

Testing a nature-related risk framework in the consumer staples sector



Learnings from soy supply chains



Executive Summary

In order to halt and reverse the erosion of nature globally, organisations need to shift their investments and operations away from nature-negative outcomes and towards nature-positive ones. To be able to do this, organisations must first understand and account for how they impact, and depend on, nature. However, there is not yet agreement on a consistent and comprehensive framework to assess, manage and report on nature-related financial risks and opportunities¹.

A Taskforce on Nature-related Financial Disclosures (TNFD) launched in June 2021, after an initial preparatory phase, with the aim to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, and ultimately support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. The TNFD builds on the success of the Task Force on Climate-related Financial Disclosures (TCFD) in advancing climate-related risk management and disclosures across corporates and financial institutions.

As founding partners of the TNFD, Global Canopy and the United Nations Environment Programme Finance Initiative (UNEP FI) have undertaken an initial pilot to support the development of TNFD's global framework for nature-related risk management and disclosure. The aim was to provide practical examples of what a framework for nature-related risks, specifically the TNFD framework, could consider by testing concepts laid out in the TNFD's Proposed Technical Scope which was published in June 2021.

To test these concepts, Global Canopy and UNEP FI rapidly developed a high-level exploratory framework which presented concepts from the TNFD's Proposed Technical Scope, alongside relevant examples, data and metrics which could help organisations assess, measure, disclose and act

1. TNFD, Proposed Technical Scope: Recommendations for the TNFD, June 2021, para 1, 5.

on nature-related risks and opportunities. This framework was tested with organisations who operate within, or provide finance to, soy supply chains, with recognition that this sub-sector is associated with nature-related financial risks and has relatively good availability of relevant data. The organisations involved in the pilot included Rabobank, Santander, Tesco, Vitasoy, Danone and McDonald's. WWF also provided additional technical input.

The key takeaways from testing that should be kept in mind in the next phases of developing a global framework for nature-related risk management and disclosures are:

- **Need for detailed guidance.** A global framework for nature-related risks should steer to detailed case-studies, tools, data, metrics and approaches to enable organisations to interpret and practically apply guidance. While a sufficiently broad framework is required to ensure applicability for all sectors, finance and geographies etc., practical examples, data, tools and metrics related to a wide variety of different contexts will be required to help organisations understand how requirements translate to their operations. This will help different organisations understand their relevant nature-related impacts and dependencies, how these translate to financial risks in their sector or area of operations, and approaches that can be used in the assessment, measurement, and disclosure processes. Since one of the aims of a framework for nature-related risk management and disclosures is comparable disclosures across organisations, detailed guidance will be critical, as otherwise a high-level framework alone is likely to be interpreted very differently by different organisations, resulting in inconsistent disclosures.
- **The importance of a staged approach.** As highlighted in the TNFD's Proposed Technical Scope, a framework for nature-related risks should allow organisations to gradually align with the ambitions set out in the framework. More work is required to better clarify how this staging will work, and the expectations of reporting entities at each stage.
- **Action needs to be integrated.** A framework for nature-related risks should consider incorporating action to mitigate nature-related risks

and implement nature-related opportunities throughout its framework and recommended disclosures. The process to assess, measure and disclose nature-related risks may take significant time, especially for those organisations less familiar with sustainability- and risk reporting. Although a basic understanding of nature-related impacts and/or dependencies will likely be required, due to the severity of the current climate- and nature crises, organisations cannot wait until they have detailed, comprehensive and robust disclosures before they start acting by avoiding and reducing their impacts and transitioning investment to more nature-positive sectors, industries and projects.

- **Significant knowledge gaps remain.** There are significant gaps in data, guidance and understanding linked to the assessment, measurement and disclosure of nature-related risks. Research areas for future work include developing a better understanding of linked social concerns, dependencies, and how nature-related risks translate into financial risks. Research organisations and future pilots should focus on building out these areas to support the development of a universal global framework and related guidance.



Introduction

Towards a global framework for nature-related risks

To halt and reverse nature loss globally, it is essential that corporates and financial institutions understand and account for the risks associated with how they impact, and depend on, nature. This in turn would enable the organisations to shift their investments and operations away from nature-negative practices and towards nature-positive ones.

Many corporates and financial institutions have started to contemplate the financial risks they are exposed to by depending and impacting on nature in their operations or supply chains. More than half of the world's economic output – US\$44tn of economic value generation – is moderately or highly dependent on nature. Nature-related risks show up across all sectors and industries to a certain extent. However, there is not yet agreement on a consistent and comprehensive framework to assess and manage nature-related financial risks and opportunities².

In September 2020, building on the success of the Task Force on Climate-related Financial Disclosures (TCFD) in advancing climate-related risk management and disclosures across corporates and financial institutions, an international market-led Informal Working Group (IWG) was set up to establish a Taskforce on Nature-related Financial Disclosures (TNFD). Global Canopy and the United Nations Environment Programme Finance Initiative (UNEP FI) were two of the founding partners of the TNFD, alongside UNDP and WWF.

The TNFD itself formally launched in June 2021, with the aim to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, and ultimately support a shift in global financial flows away from nature-negative outcomes and

toward nature-positive outcomes. The TNFD consists of various groups, which together make up the TNFD Alliance. At the centre sits the market-led Taskforce, a group of up to 35 Taskforce Members from corporates, financial institutions and market service providers. The Taskforce is supported by a collaborative TNFD Forum of more than 250 organisations, and a TNFD Knowledge Hub, which consists of leading science and industry organisations that have partnered with TNFD to ensure the TNFD framework aligns with existing nature-relevant standards and guidance. Global Canopy and UNEP FI serve on the TNFD Stewardship Council, which consists of the founders and key funders of TNFD.

To ensure that the TNFD framework is fit for purpose and ready for collective market uptake, it will be developed using an “open innovation” approach. The first beta version of the TNFD framework will launch in March 2022, with the intention that organisations across different sectors and geographies can then test the framework to determine whether the framework presented is clear, whether anything may be missing and if it would effectively work in practice. Alongside individual corporates and financial institutions piloting the framework, broader sector-wide pilot projects will be run. A final version of the TNFD framework will be published in 2023.

The consumer staples sector pilot

Global Canopy and UNEP FI have undertaken an initial pilot to support the development of the TNFD's global framework for nature-related risk management and disclosure. The aim was to provide valuable lessons relevant to the development of a TNFD framework for nature-related risk management and disclosures, as well as the implementation of future sector-wide pilots. The pilot was focused on soy supply chains in the consumer staples sector. This narrow commodity and sector-specific focus has increased awareness of the challenges and opportunities faced by key market players, in assessing and reporting on nature-related financial risks and opportunities.

In testing, participants were presented with a nature-related risk assessment and disclosure framework which was rapidly developed to help

communicate various concepts laid out in the TNFD's Proposed Technical Scope published in June 2021. In helping communicate various concepts from the Technical Scope, Global Canopy and UNEP FI highlighted some different tools, data, metrics and approaches that could potentially be used to help organisations assess, measure and disclose their nature-related risks and opportunities. It was hoped that this additional information would help participants better interpret requirements set out in the TNFD's Proposed Technical Scope.

Through testing, the pilot explored the ability of participating financial institutions and corporates to assess, measure, and disclose nature-related risks in line with the TNFD's Proposed Technical Scope. The organisations involved in the pilot included Rabobank, Santander, Tesco, Vitasoy, Danone and McDonald's. WWF also provided additional technical input. The testing aimed to support the creation of a global framework for nature-related risks, specifically the TNFD framework, by:

1. Assessing the coherence of concepts, definitions, recommendations and guidance from the TNFD's Proposed Technical Scope;
2. Exploring the availability of data and commonly used metrics that may serve for the assessment and reporting of nature-related risks; and
3. Assessing the possible opportunities and challenges that organisations may face in assessing, measuring, and disclosing nature-related risks.

The lessons learned from this testing are presented here in order to help support and inform the building and piloting phases of the TNFD. The lessons are also useful for corporates and financial institutions, as they allow them to better understand some of the most significant challenges related to nature-related risk management and disclosure, in turn enabling them to prepare to solve them.



Lessons learnt & recommendations

The feedback and lessons learnt during this pilot fall into two categories: those relevant to the structure and content of a framework for nature-related risks and opportunities, specifically the TNFD framework, and those relevant to the design and running of future sector-wide pilots to test iterations of that framework.

Please note that not all feedback received in testing has been presented below, those presented reflect the most common responses from participants. Furthermore, although there was a significant amount of consensus on feedback, the lessons presented may not reflect the views of all the participants involved in the pilot.

Structure and content of a framework for nature-related risks

Definitions:

Feedback: There is a need for consistent, clear and easy to understand language. Wherever a framework and guidance makes reference to a particular concept, for example 'value chain', it must be well defined to ensure that reporting entities provide useful, comparable disclosures. The language used should also be mutually understandable by both sustainability and finance teams within organisations, to avoid the misinterpretation of different concepts.

Recommendation: A framework for nature-related risks should ensure that definitions developed and used are clear and not subject to ambiguity, and are standardised across pilots that are designed to test the framework. It will be important for pilot project teams to ensure that they in turn understand how participants have interpreted different terms and concepts, as this is necessary to truly understand, analyse and compare participant feedback.

Practical examples and additional guidance:

Feedback: Overarching frameworks applicable to all organisations, sectors and geographies are often broad, making it difficult to understand how different requirements translate to an individual organisation's context. Without more detailed guidance and practical examples it will likely be difficult for many organisations to understand how to apply an overarching global framework for nature-related risk management and disclosure. A lack of further guidance may also result in a high-level framework which is interpreted very differently by different organisations, resulting in inconsistent disclosures. It is important to note that this feedback came from organisations relatively advanced in their Environmental, Social and Governance (ESG) reporting.

Recommendation: Any overarching framework and guidance for nature-related risk should include, or steer to, detailed examples, tools, data and metrics to enable organisations to interpret and practically apply guidance. Given the broad scope of a global framework on nature-related risk, practical guidance and examples would need to vary by sector and geography.

Assessing nature-related risks and opportunities:

Scope and a staged approach

Feedback: The process of assessing and identifying nature-related risks and opportunities is challenging for many reporting entities. Broad risk assessments can often be very complex and costly, and the differing levels of resourcing which reporting entities can give to this process could result in inconsistent approaches and disclosures.

Recommendation: More detailed guidance on how different reporting entities may be able to identify their nature-related risks will likely be required alongside any recommended disclosures. For example, how to prioritise areas, sectors, sub-industries for nature-related impacts and dependencies, and what existing tools and datasets can be used in this process.

Feedback: Assessing, measuring and disclosing against a very comprehensive scope of "nature" could take significant resources and time.

The ENCORE tool which is managed by the Natural Capital Finance Alliance (NCFA) – a collaboration between UNEP FI and Global Canopy, in partnership with UN Environment Programme World Conservation Monitoring Centre (UNEP WCMC) – helps global banks, investors and insurance firms assess the risks that environmental degradation, such as the pollution of oceans or destruction of forests, causes for financial institutions. This tool can assist organisations in assessing their impacts and dependencies.

Recommendation: A staged framework approach, as set out in TNFD's Proposed Technical Scope, that allows organisations to gradually align with the full set of disclosure recommendations could give a steer to which priority areas to focus on initially – for example which nature-related impacts and dependencies or core topics such as biodiversity and water should be prioritised. Furthermore, a narrower focus can allow participants to provide more detailed useful data for priority areas. More work is required to better clarify how this staging will work, and the expectations of reporting entities at each stage.

Future pilots should continue to build out how existing tools can be used to carry out an initial assessment, and identify areas, sectors, sub-industries to prioritise, and should create example case studies that can support other organisations and future guidance.

Risk assessment

Feedback: The Science Based Targets Network (SBTN)'s science-based targets for nature provides a useful approach for the assessment and identification of nature-related risks. The SBTN presents three separate assessment stages: i) Sector-level materiality assessment, ii) Value chain hotspot assessment, and iii) Company-level refinement. The SBTN also presents the importance for organisations to determine their sphere of influence, beyond just their direct operations into their value-chain, value-chain adjacent areas and systems.

Recommendation: A new global framework for nature-related risk management and disclosures should ensure alignment with existing guidance and standards that reporting entities find useful, including the SBTN, both testing and building on these concepts. The TNFD's Knowledge Hub, which integrates SBTN and many others into the TNFD

framework development process as knowledge partners, is a welcome vehicle to ensure alignment with existing standards and guidance.

Feedback: Locating and understanding how to use the data necessary to determine priority nature-related risks will likely be difficult for organisations who want to align with the ambitions set out in TNFD's Proposed Technical Scope.

Recommendation: A global framework for nature-related risk management and disclosures will need to determine the extent of guidance it provides to reporting entities in relation to available data. To ensure robust, detailed disclosures, guidance should identify or steer to relevant data which can be used to help reporting entities prioritise their nature-related risks and opportunities. Civil society organisations and research organisations could also help reporting entities and TNFD by highlighting and developing relevant datasets (e.g. datasets on global biodiversity, fish stocks, deforestation³) which may support the assessment of priority nature-related risks and opportunities. Again, the TNFD Knowledge Hub, as well as the broader collaborative TNFD Forum, is a welcome vehicle that can enable this integration process.

Nature-related financial risks and opportunities

Feedback: The translation of nature-related risks into nature-related financial risks will likely be very challenging for organisations. Organisations will need additional guidance on assigning economic value and the use of financial metrics to nature-related risks. Applicable case studies or best practice examples would help organisations better understand how to assess, measure and disclose nature-related financial risks.

Recommendation: A nature-related risk management and disclosure framework, as well as future pilots that aim to test such a framework, will need to continue to map the data, tools and approaches that can be used to translate nature-related risks into nature-related financial risks, to ensure the final version of a framework is practical and easy to implement.

Feedback: The TNFD's Proposed Technical Scope did not include the need for reporting entities to report on their nature-related opportunities. However, organisations highlighted that a framework for nature-related

risk management and disclosures should provide detailed guidance on approaches that they can use to identify their nature-related opportunities.

Recommendation: A nature-related risk management and disclosure framework, as well as future pilots that aim to test such a framework, should consider testing the ability for participating organisations to identify their nature-related opportunities, highlighting what tools, approaches and data can be used in the process, as these will serve as a key determinant of nature-positive actions.

Social considerations

Feedback: TNFD's Proposed Technical Scope highlighted the need for organisations to consider social concerns linked to their nature-related impacts and dependencies. This area requires much more guidance - for example, on how to identify linked social considerations, in order to ensure a standardised approach across organisations.

Recommendation: Further guidance and clarity on the scope of social considerations that should be included within a global nature-related risk management and disclosure framework, and how to identify those that are relevant for an organisation or sector, will be required to help reporting entities better understand and meet this recommendation.

Dependencies

Feedback: Nature-related dependencies appear less well covered by data, tools and examples than nature-related impacts. Therefore it is expected to be more challenging for organisations to understand how to assess and measure their nature-related dependencies.

Recommendation: More work is required to build out guidance on how to identify and assess dependencies to ensure that this is done consistently by reporting entities.

Measuring & disclosing nature-related risks:

Alignment with TCFD

Feedback: Corporates and financial institutions have made progress

on climate-related risk management and disclosures, driven by the recommendations released by the TCFD. Aligning with TCFD's framework for climate-related risk management and disclosure will therefore enable swifter uptake of nature-related recommendations, as they will be familiar to corporates and financial institutions. In particular, TCFD's four disclosure pillars are well understood across a wide variety of sectors and geographies: i) Governance, ii) Strategy, iii) Risk Management, and iv) Metrics and Targets. However, there will likely be some significant differences between the TNFD and TCFD, despite the desire for alignment.

Recommendation: A nature-related risk management and disclosure framework, as well as future pilots that aim to test such a framework, should continue to align closely with the TCFD framework where relevant. More work will be required to determine exactly where and how nature-related recommendations should differ. Additional guidance should support reporting entities to understand any differences.

Lack of data

Feedback: A lack of available data on various nature-related topics, and difficulties in obtaining detailed and accurate data from suppliers, could lead to challenges in the provision of useful disclosures, particularly including spatially explicit information. Stakeholders reviewing disclosures may not fully understand, for example, sector-wide data challenges (e.g. commodity traceability) that could result in less detailed disclosures that the reporting entity may have little influence over. It is important that sector-wide data challenges are communicated to the markets and that organisations in such sectors are encouraged to disclose what they can, so that their inability to fulfil all disclosure recommendations does not prevent organisations from disclosing.

Recommendation: A nature-related risk management and disclosure framework should ensure that the framework and guidance clarifies that reporting entities will need to continually improve disclosures as more and better data becomes available. A framework could consider including space for reporting entities to highlight where known data gaps or sectoral issues are impacting their ability to provide detailed information.

Long term risks

Feedback: Long-term risks are more challenging to assess, measure and disclose in comparison to short-term risks. Forward-looking projections are likely to be subject to greater uncertainty, and a nature-related risk framework would likely benefit from indicating expected time horizons associated with risks.

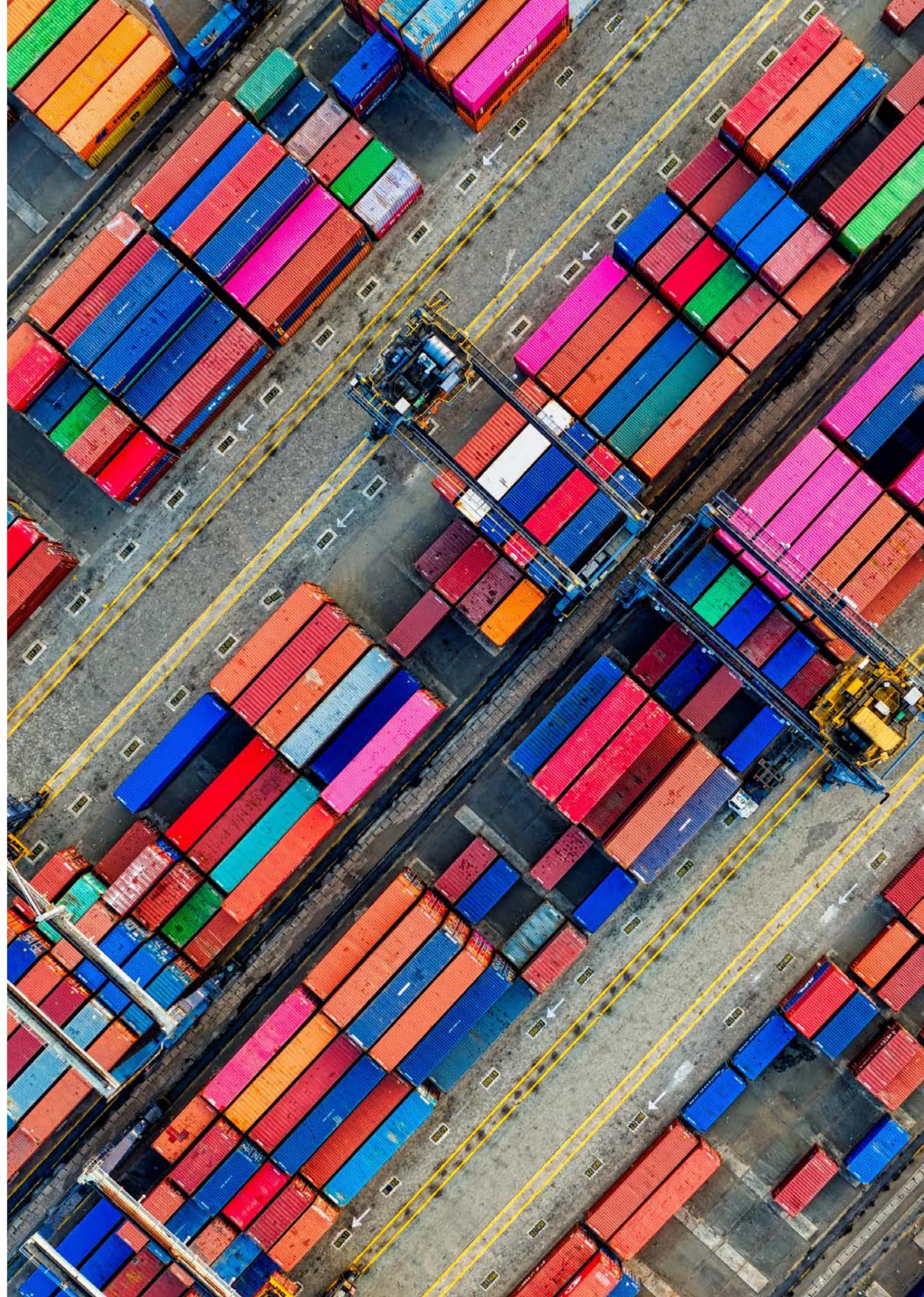
Recommendation: A nature-related risk management and disclosure framework should consider stipulating timeframes associated with short-, medium- and long-term risks to ensure comparable data is produced by reporting entities.

Acting on nature-related risks and opportunities:

Feedback: Action to mitigate nature-related risks and implement nature-related opportunities to shift towards more positive nature-related outcomes is an ongoing process, and it needs to be well integrated within a framework for nature-related risk management. A nature-related risk framework should be careful when emphasising action as the final step in a linear process. Although a basic understanding of nature-related impacts and/or dependencies will likely be required, due to the urgency of the current climate- and nature crises, organisations cannot wait until they have detailed, comprehensive and robust disclosures before they start implementing actions to avoid, reduce, restore and regenerate, and transform⁴ their impacts and transition investment to more nature-positive sectors, industries and projects.

Recommendation: A nature-related risk management and disclosure framework should consider incorporating action to mitigate nature-related risks and implement nature-related opportunities to shift towards more positive nature-related outcomes throughout its framework and recommended disclosures. Future pilots of a nature-related framework should test how best to integrate the need to act and how well different approaches may work in practice.

4. Recommended actions per SBTN's AR3T Framework



Implementation of pilots

Feedback: Future pilots would benefit from a comprehensive definition of “nature” and other key terms set out within the TNFD’s Proposed Technical Scope (e.g. “long-term financial risks) and the beta version of the TNFD framework itself, once this is released in March 2022. Without comprehensive and easily understood definitions it is difficult for organisations to interpret guidance and disclosure requirements.

Recommendation: Future pilots would benefit from increased clarity on key definitions and scope from the TNFD, which is expected with the launch of the first beta version of the framework in March 2022. As TNFD continues to define and clarify its expected scope, the testing process within pilots can deepen and feedback on proposed definitions can be gathered. The provision of example use cases and case studies during piloting will also help pilot participants better interpret any framework and disclosure requirements. Furthermore, as increasingly comprehensive definitions are set, future pilots should thoroughly test the various definitions of risk (e.g. physical, transition, systemic etc.) in more detail.

Feedback: There are many existing standards, sets of guidance, tools and regulations which reporting entities may already be considering when assessing, measuring and disclosing nature-related risks.

Recommendation: The TNFD should ensure that as new relevant material becomes available its appropriateness for use within the TNFD is tested within pilots. Furthermore, the TNFD should also be conscious of upcoming regulations which may impact the way in which organisations assess, measure and disclose nature-related risks. To aid in this process, future pilots should collate information on guidance, standards, tools, data and regulations that may be important to consider within the TNFD. Again, the TNFD Knowledge Hub, as well as the broader collaborative TNFD Forum, is a welcome vehicle that can enable this integration process.

Feedback: Organisations relatively advanced in ESG reporting are more likely to volunteer to participate in pilots. However, organisations with less experience with ESG reporting should also be able to apply a global framework for nature-related risks in practice.

Recommendation: More work will be required to determine the best approaches necessary to ensure feedback is gathered from all relevant stakeholders during piloting. Future pilots should ensure representation from throughout the supply chain and should consider including participants who are new to sustainability reporting to ensure the framework and guidance works for all. Future pilots should continue to be conscious of which stakeholders to engage in pilots beyond financial institutions and corporations, and how best to engage these participants. These may be for example NGOs, research organisations, data providers, standard setters etc.

In addition, future pilots should work collaboratively with financial institutions and corporations to ensure that any internal teams, clients or suppliers engaged during piloting provide varied and comprehensive feedback valuable to the TNFD framework development process. For instance, where relevant, participants should ensure that multiple teams across their organisation are engaged in the feedback process. This will help ensure that the pilot crowds in insights from all relevant stakeholders and will help ensure that a final TNFD framework is written using a common language that is mutually understood across teams.

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