Taskforce on Nature-related Financial Disclosures

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

Beta v0.3 Annex 3.3 Additional Draft Disclosure Guidance for Financial Institutions

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Annex 3.3: Additional Draft Disclosure Guidance for Financial Institutions

Introduction

The TNFD has developed additional draft disclosure guidance for financial institutions to apply the TNFD draft disclosure recommendations as part of v0.3 of the beta framework. The draft guidance is applicable to all financial services industries prioritised by the TNFD (as defined in the v0.2 beta release):

- Banks;
- Insurance companies;
- Asset managers and asset owners; and,
- Development finance institutions (including public development banks).

Approach

The TNFD's additional draft disclosure guidance for financial institutions is intended to be applied at the level of an entity and not a financial product (although in some cases an entity may only decide to make disclosures for certain portfolios or portions of its activities). This approach differs from the approach taken by the Task Force on Climate-related Financial Disclosures (TCFD), which produced tailored guidance for each financial sub-sector and included financial product level disclosures for asset managers and asset owners.

This approach is being adopted by the TNFD to streamline the TNFD financial institution guidance and to avoid overlaps with rapidly developing financial product disclosure regulatory regimes. This means the draft guidance uses more general formulations. However, it provides examples of how it can be tailored or applied for a bank, insurer, asset manager, asset owner or development finance institution.

This additional draft guidance does not include the TNFD's recommended disclosure metrics for financial institutions which will be set out in v0.4 of the TNFD beta framework, after which market participants will still have an opportunity to provide feedback on those metrics by 1 June 2023, before the publication of v1.0 of the TNFD's framework in September 2023.

Figure: TNFD draft disclosure recommendations to which financial institution supplemental guidance applies

TNFD disclosure recommendations to which this supplemental guidance applies

	Governance		Strategy				Risk & Impact Management					Metrics and Targets			
	A	B	A	B	C	D	A	B	C	D	E	A	B	C	D
Supplemental guidance for FIs				■	■	■	■	■				■		■	

Guidance

Governance Disclose the organisation's governance around nature-related dependencies, impacts, risks and opportunities	
Recommended Disclosure a) Describe the board's oversight of nature-related dependencies, impacts, risks and opportunities.	**Guidance for financial institutions** No specific supplemental guidance for financial institutions. It is generally expected that firms will apply similar or the same governance as for climate. They may refer to these climate disclosures where they also deal with nature-related dependencies, impacts, risks, and opportunities, or have integrated disclosures across climate and nature.
Recommended Disclosure b) Describe management's role in assessing and managing nature-related dependencies, impacts, risk and opportunities.	**Guidance for financial institutions** No specific supplemental guidance for financial institutions. It is generally expected that firms will apply similar or the same governance as for climate. They may refer to these climate disclosures where they also deal with nature-related dependencies, impacts, risks, and opportunities, or have integrated disclosures across climate and nature.

Strategy Disclose the actual and potential impacts of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning, where such information is material.	
Recommended Disclosure a) Describe the nature-related dependencies, impacts, risks and opportunities the organisation has identified over the short, medium and long term.	**Guidance for financial institutions** No specific supplemental guidance for financial institutions. It is generally expected that firms will apply similar or the same strategy setting processes as for climate. They may refer to these climate disclosures where they also deal with nature-related dependencies, impacts, risks and opportunities, or have integrated disclosures across climate and nature.
Recommended Disclosure b) Describe the impact of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning.	**Guidance for financial institutions** Financial institutions should describe in a qualitative manner their consideration of nature-related risks and opportunities as well as provide quantitative information on those risks and opportunities in light of their specific businesses, clients, products and services. Where possible, this should also reflect the interconnectedness of nature and climate-related risks and opportunities and business strategy and operational responses by the organisation as well as how nature-related risks and opportunities are prioritised in their strategy determinations. In all cases this should factor in a view of nature-related dependencies and impacts, including their location where possible. It is recognised that for both qualitative and quantitative information, financial institutions have a reliance on disclosures from non-financial corporates, so there may be limitations to what financial institutions can disclose. Qualitative information may include how the consideration of nature-related risks and opportunities factor into client selection, client advisory, and product and service offering. For example, an Insurer could describe how nature-related risks and opportunities affect the offerings on a sector or at a geographic level. A bank could describe how its client due diligence has been affected by the consideration of nature-related risks and opportunities. An asset manager or asset owner could describe how nature-related risks are factored into product development and investment or ownership strategy. Any realm, biome- or ecosystem- specific standards and policies (covering for example tropical forests or coral reefs) or sector-specific standards and policies (covering for example fisheries, palm oil or mining) should be described, particularly if they impose limits or other due diligence standards on activities.

Strategy Disclose the actual and potential impacts of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning, where such information is material.	
Recommended Disclosure b) continued	Financial institutions that have set commitments or targets and/or have developed transition plans to support a shift of financial flows from nature negative to nature positive outcomes should outline how those commitments and targets are set and implemented, and how progress is tracked. As outlined in the draft disclosure Metrics & Targets D, the relationship and potential alignment between climate-related targets and nature-related targets should also be clear. Given the lack of agreed definitions on these concepts, financial institutions should clearly state the definitions, assumptions, and other guidance used to set these commitments. It is recognised that there may be limitations on the granularity of information disclosed due to confidentiality and/or competitive reasons, so disclosures may need to be more general or aggregated. Forward looking metrics may be used to demonstrate how well exposures are aligning with targets and commitments including policy objectives (e.g. net nature positive by 2030 as defined in **www.naturepositive.org/en/resources**). The specific scope and coverage of any such metrics and how they influence firm strategy should be described. *See also the guidance for disclosure recommendation Metrics and Targets C on target setting.*

Strategy Disclose the actual and potential impacts of nature-related risks and opportunities on the organisation's businesses, strategy and financial planning, where such information is material.	
Recommended Disclosure c) Describe the resilience of the organisation's strategy, taking into consideration different scenarios.	**Guidance for financial institutions** Financial institutions that perform scenario analysis to assess nature-related dependencies, impacts, risks and opportunities should provide the following information: • Description of the scenarios used, including the critical input parameters, assumptions and considerations, and analytical choices. • How such scenarios are integrated with (or distinct from) climate-related or other internally used scenarios. • Time frames used for the nature-related scenarios, including short-, medium-, and long-term milestones. • How the outputs from the scenario analysis are used in risk management processes, given the financial institution's activities and relevant timeframes (e.g. the maturity of loans for banks differs from the holding periods of asset owners, which differs from the liability duration for insurers / re-insurers). In disclosing information on scenario analysis, it is recognised that there may be limitations to the granularity of information that can be disclosed for confidentiality or competitive reasons. Information should be provided that at least provides an indication of the kinds of analysis done and some of the main conclusions and learnings derived from the analysis as well as the limitations thereof. *The TNFD's approach to nature-related scenarios is still under development with a discussion paper published alongside v0.3 of the beta framework, with draft guidance expected with v0.4 of the beta framework in March 2023.*
Recommended Disclosure d) Describe the organisation's interactions with low integrity ecosystems, high importance ecosystems or areas of water stress.	**Guidance for financial institutions** Financial institutions may disclose metric(s) that represent the volume (e.g. absolute amount or percentage of lending, assets managed or owned, or insurance premiums underwritten) to companies with potential nature-related risks emerging from dependencies and impacts on nature due to their operations. Over time as the disclosure approach becomes more mature this disclosure may also include a sector and / or geographic component (e.g. country, biome and/or ecosystem). It Is recognised that disclosing nature-related risks due to dependencies and impacts is different from assigning responsibility for contribution to those impacts and dependencies. However, consistent with the OECD Guidelines on Multinational Enterprises, actions that can be taken by financial institutions to encourage mitigation of the impacts and dependencies by the firms connected to them should be pursued aligned with the concepts therein. A description of such activities is encouraged.

Risk & Impact Management Disclose how the organisation identifies, assesses and manages nature-related dependencies, impacts, risks and opportunities.	
Recommended Disclosure a) Describe the organisation's processes for identifying and assessing nature-related dependencies, impacts, risks and opportunities.	**Guidance for financial institutions** Financial institutions should describe how they have analysed their portfolios to identify and assess their dependencies and impacts on nature. For clients that have been identified as most impactful or dependent on nature, financial institutions should undertake a further deep dive analysis. Further guidance will be provided in later releases. Financial institutions should consider potential nature-related transition and physical risks as well as systemic risks of nature collapse and their interconnection to climate-related risks they have already identified, but they should ultimately describe the integration of nature-related risk considerations into their traditional risk management categories (e.g. credit risk, market risk, operational risk, underwriting risk and investment risk). This may, for example, include use of the TNFD LEAP approach or similar proprietary processes with equivalent considerations, and be on a qualitative (e.g. policies) or quantitative (e.g. risk modelling) basis. Financial institutions should describe how they have identified and assessed nature-related opportunities. Further information will be provided in later releases. Firms may disclose metrics for exposures or portfolios for which they have been able to conduct qualitative and/or quantitative analysis.
Recommended Disclosure b) Describe the organisation's processes for managing nature-related dependencies, impacts, risks, and opportunities.	**Guidance for financial institutions** Financial institutions may describe key tools or instruments used to manage nature-related dependencies, impacts, risks and opportunities in relation to their product and service offerings. In later releases of the TNFD beta framework, illustrative examples may be provided. Without disclosing proprietary details or information, this may include a description of how adjustments to terms and conditions, pricing, or portfolio composition for lending, advisory, underwriting, and investments, or integration of nature into hazard models are determined. This also may include due diligence and engagement (stewardship) activity with clients and counterparties to encourage them to improve their own nature-related dependencies, impacts, risks and opportunities management and disclosure. Such activities may be done individually or collectively through stewardship and engagement platforms particularly for asset managers and owners. The overall process should be described and some specific examples and measurable outcomes from due diligence and engagement provided where this does not violate client confidentiality. Examples may also be disclosed in a manner that protects confidentiality. Any distinctions made for nature separate from climate should be disclosed. Firms should comment on how they prioritise nature-related dependencies, impacts, risks and opportunities in their risk management processes.

Risk & Impact Management Disclose how the organisation identifies, assesses and manages nature-related dependencies, impacts, risks and opportunities.	
Recommended Disclosure c) Describe how processes for identifying, assessing, and managing nature-related risks are integrated into the organisation's overall risk management.	**Guidance for financial institutions** No specific supplemental guidance for financial institutions. It is generally expected that firms will apply similar or the same risk management processes as for climate. It may be possible to refer to these climate disclosures where they are robust for nature-related risks, or where the firm has integrated disclosures across climate and nature.
Recommended Disclosure d) Describe the organisation's approach to locate the sources of inputs used to create value that may generate nature-related risks.	**Guidance for financial institutions** *The development of supplemental guidance for financial institutions for this new disclosure recommendation will be considered by the TNFD for inclusion in v0.4 of the TNFD beta framework.*
Recommended Disclosure e) Describe how stakeholders, including rightsholders, are engaged by the organisation in its assessment and response to nature-related dependencies, impacts, risks and opportunities.	**Guidance for financial institutions** *The development of supplemental guidance for financial institutions for this new disclosure recommendation will be considered by the TNFD for inclusion in v0.4 of the TNFD beta framework.*

Metrics and Targets Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities, where such information is material.	
Recommended Disclosure a) Disclose the metrics used by the organisation to assess material nature-related risks and opportunities in line with its strategy and risk management process.	**Guidance for financial institutions** Financial institutions may focus on four types of nature-related metrics as described below. For any metric reported, the overall purpose for the metrics, the methodologies used, including its limitations (e.g. whether it is a potential measure or based on actual data), and the quality of data should be disclosed. It is recognised that for both qualitative and quantitative information, financial institutions have a reliance on disclosures from non-financial corporates, so there may be limitations to what financial institutions can disclose. **1.** Dependency – these are metrics that provide a view on nature-related dependencies based on the exposures in a given portfolio or set of portfolios. Metrics may be broken down by ecosystem service, sector, geography (country or biome), or product. In many cases these metrics may only represent potential dependency. These metrics may be useful for the disclosure recommendation in Strategy D. **2.** Impact – these are metrics that provide a view on impacts on nature based on the exposures in a given portfolio or set of portfolios. Metrics may be broken down by impact driver, sector, geography (country or biome), or product. In many cases these metrics may only represent potential impact. These metrics may be useful for the disclosure recommendation In Strategy D. **3.** Risk – these are metrics used to assess the potential for loss due to nature-related risks specifically (e.g. on lending/ advisory for banks, on underwriting for Insurers, on investments for asset managers and owners). These will often be scenario based and the measures or outputs disclosed may depend on the scenario applied and its risk pathway (i.e. transition, physical) for a given sector or geography. Risk metrics can be disclosed for specific portfolios or portions of portfolios. The scope of the exposures examined and methods applied should be clearly stated. These metrics may be useful for the disclosure recommendation in Risk Management A and Strategy B. **4.** Opportunity – these are metrics used to track nature-related opportunities specifically (e.g. on lending/ advisory for banks, on underwriting for insurers, on investments for asset managers and owners). These will often be in the form of individual products or transactions, so can be disclosed as absolute amounts or relative to a portfolio total. The scope and methods applied should be clearly stated. These metrics may be useful for the disclosure recommendations in Strategy B. *The TNFD's recommended disclosure metrics for financial institutions will be set out in v0.4 of the TNFD beta framework.*

Metrics and Targets Disclose the metrics and targets used to assess and manage relevant nature-related dependencies, impacts, risks and opportunities, where such information is material.	
Recommended Disclosure b) Describe the metrics used by the organisation to assess and manage direct, upstream and, if appropriate, downstream dependencies and impacts on nature.	**Guidance for financial institutions** *The development of supplemental guidance for financial institutions for this new disclosure recommendation will be considered by the TNFD for potential inclusion in v0.4 of the TNFD beta framework.* *The TNFD's recommended disclosure metrics for financial institutions will be set out in v0.4 of the TNFD beta framework.*
Recommended Disclosure c) Describe the targets used by the organisation to manage nature-related dependencies, impacts, risks and opportunities and performance against targets.	**Guidance for financial institutions** Targets may be expressed in different forms, but consideration should be given to expressing targets for the five drivers of nature change (climate change, change in land/sea/freshwater use, resource use, pollution, invasive species)[1]. Consideration should also be given to expressing targets relative to geography (e.g. country or biome) and the state of nature. In the case of climate, reference can be made to existing targets already established in net zero commitments. Further account of the work by SBTN[2], UNEP FI[3] and others may occur over time as the concepts of target-setting and transition plans for nature develop, guided by any agreements reached in the Convention on Biological Diversity. *Note: in the absence of agreement on a Global Biodiversity Framework through the Convention on Biological Diversity (CBD) and overall specific policy targets and commitments (akin to net zero for climate), footprint metrics following the Partnership for Biodiversity Accounting Financials (PBAF)[4] standards may be one useful estimates of potential impacts and (mis) alignment with nature targets. However, it must be recognised that these metrics are based on sector and country averages and lack location and company specificity. Thus, care should be taken in the interpretation and use of footprint metrics.*
Recommended Disclosure d) Describe how targets on nature and climate are aligned and contribute to each other, and any trade-offs.	**Guidance for financial institutions** *The development of additional guidance for financial institutions for this new disclosure recommendation will be considered by the TNFD for inclusion in v0.4 of the TNFD beta framework.*

1 See – IPBES 2019 Global Assessment Report
2 See https://sciencebasedtargetsnetwork.org/
3 See https://www.unepfi.org/publications/guidance-on-biodiversity-target-setting/
4 See https://pbafglobal.com/standard

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