem condition (ecosystem condition) Incidence of flooding events (ecosystem service)	Increase in revenue due to improved reputation Increased resilience, e.g. to natural disasters Reduced capital/ infrastructure costs Increased market valuation through resilience planning

Organisations should refer to the TNFD Guidance on Metrics for the Evaluate Phase of LEAP, which provides guidance on metrics for dependencies and impacts on nature (exposure metrics), along with an illustrative set of indicators and metrics. Where the location is not known, potential exposure can be surmised through the use of estimates, models or generic sector impacts.

For financial institutions, refer to 'Illustrative Assessment and Disclosure Metrics for Financial Institutions' (Annex 3.4) for illustrative metrics currently in use among pioneering financial institutions relating to impacts, dependencies, risk and opportunities.

Summary metrics

Summary metrics provide an understanding of the overall exposure and/or potential financial implications for the organisation of nature-related risks and opportunities. They may be useful to define at a:

- Corporate level; and/or
- Portfolio level.

Summary metrics can help inform corporate and financial institution decision-making and feed into external disclosures.

Box: Illustrative risk and opportunity summary metrics

The following summary metrics can be used to assess nature-related risks and opportunities:

- **Financial value of nature-related risks/opportunities** that could have a substantive financial or strategic impact on the business[13] (maximum, minimum);
- **% share of revenue** exposed to elevated: 1) physical risks; 2) transition risks;
- **Proportion of assets** exposed to risk by categories (physical, transition) and by risk ratings;
- **Total revenue/value of assets with substantial dependence on ecosystem services or with a high impact on nature**; and
- Value/proportion of **business activities that have positive impacts on nature** (e.g. through nature-based solutions, conservation, restoration).

It may be useful to split values into:

- 1) Values currently already being realised; and 2) those that could be realised;
- Different risk/opportunity categories; and,
- Prioritisation rating categories (e.g. very high, high, medium, low).

Prioritising nature-related risks and opportunities

Many organisations use a traditional 'likelihood and impact' approach to gauge the severity or materiality of their risks and then evaluate the severity of risks relative to their risk appetite (refer to TCFD for further details on risk appetite).[14] TCFD expands these prioritisation criteria to also include 'vulnerability' and 'speed of onset'. [15]

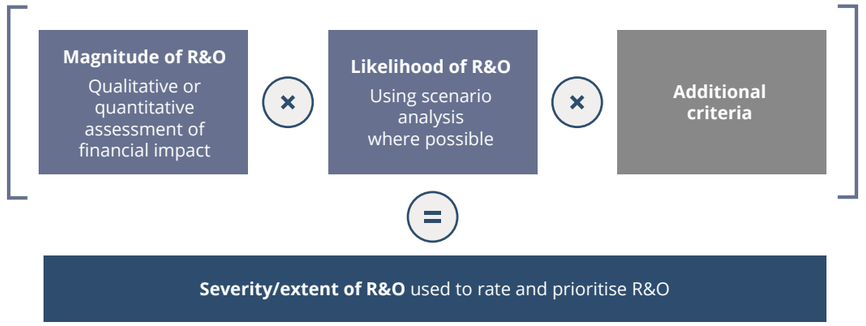
Aligned with this, the TNFD recommends using the same prioritisation criteria (the TNFD refers to 'impact' as 'magnitude'), with two additional criteria that relate to:

1. the scale and severity of impacts on nature; and

2. the scale and severity of implications for society from those nature impacts.

13 CDP Water
14 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure
15 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

Criteria for prioritising nature-related risks and opportunities



The table below provides an overview of the TNFD's criteria for prioritising nature-related risks and opportunities.

TNFD priorisation criteria for nature-related risks and opportunities

Prioritisation criteria	Description
Magnitude	The impact of the risk/opportunity to the organisation, based on the financial implications.
Likelihood	The likelihood of the risk or opportunity emerging, informed by current and potential future trends and threats.16 The assessment of likelihood is interconnected with scenario analysis.17
Additional TCFD prioritisation criteria	
Vulnerability	Vulnerability refers to the susceptibility of an organisation to a risk/opportunity event in terms of its preparedness, agility and adaptability. The organisation's ability or inability to adapt/mitigate/control the risk, or ability to harness the opportunity, is dependent on risk and opportunity awareness, management along the value chain, operational and managerial resilience, value chain and/or product diversification, or market or sector influence.
Speed of onset	The speed of onset that the risk/opportunity is expected to arise, i.e. long-term, medium-term or short-term.18 Speed of onset refers to the time that elapses between the occurrence of an event and the point at which the organisation first feels its effects.
Additional TNFD prioritisation criteria	
Scale and severity of impact on nature	The scale (temporal and spatial) and severity of the negative/positive impact on nature
Impact to society	The value of the impact on nature to society. TNFD may develop further guidance on valuation in future beta releases.

16 WWF (2022) A Biodiversity Guide for Business
17 The proposed TNFD approach to scenarios is set out in the Scenarios Discussion Paper also being prepared for the v0.3 release. Draft guidance on scenarios will be included in the v0.4 release and reflected in updates to this risk and opportunity measurement guidance.
18 Task Force on Climate-related Financial Disclosures (2020) Guidance on Risk Management Integration and Disclosure

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