

REDIRECTING FINANCE TO NATURE: THE CASE FOR MANDATORY TNFD-ALIGNED DISCLOSURES

EXECUTIVE SUMMARY

During the World Economic Forum's 2024 Annual Meeting, the Taskforce on Nature-related Financial Disclosures (TNFD) announced a list of 320 companies and financial institutions (FIs) from 46 countries who plan to produce disclosures aligned with the Taskforce's risk management and disclosure framework by 2024 or 2025. Together, this group of early adopters has \$14 trillion in Assets Under Management and includes the likes of AstraZeneca, AXA, BBC, GSK, Ingka Group, Michelin, Ørsted, OVO, PwC, RWE and Schroders.¹

The TNFD recommendations, published in September 2023, aim to help reverse the alarming rate of nature loss and revalue nature by supporting businesses and financial institutions (FIs) to identify nature-related dependencies, impacts, risks, and opportunities across the value chain. This information will help to embed nature into business and financial decisions, shifting investment away from activities that have a direct nature-negative impact – which are currently valued at close to \$7 trillion a year globally² – to nature-positive ones.

Through extensive engagement with business, the Aldersgate Group has found that further action is required from Government to promote broad based adoption of the TNFD framework. Businesses face a range of barriers in producing TNFD-aligned disclosures, including low understanding at board level, organisational capability and capacity gaps, and lack of access to data. The UK Government can accelerate the adoption of high-quality nature-related financial disclosures by:

Setting out an iterative roadmap to mandatory TNFD disclosures. There is a strong business consensus that mandating TNFD-aligned disclosures – underpinned by a phased-approach – will generate board level understanding and help businesses to prepare.

Introducing supportive measures to build capacity and skills. There is a clear role for Government and regulators to provide additional guidance to help businesses understand how to produce high quality nature-related disclosures.

Championing TNFD framework uptake and data sharing internationally. The UK should continue to champion the framework in international fora, as well as work with governments, businesses, and data providers to increase the availability of biodiversity data.

¹ TNFD (2023), [TNFD Early Adopters](#)

² UN Environment Programme (2023), [State of Finance for Nature 2023](#)



SECTION ONE: WHAT IS THE TNFD FRAMEWORK?

The TNFD was formally launched in June 2021, with the aim of helping companies and FIs to integrate nature into business and financial decisions and to support a shift towards nature-positive capital allocation decisions.

In September 2023, the TNFD published its final disclosure framework to support companies and FIs to identify, assess, manage, and disclose nature-related issues.³ It includes 14 recommended disclosures covering nature-related dependencies, impacts, risks, and opportunities, based on the four core pillars of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations: governance; strategy; risk & impact management; and metrics and targets.

The TNFD framework was designed to be interoperable with other international standards and reporting frameworks, including the ISSB's sustainability disclosure standards, different jurisdictional approaches towards materiality, and the goals and targets of the Kunming-Montreal Global Biodiversity Framework (2021) signed by 188 countries. Notably, Target 15 of the Framework commits countries to encourage businesses and FIs to regularly monitor, assess and disclose nature-related risks and opportunities across the value chain.

The UK Government committed to "explore how best the final TNFD framework should be incorporated into UK policy and legislative architecture" in the 2023 Green Finance Strategy.⁴

SECTION TWO: WHAT ARE THE CHALLENGES CORPORATES FACE IN ADOPTING THE TNFD FRAMEWORK?

Businesses currently have three options: (1) register voluntarily as an early adopter of the TNFD framework; (2) privately pilot the framework to better understand nature-related risks and opportunities; or (3) wait until the TNFD framework is made mandatory.

As demonstrated by the announcement at the World Economic Forum, there is a strong appetite from both FIs and the real economy to produce TNFD-aligned disclosures in the near future. Despite this enthusiasm, there are several challenges that prevent wider business adoption of the TNFD framework.

1 Low board-level understanding about the importance of nature.

Whilst Boards of Directors are mostly familiar with climate-related risk, including the TCFD recommendations, large gaps now exist on nature-related risks and the TNFD framework specifically. In fact, research has found that while 91% of FIs reporting to CDP have board-level oversight of climate-related issues, only 32% have oversight of forests and/or water-related issues.⁵ Similarly, under a quarter of FIs have at least one board member with competence on nature, compared to 68% of FIs with at least one board member with competence on climate.

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³: Alongside the final disclosure framework, the TNFD published additional guidance, including draft sector-specific guidance for market feedback covering eight sectors.

⁴: HM Government (2023), [Mobilising Green Investing: 2023 Green Finance Strategy](#)

⁵: CDP (2023), [Nature in Green Finance: Bridging the gap in environmental reporting](#)



The gap in understanding between climate and nature is largely due to tangibility: it is relatively straightforward to transpose global climate emissions reductions targets down to a corporate level, but much more complex to do the same for global nature targets. This is especially true for service companies, whose impact on nature and biodiversity is difficult to identify and measure. Climate-related issues have also risen up the agenda for boards because of mandatory reporting requirements, for example, TCFD-aligned disclosures and Streamlined Energy and Carbon Reporting which must be included in Annual Reports.

2 Capability and capacity gaps on nature-related issues

Many businesses are already in the process of trying to better understand nature-related risks, opportunities, and dependencies, for example by conducting life cycle assessments, carbon impact assessments, or TNFD Gap Analysis.

Despite having dedicated ESG teams, additional capacity and expertise will be required to ensure companies comply with the TNFD framework – though the experience of preparing, disclosing, and distributing TCFD-aligned reporting will help.

The ESG skills gap is a much wider issue facing both FIs and the real economy. A recent report by PwC, supported by the Aldersgate Group and the Financial Services Skills Commission, found that the demand for ESG skills is outpacing supply, with the number of green job vacancies in the financial services sector increasing from 4,900 (2019/20) to 16,700 (2022/3).⁶

3 Access to data and lack of standardised metrics

Whilst the methodology for calculating carbon emissions is fairly developed and straightforward, assessing and managing firm-level impacts on biodiversity is inherently more challenging. Unlike climate, which has a CO₂ equivalent, there is no commonly agreed metric for quantifying nature-related impacts.

The lack of standardised metric is exacerbated by scarce company-specific data. Many businesses lack complete data from across their upstream suppliers, and complex field-based biodiversity impact assessments are resource and skill intensive.

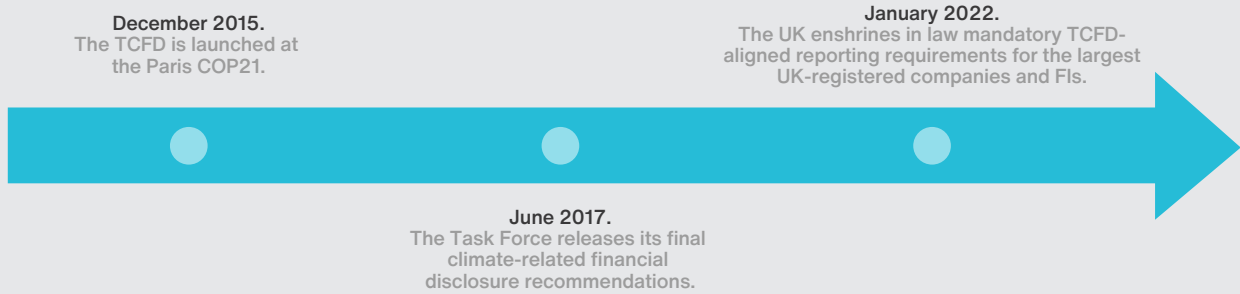
Businesses are hesitant to publish incomplete or imperfect data, but not disclosing data deters investment – creating a vicious cycle. A survey by Credit Suisse found that 70% of institutional investors cited lack of available data as a key barrier to investing in biodiversity.⁷

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⁶: PwC (2023), [Job greening in the UK Financial Services Sector](#)

⁷: Credit Suisse (2021), [5 facts about biodiversity finance and investing](#)

Timeline of TCFD implementation in the UK



SECTION THREE: RECOMMENDATIONS FOR GOVERNMENT AND REGULATORS

From development to regulation, it took seven years for the TCFD recommendations to be mandated in the UK. Since April 2022, over 1,300 of the largest UK-registered companies and FIs (including private) have been required to disclose TCFD-aligned disclosures on a comply or explain basis, with the ambition to rollout these disclosures across the economy by 2025.⁸ Further progress is still needed to ensure the information is consistently decision useful as only 4% of companies disclosed in line with all 11 of the recommended disclosures in FY 2022.⁹

The alarming rate of biodiversity loss in the UK and globally necessitates an accelerated TNFD adoption process. To drive the adoption of high-quality TNFD-aligned disclosures, the UK Government should:

1 Set out an iterative roadmap to mandatory TNFD-aligned disclosures

As with TCFD, the UK should demonstrate global leadership by becoming the first G20 country to mandate TNFD-aligned disclosures, starting with the UK's largest companies and FIs. This would send a strong signal to international peers about the UK's commitment to achieving Target 15 of the Global Biodiversity Framework.

⁸: HMG (2021), [Press release: UK to enshrine mandatory climate disclosure for largest companies in law](#)

⁹: TCFD (2023), [2023 Status Report](#)

Extensive discussions with businesses reveal a clear consensus that TNFD-aligned reporting must be made mandatory.¹⁰ This is essential to create a level-playing field, generate board-level understanding, and give businesses a target to work towards.

Considering the significant uplift in reporting disclosures coming in the near future, the adoption of TNFD needs to be considered pragmatically within the wider changing landscape of ESG reporting.

Very few, if any, companies are likely to be fully compliant with the TNFD framework immediately. Therefore, the Government should outline an iterative timeline, setting out several 'core' disclosure requirements they expect companies to report against in the first year of disclosure, followed by a number of 'extended' disclosure requirements for subsequent years.

2 Introduce supportive measures to build capacity and skills

To help businesses expand knowledge, build capacity, and produce high-quality disclosures, the Government and regulators should provide clear application guidance on TNFD-aligned disclosures.

In 2022, the Government produced similar guidance to help companies and LLPs understand how to meet new mandatory climate-related financial disclosure

¹⁰: In 2022, more than 330 businesses and FIs with a combined revenue of over \$1.5 trillion signed a call to action on mandatory corporate nature assessment and disclosure. See Business for Nature (2022), [Make it Mandatory: the case for mandatory corporate assessment and disclosure on nature](#).



requirements.¹¹ Likewise, The Pensions Regulator issued guidance aimed at trustees required to comply with the duties on governance and reporting of climate-related risks and opportunities.¹² The FCA also produced its own climate-related financial disclosure in 2022 to model what high-quality reporting looks like.¹³

The Government should work closely with professional bodies, such as the Sustainable Finance Education Charter, to integrate TNFD reporting within relevant professional courses.

As building capacity and capability takes time, the Government and regulators should look to provide guidance as early as possible to support companies that are piloting or producing TNFD-aligned disclosures on a voluntary basis.

3 Champion uptake of the TNFD framework and encourage data sharing internationally

The UK has been an early supporter of the TNFD. It was the first government to fund and fully support the creation and progress of the TNFD and, at COP28, announced £2 million of funding to support the uptake of the TNFD recommendations.¹⁴

The Government should continue to champion the TNFD framework at international fora, such as the upcoming G7 and G20 summits and the 2024 UN Biodiversity Conference. The UK should also work with governments, businesses, and data providers to improve the availability and accessibility of biodiversity data.

11: Department for Energy Security and Net Zero and Department for Business, Energy & Industrial Strategy (2022), [Guidance: Climate-related financial disclosures for companies and limited liability partnerships \(LLPs\)](#)

12: The Pensions Regulator (2021), [Governance and reporting of climate-related risks and opportunities](#)

13: Financial Conduct Authority (2022), [Our climate-related financial disclosure 2021/22](#)

14: Defra (2023), [10 Point Plan for financing biodiversity ministerial stocktake](#)