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## Taskforce on Nature-Related Disclosures Publishes Final Recommendations

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On September 18, 2023, following a two-year development process, the Taskforce on Nature-related Financial Disclosures (TNFD) **published its final recommendations** (the Recommendations) to help market participants with nature-related assessment and corporate reporting. The Recommendations have been designed to better inform companies and investors and direct capital flows towards nature-related investment.

The Recommendations are structured around four key areas:

- **Governance** – This category relates to disclosure concerning an organization’s governance of nature-related dependencies, including organizational impacts, risks and opportunities. Disclosure topics addressed include details surrounding board oversight, management’s role in assessing nature-related dependencies, impacts, risks and opportunities, and the organization’s human rights policies and engagement activities with respect to Indigenous Peoples and Local Communities.
- **Strategy** – The TFND offers recommendations relating to disclosure of the impacts, risks and opportunities associated with nature-related dependencies on the organization’s business model, strategy, and financial planning, where such information is material. This would include short-, medium- and long-term outlooks, assessments of the company’s value chain, and any net zero transition plans. Disclosures would also need to describe the resilience of the organization’s strategy to nature-related risks and opportunities in different scenarios and the locations of assets and/or activities in the organization’s direct operations subject to nature-related risks.
- **Risk and impact management** – The TFND offers disclosure recommendations describing the processes used by the organization to identify, assess, prioritize, and monitor nature-related dependencies, impacts, risk and opportunities, including in direct operations and downstream and upstream value chains. Guidance is also provided for disclosure of how the

processes for identifying, assessing and prioritizing and monitoring nature-related risks are integrated into overall risk management processes.

- **Metrics and targets** – The final recommendations concern disclosure of metrics and targets with respect to nature-related dependencies.

In addition, the TFND provides six general disclosure requirements regarding: (i) the application of materiality; (ii) the scope of disclosures; (iii) the location of nature-related issues; (iv) integration with other sustainability-related disclosures; (v) the time horizons considered; and (vi) the engagement of Indigenous Peoples, Local Communities and affected stakeholders in the identification and assessment of the organization's nature-related issues.

Adoption of the TNFD Recommendations is voluntary and the TNFD will track voluntary market adoption, with an aim to report on progress in early 2024. A list of inaugural adopters of the Recommendations will be announced at the World Economic Forum at Davos in January 2024, and the TNFD reports that of 239 organizations surveyed, 70% expressed their intention to commence TNFD-aligned disclosures by their financial year 2025, or earlier.

**Taking the Temperature: The TNFD Recommendations are timely and reinforce the current focus in numerous jurisdictions on businesses' dependence and impact on nature and biodiversity. Regulators have urged financial institutions to assess nature-related climate change impacts as another aspect of risk to financial stability; in March this year the EU announced its carbon sinks initiative, pursuant to which member countries will implement stricter national targets relating to emissions reduction and the protection and expansion of CO<sub>2</sub>-absorbing natural ecosystems; the UK has launched an inquiry into directing capital towards nature recovery and earlier this year, announced jointly with France, that the two countries had developed a roadmap to boost the biodiversity credits market; and the United Nations announced the formation of a 35-member bank-led working group to promote nature- and biodiversity-related target setting that is aligned with the Global Biodiversity Framework, as well as to implement other climate-related market standards such as the recommendations of the TFND. At the same time, significant challenges remain, including, for instance, continuing illegal deforestation, and questions surrounding the sources of capital to fund nature-related conservation efforts.**

**In light of the fact that compliance with TNFD Recommendations is currently voluntary, our observation that companies and their directors should increase their assessments of governance and disclosures concerning nature-related impacts, regardless of whether they are mandated by government regulation, remains relevant. Organizations will undoubtedly face challenges with nature-related reporting. For example, the need to disclose nature-related issues across both upstream and downstream value chains necessarily will depend on the data provided by suppliers. Some regions are already acting. The EU is currently in the process of adopting the Corporate Sustainability Due Diligence Directive, which would require large companies operating in the EU to conduct due diligence to identify, prevent, mitigate or end negative impacts on human rights and the environment, including in particular pollution, biodiversity loss and environmental degradation, as well as labor exploitation, slavery and child labor, particularly within their value chains.**