TNFD Financial Markets Readiness Assessment

An assessment of readiness and expectations from the financial market for a risk management and disclosure framework

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Notice to the reader: This report was initially written in June 2021, then updated in June 2022. The interviews carried out in support of the study were conducted in June 2021. Later updates to the report incorporate publicly available information, literary review, and knowledge stemming from our active engagement with the financial sector on the mainstreaming of nature and the TNFD. No interviews were conducted in 2022.
Executive summary

This report presents the results of a financial sector market readiness assessment commissioned by UNEP Finance Initiative (UNEP FI) and United Nations Development Programme (UNDP) supporting the mission of the Taskforce on Nature-related Financial Disclosures (TNFD). We find that main drivers, challenges and expectations from financial institutions with regards to nature-related reporting are:

Awareness of risks, impacts and opportunities associated with nature loss, and the need for action is growing within the financial sector, extending to a diversity of financial institutions from many geographies.

The rising number of nature-related initiatives in the financial sector has helped to bring nature at the forefront of financial issues. In just a year, the TNFD Forum has grown from 200 to more than 600 businesses, institutions and civil society organisations. Financial institutions along with technical and knowledge partners from 20 countries across the world have now committed to pilot testing the TNFD beta framework through the UNEP FI pilots in support of TNFD. Market participants are increasingly aware that they have a role to play in the integration of nature within their business model, and that this requires adopting (an) appropriate assessment(s)
and disclosure framework(s). The TNFD has succeeded in attracting a wide range of financial sub-sectors and organisations on all continents.

Many financial institutions have identified regulatory shifts as a primary driver for their interest in nature-related risks and impacts, whereas “early mover” institutions already acknowledge that nature is the “next big issue to address in combination with climate change”.

Different types of financial institutions experience different types of drivers and incentives:

1. A shifting regulatory landscape, as illustrated through the examples of the European Union’s Sustainable Finance Disclosures Regulation (EU SFDR), UK climate-related financial disclosure regulation, as well as non-regulatory engagement of financial regulators via specific initiatives or through the Network for Greening the Financial System (NGFS);

2. Significant exposure of financing and investment portfolios in sectors and/or geographies with high impacts or dependencies on nature (e.g. agribusiness-related value chains), or already suffering from the combined consequences of ecosystems overexploitation and climate change (e.g. scarcity of quality water resources, desertification and loss of vegetation cover);

3. Recognition of business opportunities and reputational benefits related to green financial services;

4. Growing awareness of the linkages between climate change and nature, of the importance of nature in aligning with 1.5°C or 2°C pathways, and of the dependence on nature-based solutions for reaching “net-zero” commitments.

Awareness is reaching a turning point with interest in nature-related risks, impacts and opportunities growing within the market. This said, adoption of nature-related practices within decision making processes is still limited to “early movers”.

The financial sector in general is still a long way from effectively mainstreaming nature in the business. Despite raising public concern and recognition by businesses of the dramatic implications of biodiversity erosion, nature-related risks and opportunities are not yet systematically considered in the business strategies and asset allocation processes of financial institutions.

Financial institutions point to the lack of internal resources and capacity, and a need for capacity building at all levels of the organisation (including at senior management level) in order to effectively mainstream the consideration of nature into decision-making. There is also a lack of understanding of the business case for recognizing the financial materiality of all nature-related risks and impacts, taking into consideration not only risks for the business, but also risks and impacts caused by business on nature, across its value chain. In addition, some survey participants reported a form of “commitment fatigue” from their institutions—following adoption of the Task Force on Climate-related Financial Disclosures (TCFD) and various other sustainability-related frameworks, requiring some form of adaptation of their institution’s business policies and processes.
Financial institutions also face uncertainty regarding how nature will be mainstreamed. A rising number of initiatives creates confusion regarding the overlap of their scope, leading to ‘wait-and-see’ positions in order not to waste internal resources. Metrics and data workstreams are still under development and seen as a major challenge for most financial institutions. Also, the regulatory compliance level required is still not clear as it is also being built on market feedback.

Eventually, as it was the case for climate, integrating nature into business consideration is seen as a risk of competitive disadvantage, especially when opportunities are poorly understood, identified and valued. Nevertheless, as part of the TNFD, a group of leading financial institutions is taking a proactive approach in understanding and managing their exposure to nature-related risks and impacts, seeking opportunities to catalyse positive investment for nature, and contribute to the development of relevant tools and metrics, within their organisation or as part of group initiatives.

Most survey participants suggested that the TNFD should lead the way in the definition of a common framework for nature-related tracking, acting and reporting through an active engagement strategy.

The TNFD has an opportunity to catalyse sector-wide transformation by influencing and supporting financial institutions, using synergies with the TCFD, helping institutions recognize and address the materiality of nature-related risks and opportunities. Above all, this will require a thorough engagement strategy targeted at financial institutions, corporate businesses, and policymakers. This engagement strategy will need to be supported by influential ambassadors, building on the political momentum of the post-2020 Global Biodiversity Framework of the Convention on Biological Diversity (which is expected to be realized in December 2022), to foster awareness, emulation, support and adoption, at political, strategic, government and C-suite level.

The launch of the TNFD is timely, as nature is recognized as a sharply rising concern. There are clear expectations of the framework and some concerns related to the business implications of nature-related reporting.

Interviewees appeared supportive of the TNFD in principle. They recognized that nature was a rising concern for their institution, their clients, investees, and the public. There is no doubt that their institutions will, one day or another, have to manage nature-related risks and opportunities in a more strategic and integrated manner. The TNFD is perceived as a potential common framework to track and report on nature within the portfolio.

Following the interviews and the feedback from the first beta framework release which have been collected in the second iteration, participants gave an overview of the work in progress to foster sector-wide adoption of the TNFD framework. The key expectations expressed by participants cover:

Simplicity and ease of implementation and integrated climate/nature disclosure. Owing to the widespread adoption of the TCFD by the financial sector, the TNFD has an opportunity to be integrated within the business processes already implemented for the TCFD. This will be logical, building on the climate-nature nexus and the opportuneness of integrating both dimensions into an ambitious strategy to address climate change and nature loss.
Consistency in the definition of basic concepts and understanding of nature-related risks, impacts and opportunities, demonstrating the business case for nature. The TNFD has an opportunity to catalyse market-wide recognition of nature-related risks, impacts and opportunities. It also has an opportunity to “uplift” the awareness and level of commitment of decision-makers, so as to initiate strategic, policy and organisational change within their organisations. The TNFD is not the only initiative on nature and it is actively engaging with other initiatives and platforms to build consistency and alignment.

Building the case for the business opportunities related to nature—not only improving the management of risks, but also generating revenue from sustainability-linked financial products, addressing investor expectations to invest in less risky and greener assets, improving public perception and corporate reputation. The TNFD should build the case for the business benefits of nature-related tracking and reporting, based on proven case studies, ongoing initiatives, positive business outcomes reported by “early movers”.

Providing a framework for meeting shifting and new regulatory requirements. The TNFD should maintain active engagement with governments, financial regulators, and supranational bodies to take stock of evolving regulations in sustainability disclosures, and where possible support the development and implementation of ambitious regulatory requirements within which the TNFD may provide a common framework for compliance.

Continue to actively engage with leading standards and framework initiatives to foster consistency and ensure that the TNFD supports a unified, consistent approach to the reporting of nature-related risks and impacts. The TNFD should build and further develop its linkages and synergies with initiatives such as the International Sustainability Standards Board (ISSB), TCFD, Global Reporting Initiative (GRI) and others.

The TNFD is expected to bring clarity and to collaborate with developers and solution providers to set a minimum common requirement for credible reporting and “uplift” commonly accepted metrics and data on nature-related risks and impacts. The intrinsic complexity of nature generates the current lack of availability of commonly accepted metrics and data, and this is acknowledged as a major challenge. Market participants are expecting further guidance on how to assess, analyse and report upon nature-related risks and impacts, including the use of scenarios, baseline settings and the set of different reliable metrics to be used at each step of the nature risk assessment approach (named LEAP approach) and disclosure process.

The TNFD is expected to leverage on its active market engagement process, pilot testing programme, and iterative framework release process. As for now, a majority of market participants face difficulties to implement the framework operationally, and thus need further guidance on how to apply the framework from different perspectives. There is widespread expectation for ongoing guidance on sectors, realms and biomes, the LEAP approach application, metrics, data and scenarios, and pilot testing.
### Table 1: Key drivers and opportunities, challenges, expectations and recommendations from financial institutions identified for adoption of the TNFD framework

<table>
<thead>
<tr>
<th>Drivers and opportunities</th>
<th>Perceived challenges/barriers</th>
<th>Expectations</th>
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<tbody>
<tr>
<td>+ Shifting regulatory environment</td>
<td>- Insufficient knowledge and resources</td>
<td>◼ Improve consistency in methodology, metrics and reporting</td>
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<tr>
<td>+ Rising investor, civil society, and public interest for nature</td>
<td>- Reluctance to invest without a consistent sector-wide framework</td>
<td>◼ Technical support, competence, and awareness uplift</td>
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<td>+ Business opportunities related to green financing, nature, and natural capital</td>
<td>- Acting as an “early mover” may create competitive disadvantage</td>
<td>◼ Guidance and use cases to support the application of the framework</td>
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<td>+ Progressive (albeit still limited) recognition of materiality of sustainability-related risks, stemming from the Task force on Climate-related Disclosures (TCFD) adoption</td>
<td>- New nature-related materiality may impact portfolio valuation &amp; balance sheet</td>
<td>◼ Clarity on the scope of the Taskforce on Nature-related Financial Disclosures (TNFD), and alignment and complementarity with existing nature-related initiatives, frameworks, and standards</td>
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<td>+ Growing awareness of Climate-Nature linkages</td>
<td>- Complexity of nature, lack of commonly adopted methodology, metrics and data offering</td>
<td>◼ Simplicity and synergies with the TCFD requirements and processes</td>
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<td>+ Initiatives for development of metrics &amp; data from “early movers” in the sector</td>
<td>- Commitment fatigue/reporting fatigue considering other recently adopted frameworks</td>
<td>◼ Sufficient sector-wide adoption to limit competitive distortion</td>
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### Key recommendations

- Continue active engagement at board-level and operational level to generate awareness and buy-in from the financial sector
- Sector-wide promotion by influential “ambassador(s)” (personalities and/or entities) to generate collective adoption
- Engagement with supranational and national policymakers to support a shift in the regulatory landscape
- Optimize synergies with the TCFD building on the Climate-Nature nexus
- Build the case for materiality of nature-related risks across the sector, in particular with “follower” and “laggard” financial institutions
- Continue engaging with developers of metrics and data to promote consistent standards of quality and credibility
1. Introduction
1.1 About the TNFD

Proposed goal of the TNFD
The Taskforce on Nature-related Financial Disclosures’ (TNFD) mission is to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the aim of supporting a shift in global financial flows away from nature-negative outcomes and towards nature-positive outcomes. It is market-led, government-supported, and science-based, and comprises a 34-strong central Taskforce from the finance sector, businesses, and market service providers.

1.2 About the market readiness study

Objectives
The objectives of the study are to:

- Clarify the current state of play, and the extent to which nature-related risks are effectively ‘mainstreamed’ within the financing strategy and investment decision-making process of financial institutions.

- Provide a view on how well traction for the TNFD can be gained for financial institutions whether they are involved in the current TNFD development process or not.

- Provide a basis for the TNFD to continue developing the TNFD framework in a manner that takes into account the level of advancement of various financial institutions in identifying nature-related risks, impacts and dependencies, so that the framework may be effectively embraced by the majority of financial institutions.

Approach and timeline
The study relied on:

- Synthesis of a set of semi-structured interviews with representatives of financial institutions, inside and outside of the TNFD development process. Interviewees and questions were aimed to be consistent with the proposed scope of the TNFD and with priority sectors identified by the IWG. The interview questions used as indicative questionnaire framework are provided as Annex B.

- Research and synthesis of publicly available sources, in particular drawing from datasets stemming from the Natural Capital Finance Alliance’s (NCFA) ENCORE tool.¹

- Synthesis and collation of common and consistent themes and associated recommendations for the Taskforce.

¹ The ENCORE tool is accessible at encore.naturalcapital.finance/
- As part of the study update in June 2022 with support from The Biodiversity Consultancy, results from continued engagement with various financial institutions over 2021–2022.

- Development of case studies to illustrate topologies of institutions and their current position on nature-related risks.

Case studies resulting from the interview process are presented in Annex A of this report. Not all interviews have led to the development of a case study—we have retained the most representative and comprehensive interviews to draw a set of 16 case studies in support of the findings and recommendations presented in this report.2

Financial institutions engaged as part of the study

The assessment was primarily based on a series of interviews with a selection of 23 organisations, carried out during the main study phase in 2021 (22 financial institutions plus one think-tank and solution developer specialised on biodiversity, subsidiary of a financial institution). Those were selected for representativeness across the financial sector in terms of financial services, geographical coverage, size, and perceived engagement with regards to the integration of sustainability dimensions (and of nature in particular) within their business. Before the official launch of the TNFD, one third of the organisations that participated in the survey were members of the TNFD Informal Working Group (IWG), another third were members of the TNFD Observers’ Group and the rest was not engaged in the TNFD scoping phase. As of July 2022, 7 out of the 23 organisations are members of the Taskforce, actively contributing to the development of the framework, and 11 additional organisations are part of the TNFD Forum. Almost 80% are officially engaged with the TNFD initiative.

The 23 institutions engaged in the study included:

- 15 corporate investment banks, most of which are also engaged in retail banking, including:
  - 10 international financial institutions which are part of a financial group that includes an asset management subsidiary; and
  - 5 financial institutions with a regional or domestic focus.
- 6 asset management entities, of which 2 "Impact Assessment Management" entities;
- 1 public development bank;
- 1 nature-focused think tank and solution developer integrated within a public development bank.

In June 2021, 8 of the institutions engaged had participated in the TNFD scoping phase as IWG members. Another 7 were TNFD IWG observers. All of them were adopters of the TCFD. As of June 2022, 7 of the institutions are part of the official Taskforce, and 11 additional are part of the TNFD Forum, meaning that in total more than three quarter of the initial 23 organisations have engaged with the TNFD.

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2 Note that these case studies were conducted and edited developed in June 2021 following dedicated rounds of interviews, thus several months before the formal launch of the TNFD (October 2021) and before the initial release of the Beta Framework (March 2022).
Of 22 engaged financial institutions, 18 are signatories of the UNEP FI Principles for Responsible Banking (PRB), 17 are signatories of the United Nation’s Principles for Responsible Investment (PRI), and 4 of them are signatories of the Finance for Biodiversity pledge.

### 1.3 About this report

This report presents the results of a Finance Sector Market Readiness Assessment for the Taskforce on Nature-related Financial Disclosures (TNFD). The report aims to clarify the state of play of financial institutions and their expectations towards the TNFD, using key insights to define recommendations for the TNFD to catalyse support and adoption by the market at large. It may be used as supporting technical material by the Taskforce, in particular by the financial markets working group, and financial institutions at large, as the TNFD furthers its work on its disclosure framework and accompanying guidance over 2022–2023 (including the TNFD Beta Framework, to be iteratively updated since its initial release in March 2022, and its associated LEAP approach for assessment of nature-related risks, impacts and opportunities). This report considers the previous reports published as part of communications by the TNFD, in particular the latest public version of the recommended scope of the TNFD, the first version of the beta framework issued in March 2022 and the second iteration published in June 2022.

The study reviewed the current level of integration of nature-related risk assessment and reporting in the decision-making processes of financial institutions. It included an identification of incentives, barriers, opportunities and challenges, for financial institutions to mainstream the dimension of nature within their business. This supported an analysis of how the TNFD may help fulfil their needs, develop opportunities, and overcome perceived barriers and challenges. This was used to define recommendations for the TNFD to catalyse support and adoption by the financial sector at large—thereby fostering the level of collective adoption necessary for the TNFD to generate gradual market change, improving the consideration of nature in the business strategies, governance, and decision-making processes of financial institutions.

The assessment was commissioned by UNEP FI between late March and June 2021, ahead of the formal launch of the TNFD in October 2021. The assessment report was subsequently updated between June and July 2022 in view of its public release. The study was delivered by Global Canopy for the first phase, with additional support from The Biodiversity Consultancy for the 2022 update. It focuses on financial institutions and does not cover non-financial companies. It is recognized that non-financial company disclosure is an essential part of the initiative, and market readiness for corporates is addressed by a counterpart study. Another market readiness assessment with specific focus on public development banks is also to be commissioned with support from the French Development Agency, with results anticipated in the second half of 2022.

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3 unepfi.org/banking/bankingprinciples/
4 unpri.org/
5 financeforbiodiversity.org/about-the-pledge/
2. Key findings and recommendations
2.1 Rationale for presentation

The key findings presented hereafter are based on our analysis of the responses, comments, and suggestions put forward by the interviewees that we engaged as part of the market readiness study.

As part of this report update in June/early July 2022, the authors relied on a literature review, a summary account of feedback on the TNFD beta framework collected by the TNFD between March and July 2022, as well as their professional experience of how financial sector organisations are addressing nature and the TNFD within their business strategy.

Recurring topics or comments from one interview to another are noted as findings. Where interviewees expressed consistent and recurring expectations for the TNFD, these are noted as recommendations.

Improving engagement and understanding on nature within financial institutions

Most interviewees recognized that the integration of nature-related risks and opportunities in the business strategy is still at a nascent stage. A minority of financial institutions have already taken steps to strengthen their decision-making frameworks, tracking and reporting processes, and internal capacities on nature. The rise of finance-targeted nature initiatives, such as the TNFD or Finance for Biodiversity, along with the development of regulations and the European taxonomy is forcing financial institutions to step out of a ‘wait-and-see’ position. Many players are aware and starting to structure an action plan and capacity building to tackle the nature issue, while still deferring internal investment and resources deployment on the topic of nature until some consistent sector-wide standards and frameworks emerge.

The understanding of “nature-related risks and opportunities” varies from one organisation to another, with most financial institutions focusing on managing reputation risk resulting from gaps in regulatory compliance and/or which may result from investments that may impact emblematic ecosystems or species, biodiversity hotspots (such as the ‘IUCN key biodiversity areas’, critical habitats, and emblematic designated areas such as the ‘UNESCO World Heritage sites’ and ‘Ramsar sites’). Few organisations are using a “dependency” approach to assess portfolio dependency on nature. Fewer still use a comprehensive approach to ‘do no harm’ and ‘invest into’ the conservation and enhancement of biodiversity, ecosystem services, and natural capital.

Awareness of the issue has risen in the last three years, but attention and resources allocated to sustainability have largely been focused on climate and other ESG aspects that require attention from financial institutions (such as human rights.) As a result, nature is starting to be explicitly recognized as a priority issue.

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6 Some financial sector organisations also refer to their “greening finance” (i.e. reducing risks and impacts to nature in their conventional business) and “financing green” (i.e. seeking to finance or invest into assets/projects that are specifically intended to generate positive impacts on nature).
This is illustrated by the fact that, contrary to the climate and energy transition, nature is rarely presented as a priority ESG component per se but listed as one dimension of environmental policies.

In this context, the launch of the TNFD in June 2021 has contributed to raising attention from decision-makers and the public on the topic of nature-related risks and impacts. The Taskforce is raising awareness on nature loss and nature-related risks, impacts and opportunities for business. This is largely due to its dynamic communication policy with strong resonance in the business media, ability to mobilise influential corporate and financial organisations as taskforce members promoting an open innovative approach, active communication with the TNFD Forum, and also building on the popularity of the TCFD. Evolving regulatory requirements on sustainability reporting, for example in France with the coming into force of article 29 of the law on energy and climate in 2022, have contributed to increasing interest in the TNFD as emerging potential overarching framework for nature-related disclosures.

There is also a common recognition among the interviewees that financial institutions need to enhance their capabilities to understand, communicate, and mainstream the consideration of nature within the organisation. This means some investment in staffing, external support, and the enhancement of ESG policies.

Financial institutions also acknowledge the need of nature-specific training to improve their capacity to address the nature dimension and their internal understanding of biodiversity concepts definition throughout the organisation across business functions, beyond the ESG or sustainability team. This knowledge needs to be “mainstreamed” and operationalised for each relevant position (senior management, risk management, credit rating, innovative financial product design, etc.) so that nature becomes a de facto dimension considered in decision-making, strategically as well as operationally. Some leading financial institutions have already taken tangible steps towards such mainstreaming. Many financial institutions appear to seek external advice and support to improve internal capacity.

The minority of financial institutions that are most actively engaged on nature fit in three main categories:

- Multinational financial groups with a global portfolio of assets and varied sector exposure, with ambition to be recognized as “early movers” on nature and (before that) climate, in response to a strengthening regulatory context (particularly in the European Union), also driven by public reputation;

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7 The World Economic Forum (WEF)’s latest issue of the Global Risk Report in January 2022 also contributed to raising the importance of climate change and nature on the decision makers’ agenda, with “Climate action failure”, “Extreme weather”, and “Biodiversity loss” being ranked as the most severe risks on a global scale over the next 10 years—see weforum.org/reports/global-risks-report-2022/

8 Article 29 of the French law on energy and climate (Loi n° 2019-1147 du 8 novembre 2019 relative à l’énergie et au climat) establishes a mandatory reporting and disclosure requirement for corporate and financial organisations on their contribution to, and management of, risks and impacts associated with climate change and nature loss. See tresor.economie.gouv.fr/Evenements/2021/07/07/decret-d-application-de-l-article-29-de-la-loi-energie-climat-quetelles-avancees.
Financial institutions strongly exposed to certain geographies or sectors where climate- and nature-related risks are domestically or regionally important (e.g. in South Africa, Australia, South Asia); and

- Impact asset management entities recognizing the business opportunity of investing positively with regards to sustainability.

For these three categories, the primary driver of strategic change is board-level commitment and top-down leadership. This is an important condition for financial institutions to achieve a cultural shift in the integration of sustainability-related issues in the business, moving from a “compliance” approach to a more proactive “risk management and business opportunity development” approach.

For the most engaged financial institutions, this has allowed organisational changes whereby the sustainability function is recognized as a “business support hub”, supporting the client, sector and risk teams in business development, transactions, and subsequent portfolio management. This has allowed to change the perception of sustainability for the organisation’s business, allowing to recognize how sustainability-related issues can generate material risks for the business, as well as how sustainability may provide an area for investment and business growth. In many organisations, there is a steadily rising level of leadership on, and in some instances accountability for, the development and implementation of strategies on sustainability, climate change and nature. This contrasts with other less engaged financial institutions where sustainability tends (as has been the case historically) to be confined to compliance and risk management and acting as a “gate keeper” in the deal process.

Some of the more engaged financial institutions have initiated a process to reinforce their resources specifically on nature, via external recruitment, internal awareness and training programmes, and engagement with third party service providers and data providers.

This form of cultural and organisational shift is much needed for the financial sector to embrace nature and implement practical commitments on nature-related risks and opportunities tracking and reporting.

**Recommendations:**

- The TNFD should keep engaging with the C-suite and board-level of financial institutions, to advocate for the integration of nature at the top of the board’s sustainability agenda. This should include advocating for recognizing the materiality of nature-related risks and opportunities, and the importance of adopting a consistent sector-wide framework for tracking and reporting of nature-related risks and opportunities.

- In parallel, the TNFD should continue engaging with other levels of the financial institution to improve awareness, buy-in, and understanding of the nature dimension, both from the point of view of risks and opportunities.

- The TNFD should contribute to helping organisations overcome the technical or commercial barriers to adoption that financial institutions face, real or perceived. This is already done to some extent through the guidance the TNFD has published along-
side its framework, pilot testing programme (which is expected to ramp up as of the second half of 2022), as well as with the engagement and support of the ecosystem of organisations working in the biodiversity field and assisting financial institutions with biodiversity mainstreaming.

- Following the TNFD beta framework release with clear definition of basic concepts to be used by market participants, the TNFD should continue to strengthen its engagement with other initiatives to align on concepts definition to spread a common language and facilitate adoption of any standards, methodology and framework without any terminological barrier. 9

**Fostering gradual market transformation, collective action and mainstream uptake**

**Promoting the TNFD across all sectors, and leveraging regulatory shifts towards mandatory disclosures**

The success of the TNFD is in part dependent on collective adoption by organisations in the financial sector to support a sector-wide shift to realign investment with the nature protection.

Most interviewees insisted that this requires the TNFD to be promoted and supported by influential personalities and organisations, that may convince and drive decision-makers within financial institutions to invest in the adoption and implementation of the TNFD framework—as per the precedent set with the TCFD being developed and promoted by the Financial Stability Board.

Also, as of June 2022, there are initiatives from some public development banks to address nature more specifically within their mandate—partly as part of their own initiative and in the wake of the Joint Statement on global leadership of public development banks (PDBs) to address biodiversity loss, issued during the Finance in Common Summit of November 2020. 10 Within the larger group of PDBs, some international development finance institutions operate with an advanced level of knowledge and experience on the application of biodiversity related safeguards, and the climate, and nature-related impacts or co-benefits in their financing. The French Development Agency (Agence Française de Développement or AFD as per its acronym in French) is specifically appointed as knowledge partner for the coordination of public development finance interactions with the TNFD. The International Development Finance Club (IDFC) working group “Making Finance Work for Nature” is also working on the integration of nature within development finance decision-making process. 11 Central banks and financial regulators are also starting to recognize the importance of nature-related risks and impacts in the context of financial stability, as illustrated by recent communication from

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9 It is already the case with the Finance for Biodiversity initiative relying on the TNFD terminology in their latest issuance of reports and guidance, e.g. in The Climate-Nature Nexus report, April 2022, accessible at [f4b-initiative.net/publications-1](http://f4b-initiative.net/publications-1).


the NGFS\textsuperscript{12} as well as publications by Banque de France\textsuperscript{13} and Der Nederlandsche Bank (DNB)'s working group on biodiversity,\textsuperscript{14} and the World Bank's study on nature-related financial risks in Brazil.\textsuperscript{15}

Survey participants also clearly recognized that regulation is a paramount driver for enhancing the tracking and reporting of nature-related performance. Governments have a major role to play in setting common minimal requirements for financial institutions and support the development of a “landscape” for investment in nature-related opportunities, and active mitigation of nature-related risks. This was clearly reflected in feedback received from financial institutions in EU countries, such as France and the Netherlands, which are actively implementing the European Union’s SFDR in their national regulatory frameworks.

\textbf{Recommendations:}

\begin{itemize}
  \item The TNFD needs to be promoted by (an) influential “ambassador(s)”, who can motivate senior decision-makers in the financial sector, corporate businesses, and policymakers, to collectively embrace the standard, fostering board-level leadership and top-down buy-in. As was the case for the TCFD, these ambassadors should include influential personalities, international financial regulators such as the FSB, as well as public development banks, central banks and governments. The recently launched pilot testing programme is also providing opportunities for influential financial institutions, or groups therefore, leading the movement in support of the development and ultimate mainstreaming of the TNFD framework.
  
  \item Regulation is a key driver for change. This is illustrated by the response of various EU-headquartered financial institutions to the EU’s SFDR and its country-level implementation process. The TNFD should engage with governments, supranational bodies and policymakers to influence the regulatory agenda on the TNFD and nature-related financial disclosures.
\end{itemize}

\textbf{Building the case for the climate-nature nexus}

Most survey participants reported that the adoption and implementation of the TCFD had been transformational for their organisation, influencing the business strategy, triggering policy and organisational change, and mainstreaming climate change risks within the organisation.

This is clearly illustrated by the various commitments to “net zero” that were publicly taken by various financial institutions in 2020 and 2021, in particular the Glasgow Finan-
cial Alliance for Net Zero (GFANZ), a global coalition of leading financial institutions, launched as part of COP26 in Glasgow in November 2021, and committed to accelerating and mainstreaming the decarbonisation of the world economy and reaching net-zero emissions by 2050. A major announcement was also made at the Leaders’ summit that took place at the beginning of COP26, under the form of the Glasgow Leaders’ Declaration on Forests and Land Use, signed by more than 130 countries promising to “work collectively to halt and reverse forest loss and land degradation by 2030”.

Many survey participants recognized that climate and nature are essentially “two sides of the same coin” with very clear linkages. They insisted that the TNFD should continue raising awareness on this climate-nature nexus. Participants also reported that this isn’t always obvious to risk teams within their organisation—highlighting the need to train and raise awareness, using such tools as ENCORE to explore nature-related impacts and dependencies and develop a common view of material nature-related aspects for key sectors.

There are important linkages between nature and climate. We are seeing nascent awareness of this.
In articulating our climate ambition, we included a component on nature-based solutions.

The TNFD is making use of processes already adopted as part of the TCFD to optimize the implementation effort and reduce the burden of creating new commitments, policies and processes for the purpose of “yet another” set of sustainability-related commitments. Several survey participants reported that their organisation is experiencing some “commitment fatigue” on sustainability-related aspects and could be reluctant to adopt “yet another framework” following efforts done to implement the TCFD and other reporting commitments such as the PRI.

Recommendations
While the TNFD cannot be an exact replica of the TCFD process and framework, given the specific implications and complexities of nature compared to climate, the TNFD should continue to be aligned and use all opportunities to build on the Climate-Nature nexus and the TCFD by:

- Integrating lessons learnt from the TCFD development and adoption process;
- Exploring all opportunities to make use of conceptual and methodological synergies with the TCFD, so as to avoid creating a “new reporting obligation” but instead integrate with the existing reporting commitments stemming from the TCFD;

16 gfanzero.com/
17 ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/
Ensuring that the TNFD “builds” upon the infrastructure already developed for the TCFD, and to take advantage of internal assessments, tracking, and reporting, based on the methods and processes already in place to address the requirements of the TCFD. The TNFD framework is already developing in this direction, using a four-pillars based structure consistent to that of the TCFD (Governance, Strategy, Risk management, Metrics and Targets). There is also a field of opportunity in this regard with the development of scenarios for nature-related risks and impacts analysis (as anticipated in the late 2022 and early 2023 iterations of the beta framework);

Using the many Climate-Nature linkages in investment portfolios (particularly those associated with deforestation, land conversion, carbon storage, nature-based solutions), which may facilitate analysis, tracking and reporting of risks and opportunities both for the TCFD and the TNFD.

Balancing the challenges associated with the complexity of nature-related risk with business opportunities

Overcoming the complexity associated with nature with a better-defined approach to nature

Survey participants reported that there were daunting challenges in demonstrating and quantifying the links between scientifically proven nature-related risks and impacts, and the resulting financial and economic risks. Participants also reported that not everyone within their financial institution was yet bought into the principle of assigning a materiality rating to nature-related risks.

Common objections include the fact that reporting on nature-related materiality could impact the valuation of some assets in the portfolio, strain some client relationships, and impact the organisation’s competitiveness in a market where not all financial institutions will recognize this definition of materiality (thereby creating an “unlevel playing field” that may favour financial institutions that are least engaged on nature), and where the associated opportunities are still poorly understood and identified.

The TNFD should help bridge scientific evidence with financials and economics.

There are also concerns that the intrinsic complexity and diversity of nature will be a deterrent when organisations look to analyse their exposure to nature-related risks and opportunities.

Other important challenges perceived by financial institutions appear to be:

- A lack of publicly available use cases for financial institutions, to support a practical understanding and acknowledgement of the importance of, and process for, assessing and reporting upon nature-related risks, impacts and opportunities. The TNFD is proposing to develop sector-specific guidance in the iteration of the beta framework,
and is also developing some use cases, such as the previously published on soy. Eventually the pilot testing phase is meant for financial institutions to test the TNFD, understand what their outcome can be, and share with the market to build these use cases and processes. UNEP FI has also published a report on how to leverage public nature-related data for disclosure frameworks.

- A need for further guidance on scenarios, as it is challenging to define metrics and targets as well to structure reporting without having baselines and scenarios set up (the TNFD is expecting to release further guidance on scenarios as part of its third and fourth iterations of the beta framework).

These are amongst the priorities for the TNFD for the second half of 2022 and 2023, with the pilot testing programme effectively ramping up following the second iteration of the beta framework in June 2022, and iterative issue of the LEAP approach with further guidance on metrics, data, scenarios—effectively giving the market prospects of an enriched framework and more granular technical guidance over 2022–2023.

The TNFD must be collectively adopted as a robust framework for genuine and consistent reporting. Departing from the model of the TCFD, the TNFD includes not only risks to organisations resulting from portfolio exposure to nature, but also risks associated with impacts of organisations onto nature. It also aims at addressing the organisation’s value chain, both upstream and downstream, drawing where relevant from life cycle analysis (LCA) approaches.

Recommendations:

- The TNFD should continue strengthening the business case for recognizing the financial materiality of all nature-related risks and impacts, taking into consideration risks for the business as well as risks and impacts resulting from the business on nature, across the value chain. The TNFD should use this message for engaging with the financial sector at board level and business level to “mainstream” the acceptance of nature-related risks and their materiality in the asset allocation and portfolio management processes. This is already partly addressed in the recent issues (March and June 2022) of the TNFD beta framework and associated LEAP approach, which builds the case for companies to assess the materiality of their own nature-related risks and impacts within their activities and in their value chain.

- A recognized challenge for financial institutions undertaking a pilot testing or looking at the beta framework is their limited understanding of what a robust assessment of nature-related risks and opportunities look like in practice. While concepts are starting to be understood, some financial institutions do not necessarily have a clear understanding of expected outcomes. This observation calls for the need of real-industry examples and case studies to guide piloting institutions through their internal processes.

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18 Learning from soy supply chains, UNEP FI and Global Canopy, accessible at globalcanopy.org/wp-content/uploads/2022/02/Learnings-from-soy-supply-chains.pdf
- The TNFD should engage on a global scale, including with institutions and jurisdictions that are currently less engaged or perceived as less advanced on sustainability and nature (as well as with policymakers and regulatory entities as per the previous recommendations). This should form part of a combined effort to “level the playing field” so that nature-related materiality becomes integrated in credit risk and investment decision making processes and balancing ease of reporting with robustness and credibility. This continued engagement should be further promoted through the TNFD beta framework pilot testing period over 2022–2023, during which no formal compliance to the TNFD is being required from market participants, meaning that organisations may use a “no commitment approach” to test and understand how to apply the TNFD guidance. The TNFD must account for the varying levels of resources and capacity available among financial institutions and incentivise the most advanced ones to lead the way.

- The TNFD should continue engaging on all markets, including with emerging and developing markets, to promote the integration, globally, of the nature dimension and avoid asymmetry between “northern hemisphere” and “southern hemisphere” financial markets, also continue its efforts to engage inclusively with all players of the financial community.20

Emphasizing the business opportunity of mainstreaming nature in the financial institution’s strategy

Some survey participants were enthusiastic about the opportunities related to sustainable investments, conservation finance and nature-positive finance—which are perceived as an area of business growth and revenue generation for those financial institutions that have already invested in nature.21

Some participants also highlighted that their organisation’s investment in sustainable financial services proved to be attractive for investors, including institutional investors, asset managers and wealthy individuals, seeking to invest in environmentally and socially responsible assets.

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20 Consistent understanding of nature-related risks, impacts and opportunities between developed and developing markets is also needed to reduce the asymmetry between the market offering of investable assets with potential opportunities for nature (and/or adequately managed risks and impacts on nature), and expectations from financial organisations surrounding the investability of such assets.

21 The same participants also recognized the challenges associated with “impact investing” focussed on nature (largely focussed on the agriculture, agroindustrial and agroforestry sectors), including the need to demonstrate the investability of innovative models of revenue generation, to scale-up projects and assets, and for an encouraging regulatory and market landscape supporting the competitiveness of such projects against “traditional” intensive agriculture models.
The key to success is demonstrating that good natural capital management leads to more robust and sustainable financial performance. We have demonstrated this with certain sectors of our agricultural portfolio and are continuing to invest in research into the remaining sectors.

**Recommendations:**

- The TNFD should continue making use of success stories, proven examples of nature-related commercial opportunities, case studies on the practical implementation and scalability of nature-positive investments, to demonstrate that the framework is not only about identifying and managing risks for the organisation, but also about growing the business on innovative and possibly commercially rewarding financial services (in addition to contributing to the reversal of nature loss and to building a more sustainable and resilient future for society and our planet).

- This approach should form part of the TNFD’s engagement program at various levels in the financial sector, from board-level leadership to the business, creating a “positive” culture based on proactive understanding and management of nature-related risks and impacts, and the recognition of the benefits for business of developing nature-related opportunities.

- The TNFD should continue supporting the financial sector with broad identification of the type of opportunities within their business, as it is a new perspective on business and nature. This is necessary to help level the playing field as the opportunity side is mainly of interest for leading actors with consequent resources and not yet accessible on more standards financial institution which are still primarily using a risk management (rather than positive opportunity development) approach to nature.

**Data, metrics and qualitative reporting**

Working with the market to overcome the “metrics and data” challenge, and support the emergence of solutions

The majority of survey participants viewed the lack of commonly accepted metrics as a key challenge for nature-related tracking and reporting. Most interviewees reported that their organisation essentially relied on investment-specific analysis using online databases such as IUCN’s Integrated Biodiversity Assessment Tool (IBAT) or UNEP-WCMC’s ‘Protected Planet’, or deal-specific due diligence to assess nature-related risks and impacts as part of the asset allocation process. There is very limited offer of processed data from extra-financial data providers, making portfolio-wide screening, tracking and reporting difficult for asset managers.
In their search for and analysis of detailed data to conduct nature-related risks assessment, financial institutions also often largely rely on their clients and investees to provide such data, especially regarding location data. The level of detail of data required is often unclear for financial institutions to understand if they have enough to start an assessment or not. This is contributing to a “wait and see” behaviour rather than trying to engage on a basic assessment and reporting.\(^{22}\)

Survey participants therefore expressed some strong expectations for the TNFD to help identify, gain access to, and make sound use of, relevant metrics and data.

Some participants also highlighted that the TNFD should also provide a framework for financial institutions to demonstrating the robustness and traceability of data reported on exposure to nature-related risks and opportunities.

As part of the release of the beta framework v0.1, the TNFD issued a discussion paper, ‘A Landscape Assessment of Nature-related Data and Analytics Availability’\(^ {23}\) including a list of characteristics for decision-useful data: Relevance; Resolution and scalability; Temporality; Frequency of update; Geographic coverage; Accessibility; Comparability; Thematic coverage; and Authoritativeness, including traceability.

For the second iteration, the main progresses related to the TNFD’s approach to metrics and targets, including the overarching architecture for indicators, metrics and targets, draft guidance and illustrative set of indicators and metrics for the assessment of dependencies and impacts. The TNFD has unveiled a distinction between ‘Assessment Metrics’ and ‘Disclosure Metrics’, and starting with cross-sector metrics, aligning with the TCFD.

The TNFD should set the framework for analysis and reporting. Defining the right metrics and getting the right data is important for reporting to be robust and consistent, but there may be several valid approaches to that, some of which are being developed under various initiatives. A multiplicity of models may drive emulation and performance.

Interviewees stressed that the TNFD’s role is not about developing metrics and data processing methodologies—there are already various initiatives for developing metrics and nature-specific data. Some of these are piloted by financial institutions or groups of financial institutions, think tanks, academia. Commercial data providers are also working on how to develop and source data on nature as part of their ESG rating methodologies.

\(^{22}\) Again, the second and third iterations of the TNFD beta framework are expected to include more definition on guidance for financial institutions as part of a “LEAP-FI” version of the TNFD LEAP guidance.

The TNFD has an important role in defining the minimal requirements for reporting in terms of metrics and data quality—thereby setting a requirement for credible reporting, using a widely accepted, robust approach. At this stage, the second version of the LEAP approach published as part of the June 2022 iteration of the beta framework provides primary guidance on indicators and metrics to assess dependency and impact. It is expected that forthcoming iterations will improve the framing of appropriate metrics and data for assessment risk and opportunities, and later for disclosure. However, it seems unlikely that the guidance should constrain the market to using one or a very limited few approaches. Diversity may prove to be an opportunity to foster a sound level of competition and, ultimately, excellence.

To support the development of the field of nature related-data, analytics and tools the TNFD has launched the Nature-related Data Catalyst in July 2022. According to the TNFD, “the Nature-related Data Catalyst brings together a range of actors from across the nature-related data landscape to identify shortcomings in current nature-related data and analytics, and recommend ways to accelerate the development of, and access to, nature-related data, analytics and tools. The overall aim is to improve the ease, speed, and scale of adoption of the TNFD framework, once the Taskforce launches their final recommendations in September 2023.”

The TNFD should insist first on the large availability of data, but the lack of structure, and second that data is not essential in the first steps of the TNFD adoption, so it shouldn’t be an entry barrier. Today’s lack of structured data should be viewed as a challenge, that will progressively be overcome as organisations integrate nature-related risks and opportunities across the business.

| Nature-related data is a challenge, not an excuse. |

Recommendations:

- The TNFD should engage with the various stakeholders currently working on metrics and data, to be attuned with emerging methodologies and approaches and ensure that the TNFD framework has an appropriate level of consistency to allow for effective tracking and reporting using the metrics and data that become available on the market.

- Where relevant, the TNFD may also influence the development of metrics and data to ensure an appropriate level of consistency, technical robustness, and traceability of the data that will ultimately be used in the TNFD reporting process.

- In the upcoming iterations of the beta framework, the TNFD should also progress on the development of scenarios to guide the development of data and metrics in line with timed targets for reporting.

Recognizing the value of combined quantitative and qualitative reporting

Whilst the focus on metrics and data is justified, the TNFD should also consider the

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24 Further information available at tnfd.global/data-catalyst/
importance of qualitative reporting—this includes, for instance, a large part of the information on the strategic pillars of governance and strategy. This may also apply, to some extent, to the analysis and reporting of impacts from the organisation onto nature, and the contribution of a given investment to sustainable development. Note that the integration of nature into the organisation’s strategy and processes may generate positive impacts on dimensions beyond nature, including (for instance) climate and communities wellbeing—these may be reported in a qualitative or semi-quantitative manner, with reference to the Sustainable Development Goals.

Recommendations:
- The final version of the TNFD framework should not solely rely on quantitative reporting requirements. It should also recognize the usefulness of qualitative information, particularly with reference to the Strategy and Governance pillars of the framework. Qualitative information, so long as it is verifiable and of high quality, may also be a valid to report on impacts from the portfolio onto nature and on various other related dimensions of sustainability.
3. Financial sector landscape overview
3.1 The varying rationale for engagement on sustainability and nature

It is important to contextualize financial sector engagement with nature-related risks and opportunities against the backdrop of more general adoption of sustainability in financial markets. As a sector, finance is heterogenous in nature, made up of differing subsectors like banking, asset management and insurance. Within these subsectors, the underlying financial institutions are influenced differently by their respective geographic locales and the regulatory umbrellas under which they operate—and, indeed, by their exposures to differing asset classes and lending portfolios. This is reflected in the differing categorization of risk exposure—reputational, credit and regulatory risks—and why engagement in sustainability has not been uniform across the sector, understandably differing from subsector to subsector and region to region.

Arguably the banking and insurance sectors, in particular banks with project finance and corporate/SME businesses with exposure to sectors like agriculture and mining, have a greater appreciation and pressing need to understand and measure nature-related risks and dependencies. Their credit and reputational risks are higher in relation to negative nature-related exposure. For example, a bank with a large project finance loan book in tropical agribusiness or large-scale mining in biodiversity-rich regions of Latin America or sub-Saharan Africa will have had greater exposure and necessity to engage with environmental considerations than a European investment bank operating predominately in developed markets. Similarly, banks which lend to SMEs in locations where ecosystem degradation can have a tangibly adverse impact on a client’s business—like agriculture in Australia or mining in South Africa or Peru—have a more pressing need to understand relevant metrics to assess default risk versus an asset manager investing in large capitalisation multi-nationals.

In contrast, a global investment bank which originates, structures, distributes and manages the risk of market products with an institutional client-based model, meeting their investment and risk coverage needs, is likely to have a less direct perception of nature-related risk exposures. That is not to say there aren’t any exposures, but as a proportion of total business they will be less material and therefore have less priority. Within these organisations, reputational risk exposure management and regulatory risks/shocks towards mandatory disclosures are likely to be the main drivers for change, as suggested by the ambitious efforts to integrate various sustainability dimensions by market-leading European investment banks.

The asset management subsector has a different structural dynamic to banking, although reputational and regulatory risks are high priority drivers of engagement. Three significant subsectors of asset management—sovereign wealth, hedge funds and high net worth individuals—have lagged engagement as the appetite of end clients has been weak or ill-defined. Conversely pension funds and private equity subsectors in asset management have shown more progressive intent. This has been driven largely by credit and regulatory risk in the case of private equity and pension funds (for the latter, the prudential imperative for long-term sustainability of investments is also an important factor for the consideration of the materiality of nature-related risks in the portfolio).
Financial institutions can also be differentiated through the extent to which they have detailed access to data over these assets. Data is an important consideration for nature-related risks assessment, and there is a rising call to enhance access to location data. Thus, financial institutions which operate in project or asset-based finance will have a significant advantage in terms of data availability than others.

There is no doubt that there are pioneers and market leaders in each subsector, and this is not to rank different sectors of finance as more progressive than others. However, it is important to highlight the real differences amongst various types of financial institutions, and the realities in risk assumptions which would account for their level of engagement now.

General support to the TNFD over the past 12–24 months, and growing awareness of nature-related risks and impacts across the market, and the financial sector in particular, suggests that nature is rapidly joining climate as a key sustainability-related issue. This suggests a positive future for the TNFD in terms of broad market support and adoption.

### 3.2 Governance and policies

All participants reported that there was a growing degree of awareness on sustainability in general, and climate in particular, from their Senior Management. Most participants reported that their CEO, and other C-suite members, had taken a leading role in promoting and embedding sustainability as a core value within the business. This trend gained further momentum since the Paris agreement and the subsequent launch of the TCFD, which (along with other sector frameworks such as the Equator Principles, the Principles for Responsible Banking, the Green Bonds Principles, the Natural Capital Declaration), contributed to “raising” sustainability or ESG (with particular focus on climate) from being a “sustainability team” topic, to now becoming an important C-suite agenda item.

Survey participants report that sustainability imperatives have become recognized at most levels of the organisation, with sustainability no longer perceived as a “niche” topic for the sustainability team to manage, but as an important dimension for the organisation’s present and future business. The more advanced financial institutions report that the sustainability team is now acting as a “sustainability hub” or “resources centre” supporting the entirety of the business, as opposed to being perceived as a “safeguards office” mostly active as a gatekeeper in the deal process.

All survey participants reported that their financial institution had adopted a sustainability policy. Initial adoption dates to the 2000s, but the policy had been regularly updated, with recent updates in the past 12 to 24 months. Most sustainability policies consulted as part of the survey refer to:

- Responsible banking and general environmental and social governance;
- Climate;
- Other environmental aspects, including pollution, biodiversity, water;
- Social aspects including (with varying levels of granularity) fair labour, community acceptance, social and economic development, inclusion, protection of vulnerable people.
Save for a minority of organisations, nature-related risks and impacts are not addressed per se in a specific policy statement.

- Most financial institutions in the study group include a commitment to managing impacts on biodiversity in their corporate banking investments, particularly in project finance and project-related corporate financing, where the application of the Equator Principles calls upon the International Finance Institution (IFC)'s performance standards (including IFC Performance Standard 6 on Biodiversity Conservation and Sustainable Natural Resource Management.)

- Most financial institutions in the study group use an exclusion list barring investment in designated natural areas, such as UNESCO World Heritage sites and Ramsar wetlands.

Most financial institutions use sector policies that specify, as prerequisite to investment into certain sectors, that the clients and investee companies comply with international certification schemes with diversity-related safeguards, such as RSPO for palm oil or FSC and PEFC for forestry.

Until recently, financial institutions have appeared to lack a consistent definition of the term “nature”—with most organisations referring to a combination of the terms “biodiversity” (the variety of species living on earth), “ecosystems” (communities of living organisms and their environment) and “ecosystem services” (the various benefits provided by ecosystems to nature itself and to human society). The terms appeared to be used mostly in an “impact management and safeguards” perspective. The materiality of nature-related risks and impacts for organisations is yet poorly recognized. This lack of a common standard means that there is a wide margin of interpretation for nature-related risks and impacts, leaving each organisation to define and communicate on its nature-related commitments, without a clearly defined framework for demonstrating the “greenness”, effectiveness and robustness of their approach. The launch of the beta framework in March 2022 has in parts helped address this lack of clarity in terminology by proposing definitions of central concepts which has enabled a sector-wide consensus on the meaning of concepts used around biodiversity and nature.

In some jurisdictions, regulation clearly plays an important role for the acceptance, and integration of, sustainability-related (and nature-related) considerations in the business strategy and public reporting approach. Most survey participants from organisations headquartered in the European Union acknowledged that the imminent translation into national regulations of the European Union's SFDR—generating reporting obligations on sustainability in general, including climate and nature in particular—was an important incentive to improve their tracking and reporting of nature-related risks and opportunities.

The COVID-19 crisis generated an awakening of public opinion on the impacts and consequences of human encroachment into natural ecosystems, and human-induced erosion of biodiversity. Yet, despite the tremendous human and economic toll of the pandemic, feedback from survey participants suggest that the impact from the crisis on the business performance of their organisation was somehow limited, questioning the extent to which the crisis will effectively trigger a change in the perception of nature-related risks and opportunities, and the materiality of exposure.
3.3  **Linkage with climate and the TCFD; strategy for future adoption of the TNFD**

Virtually all survey participants related the discussion on the TNFD to their experience of adopting and implementing the TCFD.

All participants reported that their organisation had made significant progress on the analysis, tracking and reporting of climate-related risks. The more advanced financial institutions included a consideration 1.5°C to 2°C global warming pathways in their business strategy for the coming two to three decades, with ambitious commitments being publicized on:

- The incorporation of an ESG and climate-related weighting in the financial profile of the investment, influencing the commercial conditions of a proposed investment;
- The reduction, if not complete phasing out, of investment in the most intensive greenhouse gas emissions sectors; and
- Supporting sectors in favour of the transition to a low carbon economy (renewables, sustainable agribusiness solutions etc).

The TCFD adoption process, and subsequent implementation of a climate exposure analysis, tracking and reporting process, has proven to be an important learning opportunity for organisations. In particular, this has contributed to raising the profile of climate-related issues beyond the sustainability team, and to generating buy-in within other departments or divisions such as the frontline team, sectors, and risk.

The recognition of climate change-related physical and transition risks, and their analysis and tracking in investment materiality terms, has helped prioritize climate in the credit risk analysis process. This is progressively making an impact on the asset allocation process, towards investments less exposed to climate-related risks. Participation in climate stress tests (e.g. as organized by the French prudential control authority ACPR in 2020) helped shift perceptions of climate-related risks and improve buy-in from the risk teams.

**There is increasing client demand for more sustainable products and services with greater emphasis being placed on biodiversity. Financial institutions need to take advantage of this generational shift.**
Interviewees from the more advanced financial institutions made consistent statements about the “opportunity side” of recognizing climate- and nature-related risks and opportunities:

- Greener deals tend to attract investors and generate business growth;
- The greening of the portfolio tends to improve the sustainability profile of the institution and attract investment from asset owners;
- The ongoing gradual transition to a low carbon economy is rewarding financial institutions that invest in the expansion of this market. It is likely that a similar effect will occur as part of a gradual “nature transition”.

The TNFD should demonstrate the business opportunities and value creation resulting from better tracking and reporting on nature. The financial sector needs to see a strong business case.

### 3.4 Risk management

Only a handful of financial institutions have genuinely started using a holistic approach to consider nature-related risks and opportunities into the investment strategy and asset allocation process. However, most survey participants strongly agreed that nature was “next on the list” as a key sustainability-related dimension to mainstream within the business.

Most participants expressed confidence that their organisation would progressively follow this trend, building on their experience of the TCFD.

None of the survey participants report that nature-related dimensions are considered in the asset valuation process and the credit risk rating process (as opposed to climate change, where physical and transition risks are being more specifically considered via a climate-specific risk rating that is taken into account in the transaction).

Most survey participants confirmed that their organisation considers sustainability risks in the decision-making process:

- For project finance and project-related corporate finance, the use of commonly agreed safeguards (IFC Performance standards) and institution-specific sector policies and exclusion lists under the Equator Principles. The actual process may range from a documents-based risk review to a detailed due diligence process, depending on the risk profile of the investment (identified at initial screening stage). A similar process (albeit not strictly under the scope of the Equator Principles) may be used as part of certain private equity investments.
- For listed equity investments, data from extra-financial rating agencies, supported by a client engagement.
- For sustainable investment funds and green bonds products, early-on definition of sustainability investment criteria, supported by (depending on the risk profile of the
investment) a combination of the above.

The LEAP approach published as part of the TNFD beta framework provides market participants with some initial guidance on identifying, analysing, reporting, and considering a response to, nature-related risks, impacts and opportunities. This includes a LEAP-FI guidance specifically tailored to financial institutions differentiations in asset classes, levels of influence and data, level of aggregation in their portfolio and it includes a preliminary scoping phase to the standard LEAP approach. The LEAP-FI recognizes that financial institutions will have different entry points in the assessment of nature-related risks. The second iteration of the beta framework details the scoping phase into three questions relating to the type of business, entry points and type of analyses. Further guidance should become available to financial organisations to link their analysis of risks, impacts and opportunities, with their current and future management response.

3.5 **Nature-related metrics and targets**

The lack of commonly agreed metrics on nature is widely reported by survey participants as a key challenge and a barrier to progressing towards a more consistent framework for analysis and reporting on nature-related risks and opportunities.

Organizations predominantly focus on the assessment of impacts from assets on nature, particularly on project finance or similar financial services. Metrics being used for aggregate reporting are mostly related to financed amounts (e.g., total amount of sustainability linked loans or green bonds offerings) and/or number of portfolio clients or assets with expected positive impacts on nature.

There is far less consistency in the consideration of transition and physical risks resulting from nature-related dependencies:

- Financial institutions who have integrated positive finance into their business, as well as impact investors, use all opportunities to characterize positive impacts of their investments into nature (impact funds, green bonds, investments into regenerative agribusiness solutions, etc). The analysis is mostly qualitative, backed by project-specific, or geography-specific, quantitative indicators (e.g., hectares of deforestation avoided, ha of land regenerated, financial amounts invested into nature-positive projects).

- Most organisations rely on a combination of client engagement and third party extra financial ESG ratings to issue an internal ESG rating or “sustainability opinion” for consideration in the investment process.

There are recent initiatives to support the development, and ultimate common adoption, of a consistent metric to characterize portfolio exposure to nature-related risks and impacts (see the recently revised Guide on Biodiversity Measurement Approaches recently published by the Secretariat of the Finance for Biodiversity Pledge25). This

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includes, in particular:

- The Align project, which aims at aligning accounting approaches for nature, is developing standards on biodiversity measurements and valuation for business and financial institutions.\(^{26}\)

- The Partnership for Biodiversity Accounting Financials (PBAF) is a group of financial institutions partnering to develop a standard to measure their impact on biodiversity. The Standard v2022 was launched an address their approaches and impact assessment footprinting.\(^{27}\)

- ASN Bank’s Biodiversity Footprint for Financial Institutions (BFFI) tool, based on sectoral analysis and an input/output model, using the “PDF.m2 metric” (PDF meaning “potential disappeared fraction of species”).\(^{28}\)

- A recent initiative by AXA, AIM, BNP Asset Management, Sycomore Asset Management, and MIROVA, who, following a tendering process, have jointly mobilized the consultancies Iceberg Data Labs and I Care & Consult to develop and pilot a specific biodiversity footprinting and analysis tool, based on Iceberg Data Lab’s in-house methodology, using the MSA.km² metric.\(^{29}\)

- BNP Paribas has partnered with the CDP to develop common biodiversity metrics to bridge the data gap between companies and financial institutions.\(^{30}\)

- The development, by CDC Biodiversité in France, in collaboration with ASN Bank and ACTIAM, of a Global Biodiversity Score (GBS), also relying on the MSA.km² metric.\(^{31}\)

- Various participants referred to Kering’s Environmental Profit & Loss (EP&L) model, using, among other indicators, hectares of land used by its portfolio assets.\(^{32}\)

- The IUCN STAR\(^{33}\) metric (launched in 2021 and being iteratively improved) quantifies the potential contribution of specific threat abatement and habitat restoration actions, or the sum contribution of multiple actions, to reducing extinction risk. This metric will be primarily available to organisations via the IBAT tool. None of the survey participants referred to this approach as part of this assessment. However, some participants referred to IBAT as a tool used for screening of biodiversity risks and impacts as part of project finance, or project-related corporate financing—suggesting some potential for STAR to be used as it becomes more widely available. There are indications that the STAR approach is receiving increasing interest from market participants, and it is being considered in practice as a biodiversity impact metric as part of certain investment funds such as the IUCN/MIROVA/GEF and CPIC Nature.

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\(^{26}\) Available at [ec.europa.eu/environment/biodiversity/business/align/index_en.htm](http://ec.europa.eu/environment/biodiversity/business/align/index_en.htm)

\(^{27}\) Available at [pbafglobal.com/standard](http://pbafglobal.com/standard)

\(^{28}\) Available at [asnbank.nl/over-asn-bank/duurzaamheid/biodiversiteit/biodiversity-in-2030.html](http://asnbank.nl/over-asn-bank/duurzaamheid/biodiversiteit/biodiversity-in-2030.html)

\(^{29}\) Available at [icebergdatalab.com/solutions.php](http://icebergdatalab.com/solutions.php)


\(^{31}\) Available at [cdc-biodiversite.fr/le-global-biodiversity-score/](http://cdc-biodiversite.fr/le-global-biodiversity-score/)


\(^{33}\) [iucn.org/resources/conservation-tool/species-threat-abatement-and-recovery-star-metric](http://iucn.org/resources/conservation-tool/species-threat-abatement-and-recovery-star-metric)
• CDC Biodiversité launched in 2021 the BIA-GBS (Biodiversity Impact Analytics) in partnership with Carbon 4 Finance. The BIA-GBS is a database to assist financial institutions in measuring their environmental impact related to economic sectors.

• These initiatives predominantly consist of “footprinting” tools that aim to assess portfolio exposure to risks due to impacts to nature.

Nature-related dependencies (i.e., the extent to which the portfolio may be exposed to transition or physical risks associated with nature loss) are so far not captured via a particular, sector-wide metric. The ENCORE initiative, led by the Natural Capital Financial Alliance, is reported by many participants as a useful tool for assessing sector-specific dependencies, and informing the sustainability assessment as part of the investment making decision.

Today's lack of consistent nature-related metrics means that there is a limited financial sector-wide offering of nature-related data. This is reported by survey participants as one important limitation in their organisation’s ability to analyse, track and report on their organisation’s portfolio exposure to nature-related risks and opportunities. Whilst some footpring metrics are being developed and progressively considered for use by financial institutions, none of the survey participants reported that this is providing their organisation with an appropriate level of understanding on the materiality of the risks, impacts and dependencies for their business. This is a key point on which survey participants expressed expectations for guidance and technical support from the TNFD.

That said, several survey participants insisted that limitations on metrics and data should not be perceived as obstacle to improving the consideration of nature in the investment portfolio:

• On one hand, some of the survey participants expressed the opinion that recent initiatives are contributing to the development of new metrics, which should, in turn, foster the development of a more consistent data offering—thus improving the financial sector’s ability to report in the near future. As part of the framework development, the TNFD should assess the extent to which a market is developing for nature-related data providers, and how the TNFD may collaborate with the market to support the development of a TNFD-compatible offering of processed data (this could be the focus of a dedicated survey in support of the TNFD).

• On the other hand, there must be a recognition that not all aspects of portfolio exposure to nature can be expressed in terms of one, or a few, simple quantitative metrics. This reflects the intrinsic diversity and complexity of nature, ecosystems, natural capital, and the way various human activities may impact and be impacted by change. This is also a consequence of the spatially specific nature of much nature-related information— with sensitivities, impacts, dependencies, threats, and conservation opportunities, varying immensely from one part of the planet to another. Qualitative reporting, using reference to spatial databases (such as IUCN/WCMC’s Protected
Planet and IBAT) and sector analysis tools like the ENCORE database, can provide valuable insights into portfolio exposure to nature-related risks, as well as impacts and nature-positive opportunities.
4. Discussion of market readiness for the TNFD
4.1 Awareness of the TNFD

Most of the survey participants confirmed their awareness of the TNFD, if only from a general standpoint. This should, however, be considered with caution given that most survey participants belonged either to the sustainability teams, or were actively involved in the sustainable business development strategy of their organisation.

In only a year from its launch in June 2021, the initiative has become a global leader on nature-related risks, impacts, and opportunities in investments. With more than 600 organisational members of the Forum in less than a year since the TNFD Forum began, it is one of the biggest and most diverse gatherings of private organisations interested in tackling the nature crisis.

However, from ongoing engagement with financial organisations in 2021–2022, we observed in many organisations that only a limited number of professionals are aware of the TNFD and of their organisation’s commitment to it—in other words, the objectives of the TNFD, and in some cases the involvement of the organisation with the TNFD, remain somewhat confidential. Therefore, public support, or participation, of a financial institution to the TNFD, through the TNFD Forum for instance, is not a guarantee of the awareness of the whole organisation but may only be in the interest of a few individuals. There is also a need to strengthen awareness and capacity on nature within financial institutions, including those who have a "leader’s" position on nature, so that adherence to the TNFD principles and framework do not remain the sole initiative of a limited number of individuals within the organisation, but become “mainstream” within the organisation.

This finding is supported by recent ad hoc poll survey results obtained by UNEP FI, suggesting that the awareness of the TNFD from the senior directors of various financial institutions remains very limited.

Survey participants, most of which were sustainability professionals, overwhelmingly recognized that “nature was the next key theme” following the integration of climate in the business strategy. This stems from the fact that:

- The regulatory environment is progressively becoming more demanding on the reporting of exposure to nature-related risks and impacts, particularly in the European Union;

- Various initiatives within the financial sector are emphasising the materiality of nature-related risks and impacts for the economy, leading to increasing recognition of the physical and transition risks associated with nature-related dependencies;

- There is increasing awareness of the interlinkages between nature and climate, both from the point of view of climate-change-induced impacts on nature, and of the importance of nature and nature-based solutions in addressing the challenges posed by climate change. This is offering an opportunity for the TNFD to position itself as a link between nature- and climate-related reporting, and to be adopted as a nature-specific supplement to existing TCFD-related tracking and reporting processes.

- Clients are increasingly demanding sustainable financing products, and aware of the importance of nature as a foundation for the world’s economy, and human society as a whole;
As a consequence of the above, “green” and sustainability-linked investments are proving to be an important area of business opportunity, growth and new revenue generation for those organisations that are prepared to invest efforts and resources to improve their ability to demonstrate the “greenness” of their investments.

Overall, participants reported that the adoption of the TCFD, and the implementation of a process for climate-related materiality analysis, tracking and reporting was a benefit in that it improved clarity on their organisation’s exposure to climate change risks and impacts and helped foster a common awareness of the sustainability imperatives that needed to be considered in the business strategy, investment, and client engagement process. Likewise, the TNFD is perceived as an opportunity to help align the financial sector with nature and address the need for better management of exposure to nature-related risks and opportunities.

Even though a majority of the Forum members and Taskforce members are based in European and North American countries, the TNFD is reaching out to the world with an increase of awareness of and interest in the TNFD from emerging and developing economies, such as in South-East Asia, Latin America and Africa.36

- In Asia, Japan is one of the most committed countries, with several financial institutions engaged in the TNFD development, the set-up of a National Consultation Group, and the government supporting the development of the framework. The awareness and engagement is also rising in Australia and Singapore. China is being engaged on the TNFD, but is less involved at the current time.

- In Africa, an official pilot testing programme is being led by FSD Africa and gathers a group of African banks to pilot test the framework.

- Development agencies also play a significant role in the awareness of the TNFD in emerging economies, especially in Latin America and India.

- In the United States, there is a gap of awareness and commitment between international and local players.

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36 As per discussion with the TNFD team and the latest release of the second iteration of the TNFD beta framework.
This reducing awareness gap still needs to be addressed by the TNFD:

- To level the playing field and avoid creating regional imbalance in a global competitive market; and
- To scale-up the awareness of nature-related risks, impacts and opportunities, and support a market transformation in favour of nature that is not confined to developed economies, but is genuinely global.

### 4.2 Readiness for TNFD adoption

Out of the 22 financial institutions that we engaged as part of this survey in 2021, four confirmed that they had already taken steps to identify, assess, and report upon the materiality of nature-related risks and opportunities in their investment portfolios. For all of them, this was driven by:

- A mature approach to climate-related tracking and reporting, and proactive integration of the Paris Agreement commitments into the business strategy;
- Recognition of the risks and (more importantly) the business opportunities associated with a better understanding of their organisation's exposure to nature; and
- Response to imminent regulatory changes requiring them to analyse and report upon their exposure.

Most others appeared to be in a “wait and see” position, recognizing in principle the rationale, but unsure on the scope, process, methodology and outcomes of nature-related financial disclosures. This suggests that many financial institutions will find themselves on a “steep learning curve” and will need guidance and support in order to be ready to adopt and implement the requirements of the TNFD.

Participants reported the following key incentives for early adoption of a framework for nature-related financial disclosures:

- Anticipating regulatory and market change so as to be among the “first rewarded” for their early engagement and investment into dedicated resources;
- Supporting a more holistic approach to greening the investment portfolio, not only based on climate, but integrating a range of sustainability dimensions encompassing climate, nature, environmental quality, social and economic development, and their many linkages, as part of a vision structured around the SDGs;
- Using a gradual approach, addressing the organisation's sectors that are most exposed to nature-related risks and opportunities (agribusiness, meat and dairy, large-scale infrastructure, extractives...);
- As a result, improving their client service offering and fulfilling investor expectations.
The key to the success of the TNFD will be to provide comprehensive guidelines and clear steps on measuring and reporting for institutions that are beginners on this journey while at the same time raise ambition level for frontrunners.

Key barriers reported for early adoption of a framework for nature-related financial disclosures include:

- A strong need for capacity building, which should be eased with the publishing of sector-specific guidance.
- “Commitment fatigue”—with recent adoption of the TCFD and various other -specific responsible banking initiatives, generating a strain on the organisation’s ability to deliver on its commitments;
- Concerns about complexity given the intricacies of nature-related aspects in various sectors, geographies, and types of investments across the world;
- Reluctance to invest into an “unlevel playing field”, imposing a materiality rating associated with exposure to nature-related risks and opportunities, thereby potentially impacting asset valuation and impacting client relationships, and impacting the competitiveness of the organisation’s service offering;
- Reluctance to embrace the reporting of portfolio impacts on nature in a “double materiality” reporting approach, due to a combination of reasons, including reputational risk and risks of legal liability;
- The lack of a consistent, sector-wide methodology that could provide a straight-forward solution to analysis exposure to nature-related risks and opportunities—also resulting in a lack of available processed data on nature from data providers and extra-financial rating agencies;
- The lack of sector-based case studies and tangible examples for financial institutions to understand what to aim for in terms of analysis and deliverables. As it is challenging for financial institutions to understand the required level of detailed data and skills to issue final outcomes of nature-related risk assessments and disclosure, it is difficult for them to assess their level of readiness. Also, having gradual levels of readiness, through a staging of the process between basic, intermediate and comprehensive stage will help financial institution to engage actions without waiting to be fully ready. Through three more rounds of iterations the TNFD will provide further guidance to ease pilot testing, especially on the climate-nature nexus, scenarios and timeframes, scope of disclosure, approach to materiality, social dimensions, nature positive, data, metrics and targets, and sector specific guidance.
- Lack of internal resources that can deliver the leadership, expertise and support for integrating a vision of nature-related risks and opportunities across business lines.

- Some confusion for market participants about the alignment of the TNFD with other initiatives. The TNFD has observed rising understanding about the scope of the TNFD but still some misperception about the positioning of the TNFD compared to the diversity of existing and emerging initiatives, contributing to the “wait-and-see” position of financial institutions in anticipation of a future sector-wide agreed approach. This is also driven by concerns over overlaps and added workload in case of need to switch from one framework to another. This confusion stems from the lack of understanding of how all biodiversity initiatives—frameworks, footprinting tools, reporting standards, risk management frameworks—position themselves as complementary or exclusive.

- Market participants also worry about the TNFD coming up with a compliance requirement following their full framework publication, causing reluctance according to what extent it will fit or not the organisation.

4.3 From adoption to action with the TNFD

The launch of the TNFD has created a substantially comprehensive work environment for biodiversity and business, based on four main thematic: governance, strategy, risk management, metrics and standards. This environment enables financial institutions to approach the topic with a holistic perspective and understand the linkages and potential overlaps of the TNFD with other existing initiatives and standards. It is important for the TNFD to clarify and communicate on its level of alignment and potential overlaps with other initiatives to stimulate buy-in and adoption by financial institutions.

The awareness and the work environment created by the TNFD has encouraged other initiatives to build upon its framework as a means of stimulating the analysis and management of nature-related risks and impacts by businesses, with a broad level of conceptual alignment, e.g., Business for Nature.37 This provides an opportunity to catalyse interest in a framework such as that of the TNFD and stimulate market organisations to embark on a journey towards the mainstreaming of nature and the reporting of nature-related risks and impacts.

Through the four-pillars disclosure framework and risk management approach, the TNFD is developing a reasonably simple structured approach for financial institutions to analyse and report upon their exposure to nature-related risks and impacts. The TNFD has clearly communicated that it is seeking alignment wherever possible with pre-existing reporting and risk management standards, while also providing guidance (e.g., on several metrics and targets) that can improve consistency and reliability of disclosures across the market. The TNFD is thus promoting the most simple, flexible framework, for financial institutions of all maturity levels to launch their biodiversity work or integrate their existing workstream.

37 businessfornature.org/high-level-business-actions-on-nature
In this sense, the ongoing interim framework releases and proposed pilot-testing by the TNFD provide an opportunity for financial institutions to embark on a process to understand, analyse, manage and report on their exposure to nature-related risks and impacts, with a reasonable degree of flexibility given that, during the iterative development phase of the TNFD (i.e. until 2023):

- No formal compliance is required, and all the resources are available for free on the TNFD platform.
- Each financial institution may test and possibly adapt the framework according to their scope, risk assessment process, and determine their metrics and targets if relevant.
- The pilot testing approach allows financial institutions to influence the content of the final framework, but which also makes it easier to adapt to their business, processes, available resources for biodiversity and pace of work on the topic.
- Given its commitment to consistency with other nature-related analysis and disclosure standards and initiatives, using the beta framework of the TNFD allows to take action without exposing the financial institution to significant risks of inconsistencies with other frameworks.

As a consequence, one may view the current beta framework of the TNFD (and the forthcoming iterations of the beta framework) from various perspectives:

- As a leading initiative to partake in anticipation of future market practices and possible regulatory requirements.
- As guidance and resources on how to understand, analyse, report on, and manage nature-related risks and impacts within the business strategy.
- As framework for reporting and disclosure.

These various possible levels of integration of the TNFD interim framework, and flexibility on how to integrate the TNFD ahead of the final framework issuance onto the market, may provide a catalyst for adoption by market organisations.
United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 450 members—banks, insurers, and investors—and over 100 supporting institutions—to help create a financial sector that serves people and planet while delivering positive impacts. We aim to inspire, inform and enable financial institutions to improve people’s quality of life without compromising that of future generations. By leveraging the UN’s role, UNEP FI accelerates sustainable finance.

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