

Institute Briefing

Valuing Nature: The case for nature- related assessment and disclosure



CAPITALS
COALITION





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1. Foreword

ERM and the Capitals Coalition prepared this report for release during COP15, the United Nations Biodiversity Conference taking place in Montreal in December 2022, where 196 governments will come together to deliver a new global agreement on nature.

COP15 is an opportunity for government and business leaders to acknowledge that preserving and protecting nature and addressing the climate crisis are critical for human existence and vital for business to thrive. Breakthroughs capable of creating meaningful and long-lasting solutions appear to be in reach. It's time to act.

Upon conclusion of COP15, we hope for evidence of alignment and action on three critical issues.

First, we anticipate a 'Paris moment for biodiversity' similar to what the Paris Agreement delivered for climate action in 2015. This would bring agreement on ambitious nature-related targets, including country-level commitments that capture attention beyond biodiversity circles. If successful, this will help build mainstream understanding of the scale of nature-related risks and opportunities. Countries will discuss the adoption of mandatory assessment and disclosure requirements on biodiversity for all large businesses and financial institutions by 2030. A post-COP15 movement to mobilize policymakers, businesses, and capital markets to deliver on its agreements will be critical.

Next, we are looking for meaningful progress from the Taskforce on Nature-related Financial Disclosures (TNFD), which we hope will be as seminal as its climate sibling, the Taskforce on Climate-related Financial Disclosures. With TNFD's final Framework scheduled to launch

in September 2023, now is a pivotal time for companies to pilot it and provide feedback as the TNFD finalizes their framework. TNFD has progressed immensely over the last several months as corporates move towards understanding the benefits that a nature-first framing can have for the private sector, society, and the environment.

Finally, and perhaps most importantly in the context of this report, we hope to see greater alignment on credible and consistent valuation approaches for assessing nature's influence on economic value chains as well as tracking the impact of business on nature. In that spirit, this report looks to set the stage for how companies can measure and value their impacts and dependencies on nature and help chart a path towards a shared understanding of value, which will help unleash a wave of innovation similar to the one we are now seeing accelerate decarbonization.

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2. Executive Summary

Valuing Nature: The case for nature-related assessment and disclosure addresses challenges facing companies in the complex and rapidly evolving nature arena, particularly with the Taskforce on Nature-related Financial Disclosures (TNFD) Framework scheduled to launch in September 2023. In building the case for nature-related disclosure and providing a roadmap for how business can approach it, this report connects the Capitals Coalition's Natural Capital Protocol with TNFD's beta v0.3 Framework. It also leverages ERM's expert insights to outline a set of nature-related actions that companies can and should take today. Businesses that follow this guide will be well positioned for clear and consistent disclosure upon TNFD's upcoming launch; this report will also help companies address anticipated future regulation making some nature-related disclosures mandatory.

The connection between nature and business is deep, with trillions of dollars of economic value across geographies and sectors dependent upon nature and its services. Few companies, if any, can claim to be fully removed from the impacts of natural systems on the global economy. As nature degradation and loss increase, the private sector will likely be impacted by resulting reductions in global annual GDP. The protection of natural systems now could not only mitigate potential economic losses but also provide positive benefit to businesses while improving biodiversity, limiting the effects of climate change, and strengthening local economies.

As more corporates recognize the business case of protecting natural systems, the case for nature-related disclosure will follow. Like the way the Task Force on Climate-Related Financial Disclosures (TCFD) Framework supports more comprehensive reporting on climate, the TNFD Framework will help guide companies in disclosing information relating to nature-related risks and opportunities.

The TNFD guidance will also enable companies to connect their impacts on nature to their long-term financial health and sustainability by integrating nature-related risks and opportunities into their planning, risk management, and asset allocation decisions. The Capitals Coalition's Natural Capital Protocol complements the TNFD by outlining how a company can value impacts and dependencies on natural capital. Because the Natural Capital Protocol enables companies to value their natural capital impacts and dependencies, it can be used in TNFD-guided risk assessment and disclosures.

Understanding the business case for valuing nature-related impacts and dependencies, measuring the risks and opportunities they give rise to, and issuing proper disclosures is increasingly important to business. This guide outlines four steps to guide businesses through these actions as they pursue their nature journeys:

1. Identify and assess your business' material nature-related risks and opportunities, using the Natural Capital Protocol framework and the TNFD Framework.
2. Develop a strategy to manage your material nature-related risks and opportunities.
3. Develop a governance structure to oversee your material nature-related risks and opportunities.
4. Operationalize your strategy and align your related disclosures with the TNFD.

Following these steps will help companies prepare for managing nature-related risks and opportunities and their associated disclosure. In doing so, a company will be able to mitigate risks, capitalize on opportunities, and have a positive impact on the natural systems upon which they so heavily rely.



3. Why nature matters

The business case for nature

It is increasingly evident that business and nature are linked, making understanding nature-related risks and opportunities essential to competitiveness and success. According to the World Economic Forum (WEF), approximately \$44 trillion of economic value generation, over half the world's total GDP, is moderately or highly dependent upon nature and its services.¹ While construction, agriculture, pharmaceutical, mining, and energy companies are among the most dependent on nature and at highest risk of its loss, businesses in every sector rely on the benefits nature provides. This means every company has a stake in preserving the natural environment on which the global economy is based. Further, because nature loss is inextricably connected to the climate crisis, its reversal presents significant opportunities for companies to deliver on both agendas simultaneously, while also contributing to a just future for all.

Lamentably, nature loss is rapidly increasing and some areas are reaching potentially irreversible tipping points beyond which significant environmental and societal damages will result.² The criticality of this moment is reflected in the concern of global experts responding to the WEF's 2022 Global Risks Perception Survey, who rated biodiversity loss as the third biggest risk facing society over the next ten years.³ This risk has significant financial implications; estimates show that by 2030, nature loss could reduce global annual GDP by 2.3 percent, while national GDP might fall by 10 percent or more in some developing countries.⁴ Climate change and other sustainable development issues linked to nature are not being addressed adequately either. The 2022 GlobeScan/ SustainAbility Institute by ERM Survey *Temperature Check - Ensuring SDG and Paris Agreement Success* found that sustainability

experts view Climate Action to be the Sustainable Development Goal (SDG) requiring the most urgent action and found society's progress on all SDGs to be mostly poor.⁵

Just as nature loss is bad for business, protecting nature safeguards and creates value for the private sector. Ecosystem services such as food, water, air filtration, and carbon storage are worth more than \$150 trillion annually to businesses and society, which is about twice the world's yearly GDP, and it is estimated that pursuing nature-positive transitions could generate up to US\$10.1 trillion in annual business value and create 395 million jobs by 2030.^{6,7}

Thankfully, businesses are responding. An ERM analysis of 240 companies' nature-related actions conducted in 2022 found that:

- 41 percent have clear nature-related or biodiversity commitments in place and/or referenced biodiversity or nature in their reporting.
- 16 percent have clearly defined biodiversity or nature-related commitments; this is particularly common in the power, mining & metals, and oil & gas sectors.
- 7 percent have signed up to or are signatories of the Taskforce on Nature-related Financial Disclosures.

This paper charts a path for all companies to contribute to nature protection and rehabilitation by outlining strategies to understand nature and the risks its degradation poses to them and explaining how to include nature in their business plans to make them more resilient. It comes at a time when nature-related action is urgently needed.



4. Understanding new nature frameworks

The need for new nature frameworks

The natural world is in crisis. Between 1970 and 2016, populations of mammals, birds, amphibians, reptiles, and fish decreased by 68 percent.⁸ During the same period, humans significantly altered 70 percent of the Earth's land-based environment and 66 percent of its marine environment.⁹ Further, nearly 1/3 of the UN Sustainable Development Goals (SDGs or Global Goals) depend on the reversal of nature loss if they are to be achieved. Nature loss also exacerbates the climate crisis by diminishing the natural world's ability to withstand and restore itself from physical climate impacts such as droughts and floods. With less natural resilience, climate disasters like the ongoing historic droughts in China, Europe, and the U.S. as well as the massive floods in Australia and Pakistan in 2022 are likely to increase in destruction and frequency.

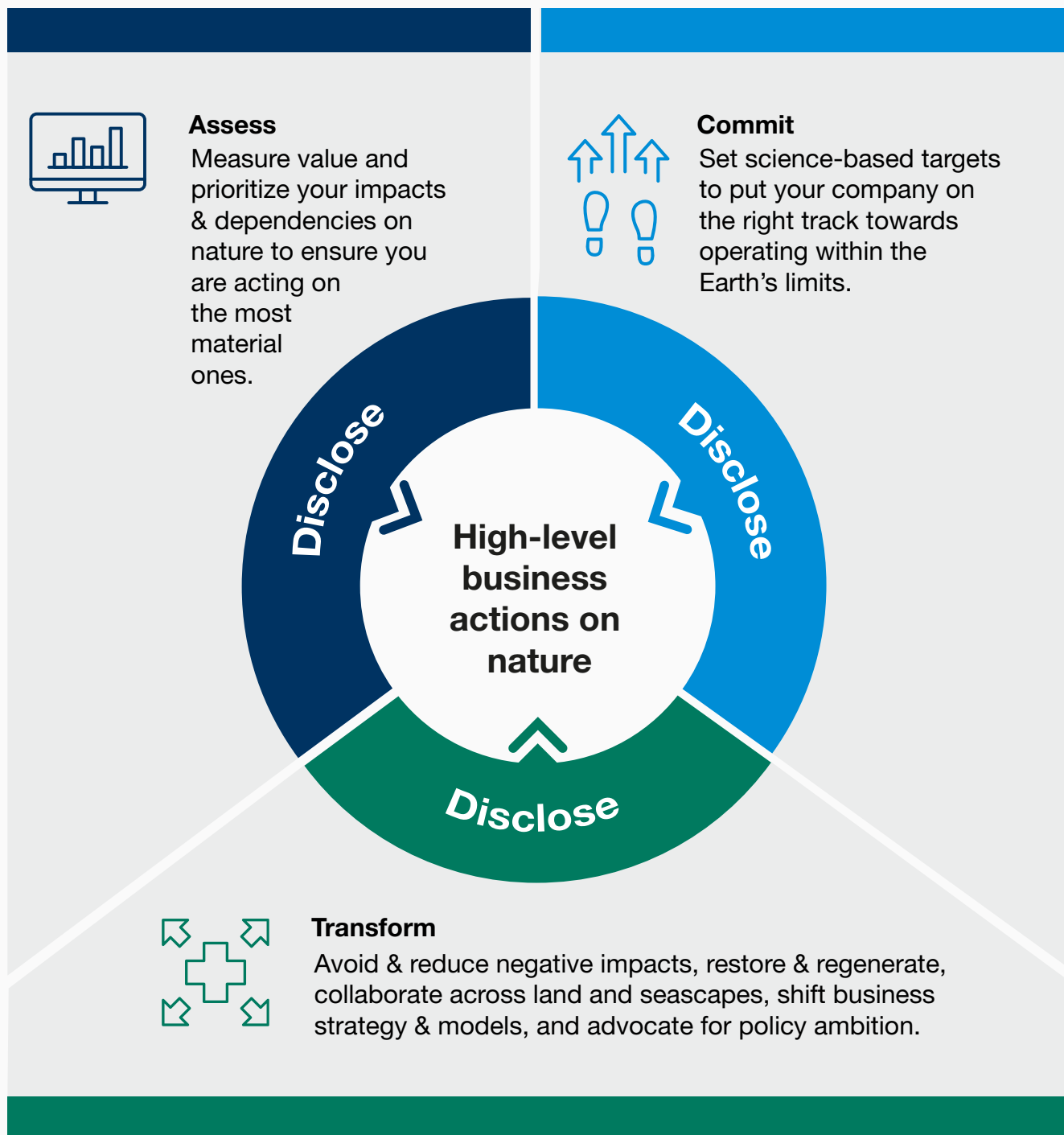
While nature and climate are undergoing interrelated, complex crises, there is an opportunity for companies to combat both simultaneously. For example, by protecting nature, companies can support climate change mitigation, as nature has the potential to remove over 100 of the 810 gigatons of carbon dioxide required for global temperature to stay below 1.5°C by 2100.¹⁰ This mitigation potential is key for business given that, if temperatures rise by 3.2°C, global GDP could be 18 percent smaller by mid-century.¹¹

With both nature and climate at precipices, frameworks are emerging to help companies better understand and respond to the risks and opportunities being generated. In 2015, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures

(TCFD) to provide recommendations for corporate climate-related risk and opportunity analysis and disclosures to help investors gauge their climate change exposures.¹² Then, in October 2021, a group of NGOs and multilateral organizations launched the Taskforce on Nature-related Financial Disclosures (TNFD) to do for nature what the TCFD did for climate.¹³ The TNFD is similar in structure to the TCFD, and builds upon the Natural Capital Protocol, a pioneering nature framework launched in 2016 by the Capitals Coalition.^{14,15}

Nature-related targets, following the work of Science Based Targets Network (SBTN), are also a relevant component of the TNFD Framework.¹⁶ To explain the connection of all these frameworks, the TNFD, the Capitals Coalition, SBTN, the World Business Council for Sustainable Development (WBCSD), Business for Nature (BfN), and other leading organizations in the nature space have agreed on the [high-level, nature-positive actions](#) depicted in Figure 1 below.¹⁷ This report highlights the connection of the high-level action to 'Assess' (focused on the Natural Capital Protocol) with the action to 'Disclose' (focused on the TNFD).

Figure 1:
High-level Business Actions on Nature



The TNFD, the Capitals Coalition, SBTN, the World Business Council for Sustainable Development (WBCSD), Business for Nature (BfN), and other leading organizations in the nature space developed these high-level business actions on nature (currently in beta version) to help explain the connection of developing nature frameworks. Source: Business for Nature.¹⁸

What is the Taskforce on Nature-related Financial Disclosures?

The TNFD is a global, market-led initiative designed to “develop and deliver a risk management and disclosure framework for organizations to report and act on evolving nature-related risks and opportunities, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes.”¹⁹

In a nascent and rapidly evolving landscape of nature-related frameworks, regulation, disclosure requirements, and stakeholder expectations, the TNFD is emerging as a frontrunner for helping companies transparently and comparably disclose nature-related risk exposures.

The TNFD helps companies understand their exposure to nature-related risks and develop strategies to address them. It was launched out of recognition that financial institutions and companies do not presently have disclosures that show how to understand how nature impacts organizations’ short or long-term financial performance and/or how nature-related risks and opportunities impact businesses’ long-term financial health and sustainability. The TNFD believes that stronger nature-related risk assessments and disclosures will better enable financial institutions and companies to integrate nature-related risks and opportunities into strategic planning, risk management, and asset allocation decisions.

A group of 34 senior executives from global corporations, financial institutions, and market intermediaries representing over \$3.1 trillion in market capitalization guide TNFD’s development. They are supported by feedback from policy makers, regulators, scientists, conservation organizations, local and Indigenous peoples’ organizations, and human rights organizations.

The TNFD takes inspiration from the TCFD and recommends disclosures in the same four disclosure categories: climate-related governance, strategy, risk management, and metrics and targets. A main point of difference is the location-specificity of the TNFD and the multiple metrics with which nature can be evaluated compared to TCFD’s narrower GHG emissions-focus. Subject matter experts at ERM expect a future where these two frameworks are combined or at least implemented together as best practice.



What is the TNFD Framework and what does it mean for business?

At the center of the TNFD is the TNFD Framework, which provides recommendations for how organizations should approach nature-related risk management and disclosure. The most recent version of the TNFD Framework – beta v0.3, which was released in November 2022 – includes the same three core components first unveiled in beta v0.1, which:²⁰

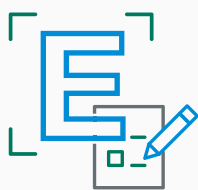
- Outline the relevant nature concepts and definitions required to understand how to assess and disclose nature-related risks and opportunities.
- Provide draft disclosure recommendations for nature-related risks and opportunities.
- Offer guidance for organizations to incorporate nature-related risk and opportunity assessments into their strategies and risk management processes.

The Framework’s risk and opportunity assessment component is called Locate, Evaluate, Assess, Prepare (LEAP) and recommends that companies:²¹



Locate

their interface with nature.



Evaluate

their dependencies and impacts.



Assess

the risks and opportunities that are material to their business.



Prepare

to respond to nature-related risks and opportunities and report to investors.

In addition to the three core Framework components and LEAP, beta v0.2, launched in June 2022, added an approach for companies to follow when setting nature-related metrics and targets.²² The approach outlines two types of metrics and targets:

- **Assessment:** Metrics used during the LEAP assessment process to help guide internal decision making. TNFD will not require companies to disclose these metrics in their TNFD-aligned reporting.
- **Disclosure:** Metrics used during TNFD-aligned reporting. TNFD will require companies to disclose these metrics in their TNFD-aligned reporting. TNFD will publish these metrics in TNFD Framework beta v0.4.

In beta v0.2, TNFD also noted that because nature-related risk and opportunity assessment is new to many organizations, it must approach recommendations and guidance in a more targeted manner. This approach means the organization will aim to provide recommendations and guidance that is:

- Sector-specific.
- Nature-related issue specific.
- Realm specific (e.g., ocean, freshwater, land, and atmosphere).

Finally, the recently released beta v0.3 includes some key changes regarding LEAP, disclosures, scenarios, and targets.²³ These changes included:

LEAP modifications:

1. Incorporation of additional scoping preparation guidance for corporates to use before they start the LEAP process. All companies will be asked to evaluate which of their operations and what aspects of nature (realms, biomes, environmental assets, and/or ecosystem services) will be considered in the assessment based on the company's available data. This scoping step had previously been limited to only financial companies using the LEAP-FI model.²⁴
2. Rewriting the Assess phase so that nature-related opportunities are considered throughout the phase's five stages:
 - Risk and opportunity ID
 - Existing risk mitigation and risk and opportunity management
 - Additional risk mitigation and risk and opportunity management
 - Risk and opportunity materiality assessment
 - Value of impacts and dependencies to business
3. Updating LEAP's stakeholder engagement guidance to specifically mention rights holders as a distinct type of stakeholder.
4. Outlining new guidance for companies to use to identify, assess, and manage both their negative and positive impacts on nature by building upon the five drivers of nature changes as defined by the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES):²⁵
 - Land/Sea Use Change
 - Climate Change
 - Direct Exploitation
 - Pollution
 - Invasive Alien Species

Disclosure modifications:

- Outlining potential "core" disclosures that all companies would be expected to comply with and "enhanced" disclosures that would allow companies to go beyond "core" and provide additional disclosures. This dual disclosure approach would provide flexibility to companies with different reporting requirements and capabilities, while also encouraging increased TNFD adoption and ambition over time.

Scenario modifications:

- Proposing a scenario analysis framework that accounts for the unique circumstances of nature scenarios (e.g., the location specificity of nature-related impacts) and assesses how two critical uncertainties (level of nature loss and the ability of a company to adapt to it, i.e., physical risk; and alignment of market and non-market forces in driving nature-related action, i.e., transition risk) will affect an organization.

Target modifications:

- Introducing two new metrics for the Assess phase of LEAP:
 - Exposure: Metrics to assess a company's exposure to nature-related dependencies and impacts.
 - Magnitude: Metrics to assess the financial implications of nature-related risks and opportunities to a company.
- Adding target-setting guidance incorporating the Science Based Targets Network's five-step approach to setting science-based targets for nature to ensure that targets are measurable, actionable, and timebound as well as based on the best-available science on nature and societal needs.

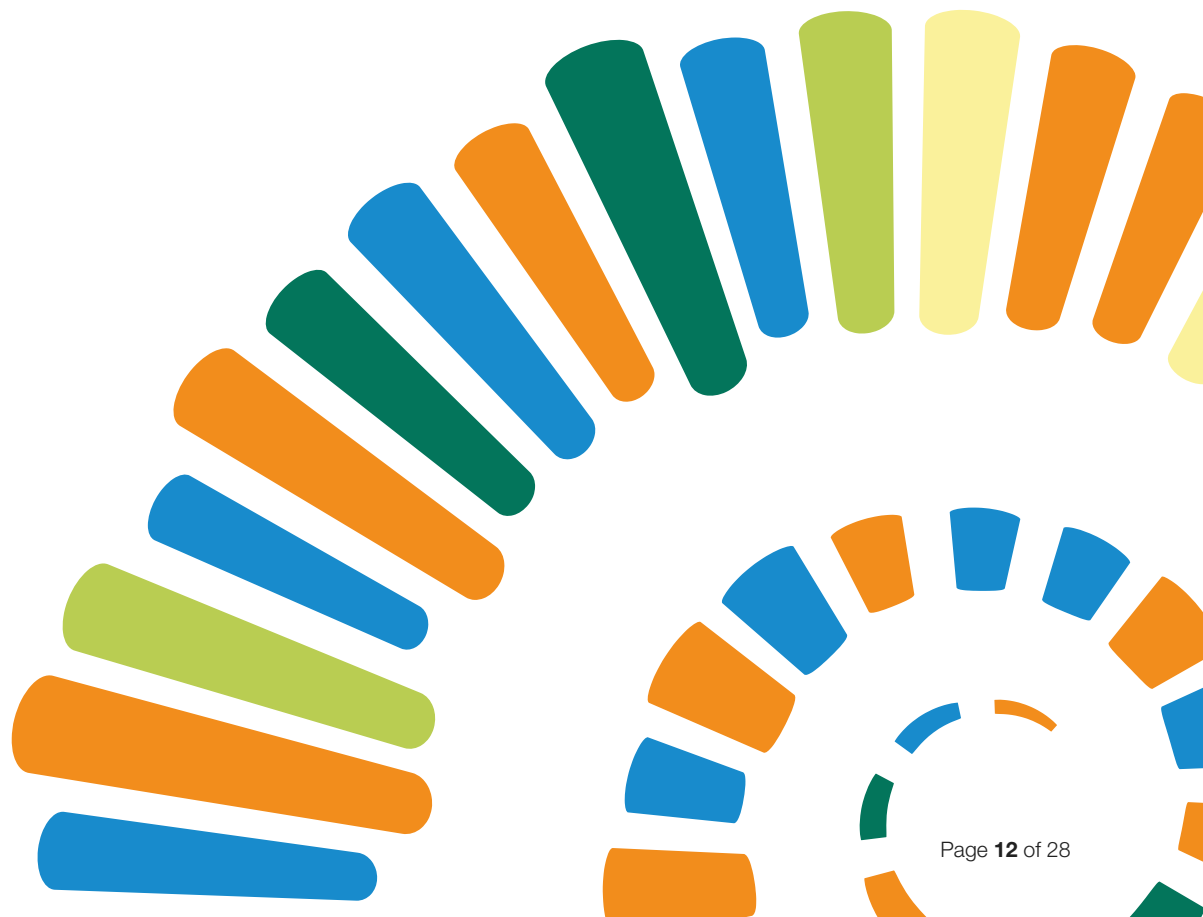
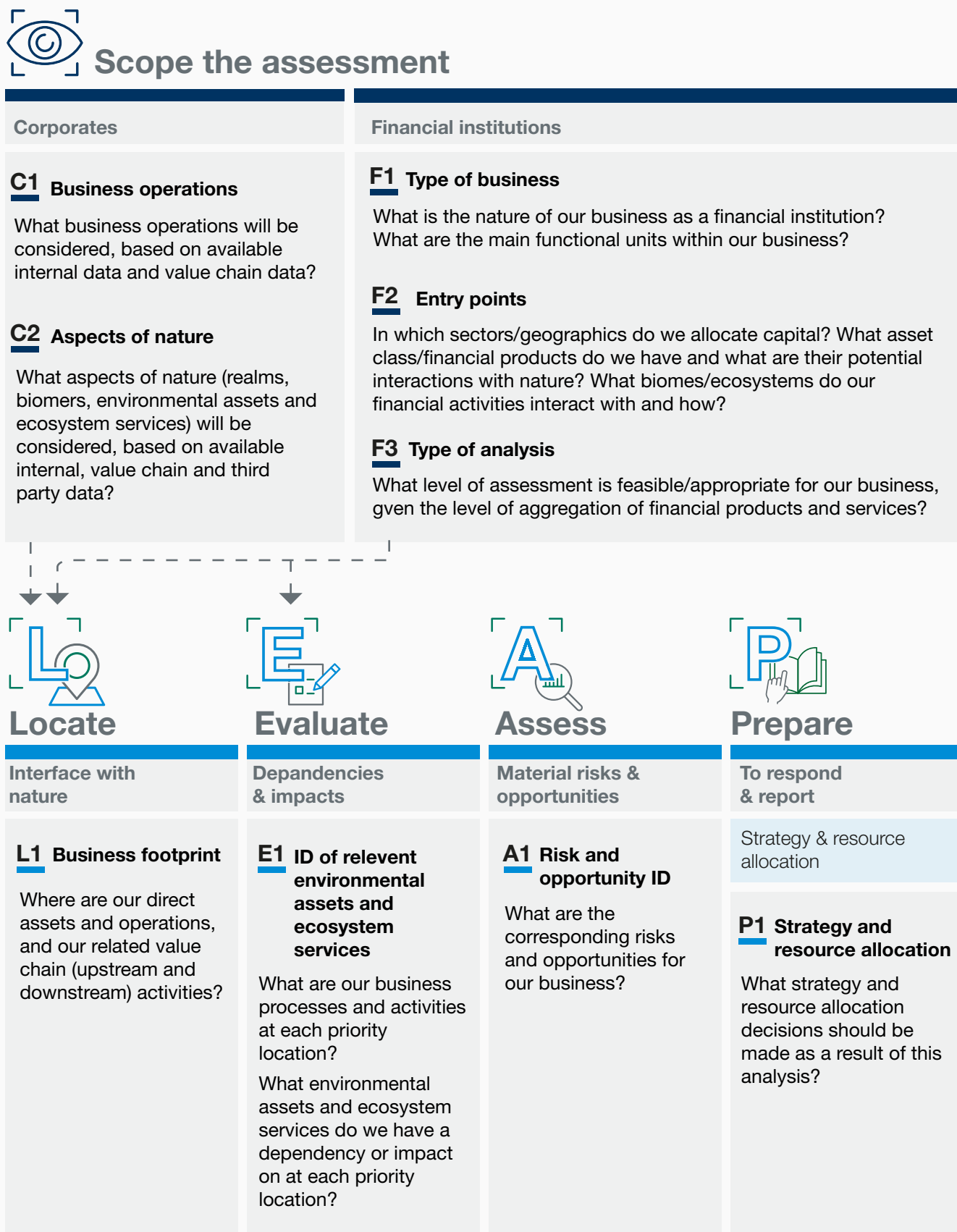


Figure 2:
TNFD's Locate, Evaluate, Assess, Prepare (LEAP) Approach in the beta v0.3 Framework





TNFD’S revised risk and opportunity assessment approach (LEAP) for corporates and financial institutions included in its beta v0.3 Framework. Source: TNFD.²⁶

In anticipation of the TNFD’s market adoption in September 2023, ERM is responding to increasing requests from companies in all geographies and sectors interested in beginning their nature-related disclosure journeys. So far, this work has centered on helping companies understand their nature-related risks and opportunities and assessing the maturity of their nature-related initiatives (see Box 1). ERM is also helping shape the overall private sector response to nature and biodiversity-related impacts through secondments to the World Business Council for Sustainable Development (WBCSD), its representation in the WBCSD’s Nature-positive working group, and its selection to lead the TNFD’s energy sector pilot.

Box 1

ERM's Nature Maturity Framework

ERM created its proprietary Nature Maturity Scoring Framework to assess companies' nature-related strategy and performance and help them develop the standards, policies, processes, and governance structures needed to be best in class performers on nature and biodiversity. ERM uses the framework to benchmark companies across sectors and industries ranging from technology and mining, to oil and gas, food and beverage, pharmaceuticals, technology, and manufacturing. The framework is grounded in robust science and corporate sustainability principles, and it integrates guidance from the TNFD pillars, World Benchmarking Alliance, SBTN, WBCSD, and Business for Nature. By scoring companies with this tool, ERM can help translate complex company/nature intersections into practical action plans enabling organizations to begin or improve their nature positive journeys and position themselves as industry leaders.

The reasons for setting nature-related commitments vary across industries. ERM has observed that:

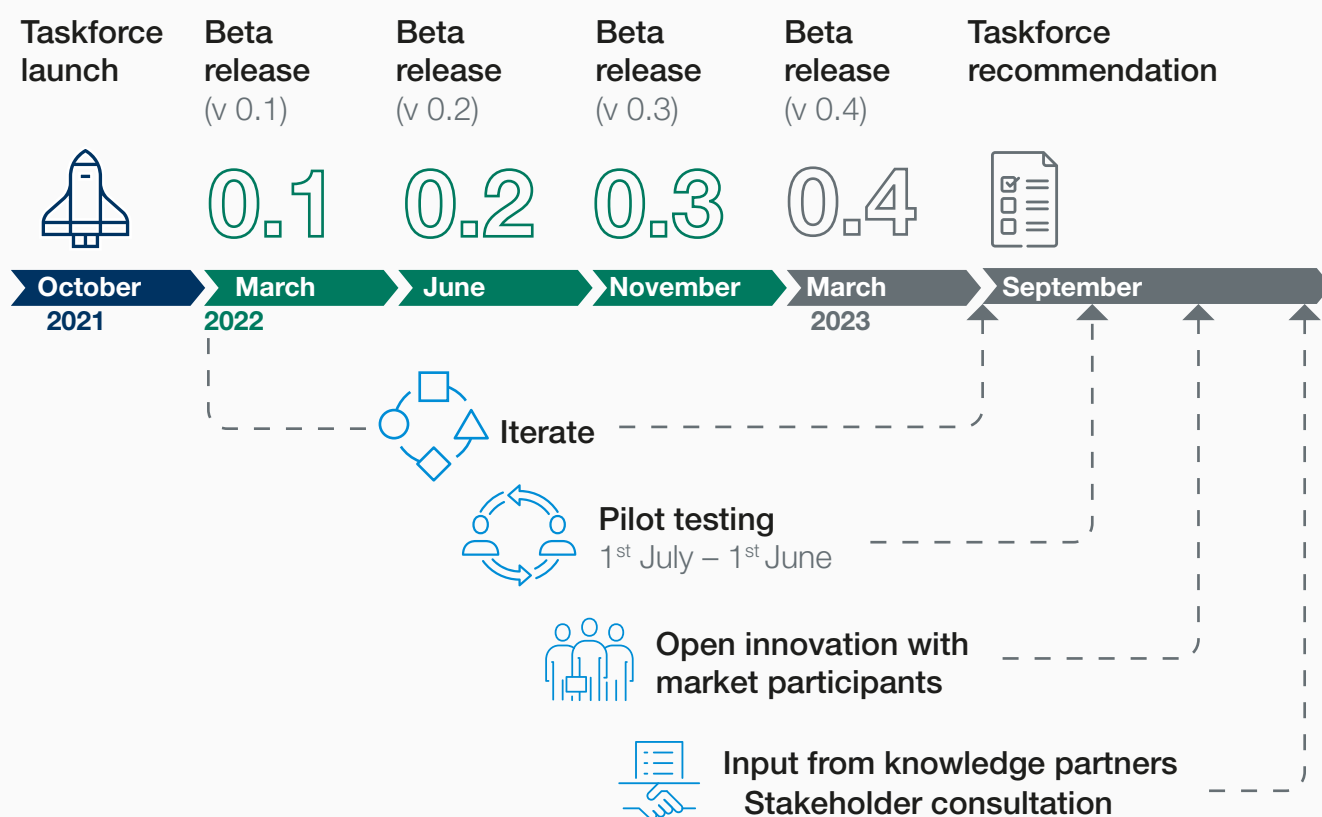
- Companies in the technology sector see the nature space as an opportunity rather than a risk to business (e.g., technology companies are creating novel tools and databases to manage their own and others' data that can improve how nature is managed).
- Oil & gas and mining companies often focus on minimizing the impacts of their operational sites and activities on nature and biodiversity, particularly regarding exploration and the development of projects. The commitments made by companies in these sectors focus on the exclusion and prevention of activities in United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage sites or areas classified under the International Union Conservation of Nature (IUCN) and Strict Nature Reserves. Generally, these sectors are increasing their nature-related commitments on topics ranging from biodiversity and nature preservation to reversing nature loss and aiming to be 'nature positive.'
- Companies in the food & beverage and pharmaceuticals industries mostly focus on supply chain impacts, setting commitments around responsible sourcing, deforestation prevention, and afforestation initiatives.

Many companies are now making commitments that apply to both nature and climate change, recognizing that commitments to nature often support their climate change and broader SDG ambitions. For example, many companies are emphasizing the nature co-benefits of carbon offsets. This must change if companies are to reduce their exposure to nature-related risks and seize nature-related opportunities. Fortunately, as nature positive commitments gain momentum and as companies better understand the importance of these risks and opportunities to their success, this evolution is likely to naturally occur, according to ERM subject matter experts. The further development and refinement of the TNFD over the coming year will be central to enabling companies to make the leap from reducing negative impacts to fostering positive change.

What is next for the TNFD?

The next iteration of the TNFD Framework, beta v0.4, is scheduled to be released in March 2023, with the final Framework to be published in September 2023. Framework beta v0.4 will be a complete version of the Framework that will enable market participants to provide feedback before beta testing concludes on June 1, 2023. This final beta will include additional guidance on metrics and targets, target-setting, scenarios, and the valuation of impacts to society. Throughout the three previous betas, the TNFD Framework’s core components have remained unchanged and consistent with beta v0.1. The TNFD Taskforce anticipates these components will remain consistent in beta v0.4 as well.

Figure 3
The TNFD Design & Development Timeline



TNFD’s development timeline to-date and proposed future releases, accounting time for input for stakeholder consultation, input from knowledge partners, open innovation with market participants, and pilot testing. Source: TNFD.²⁷

What is the Natural Capital Protocol?

The Natural Capital Protocol is another framework which was developed to support better corporate decision-making regarding natural capital.²⁸ Launched by the Capitals Coalition in 2016, the Natural Capital Protocol outlines how organizations can identify, measure, and value their impacts and dependencies on natural capital, which is a crucial step for TNFD. Understanding and applying it can help companies prepare and deliver TNFD-aligned disclosures.

How the Natural Capital Protocol connects with the TNFD

The Natural Capital Protocol and the TNFD are closely connected. A company's understanding of the value of their nature-related impacts and dependencies – which the Natural Capital Protocol enables – is essential to effectively adopting and implementing the TNFD Framework. Investors, regulators, and other stakeholders to companies need consistent nature-related data for decision-making. The TNFD provides a framework for harmonizing nature-related reporting and management, while the Natural Capital Protocol offers a means to identify, measure, and value natural capital impacts and dependencies, information essential to comprehensive nature-related management, so that it can also be reported. The Natural Capital Protocol creates better consistency and provides critical information for internal decision-making which companies can then disclose to engage with their external stakeholders.

Box 2:

The Natural Capital Protocol's role in the TNFD Framework's LEAP approach

As one of the TNFD's core knowledge partners, the Capitals Coalition has been instrumental in the development of the TNFD Framework. Its Protocol helps companies identify, measure, and value their impacts and dependencies on natural capital as part of the Evaluate element of the TNFD Framework's LEAP approach. Highlighting this interconnection, the Capitals Coalition and the TNFD published a joint report on how steps 05 and 06 of the Natural Capital Protocol should be used during the 'Evaluation' phase of LEAP.²⁹ Specifically, the report outlines specific actions companies can take using the Natural Capital Protocol to measure their nature-related impact drivers and/or dependencies and to measure the changes in natural capital associated with their business activities.

The stages and steps that define the Natural Capital Protocol

The Natural Capital Protocol framework has nine steps spread across four stages designed to help companies work toward preserving nature and increasing their business resilience.

Figure 4
The four stages and nine steps of the Natural Capital Protocol



The Capitals Coalitions' Natural Capital Protocol framework includes nine steps spread across four stages to help companies work towards preserving nature. Source: Capitals Coalition. ³⁰

5. Preparing TNFD-aligned reporting

The nature agenda is evolving quickly, and at times it can seem overwhelming to companies just beginning their nature journeys. Below we outline four essential steps to help companies navigate the nature agenda and prepare their nature-related reporting to align with the TNFD:



Step One

Identify and assess your business' material nature-related risks and opportunities, using the Natural Capital Protocol framework.



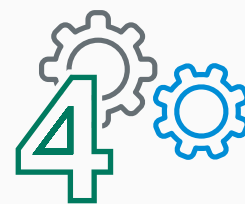
Step Two

Develop a strategy to manage your material nature-related risks and opportunities.



Step Three

Develop a governance structure to oversee your material nature-related risks and opportunities.



Step Four

Operationalize your strategy and align your related disclosures with the TNFD.

Companies that align their nature-related reporting with the TNFD ahead of its September 2023 launch can increase the sustainability and resiliency of their operations and value chains and instill confidence in stakeholders by demonstrating that they are committed to nature positive action aimed at addressing the nature crisis. Moreover, it will help them prepare for increased mandatory disclosure, e.g., the EU taxonomy and Corporate Sustainability Reporting Directive (CSRD).^{31, 32}



Step 1: Identify and assess your business' material nature-related risks and opportunities.

1. Map your corporate value chain to identify how your business interacts with nature.

2. Determine how your peers approach nature-related risk and opportunity management (i.e., learn which frameworks, tools, and metrics they are using) and which stakeholders they engage to inform strategy and management of their nature-related risks. Also at this stage, identify the risks and opportunities perceived internally by the business.

3. Follow the TNFD's LEAP process in conjunction with the Natural Capital Protocol's overall and sector-specific guidance to identify your company's nature-related risks and opportunities, then determine what is required to meet your business' objectives and locate your company's dependencies on nature. Take the following actions at this stage, based on Step 02 of the Natural Capital Protocol:
 - Determine your organizational focus (i.e., the parts of your business to be included in your assessment).
 - Determine your value-chain boundary (i.e., the parts of your value chain to be included in your assessment).
 - Decide if you will assess your nature-related impacts and/or dependencies (the TNFD recommends that companies assess both).
 - Decide which type of values you will consider (e.g., qualitative, quantitative, and/or monetary).
 - Consider other technical issues (e.g., baselines against which nature capital changes will be assessed, scenarios across which to compare outcomes and impacts, spatial boundaries to define an assessment range, and temporal boundaries to define an assessment time frame).
 - Address key planning issues (e.g., timescales, funding/resources, capacity, data availability and accessibility, and stakeholder relationships).

4. Evaluate your company's nature-related dependencies and impacts. Of these impacts and dependencies, determine which are material to your business. Take the following actions based on Step 04 of the Natural Capital Protocol as well:
 - List your potentially material nature-related impacts and/or dependencies.
 - Identify the criteria you will use for your nature-related materiality assessment (i.e., criteria for which impacts and dependencies are most significant).
 - Gather relevant supporting information (e.g., type, scale, consequence, and time scale of impact or dependency).
 - Complete a nature-related materiality assessment (i.e., assess the relative materiality of each natural capital impact and/or dependency).

5. Measure your nature-related impact drivers and/or dependencies by taking the following actions based on Step 05 of the Natural Capital Protocol:

- Map your activities against impact drivers and/or dependencies (i.e., which of your activities you will include in your assessment).
 - Define which impact drivers and/or dependencies you will measure (i.e., what you measure and what type of data (quantitative or qualitative) you will need to do so).
 - Identify how you will measure impact drivers and/or dependencies (i.e., what data sources (primary or secondary) you will need to measure).
 - Collect data on the selected impact drivers and/or dependencies.
-

6. Measure the changes in the state of natural capital associated with your business activities. Take the following actions at this stage based on Step 06 of the Natural Capital Protocol:

- Identify the natural capital changes your business activities and impact drivers create.
 - Identify the natural capital changes external factors create that could affect your business (e.g., changes in local water supply or local forest degradation).
 - Assess external trends affecting the state of natural capital (e.g., ecological pattern or resource use changes).
 - Select methods for measuring natural capital changes.
 - Measure natural capital changes.
-

7. Value your nature-related impact drivers and/or dependencies based on Step 07 of the Natural Capital Protocol:

- Define the consequences of your nature-related impacts/dependencies (e.g., the types of business and societal costs and benefits).
 - Determine the relative significance of associated costs or benefits (i.e., assess the costs and benefits associated with your identified nature-related impacts and/or dependencies to determine which impacts or dependencies to focus your valuation efforts on).
 - Select an appropriate valuation technique (e.g., qualitative, quantitative, and/or monetary).
 - Undertake or commission valuation.
-

8. Lastly, assess your company's nature-related risks and opportunities using the guidance outlined in the Assess phase of LEAP. Based on your analysis, determine the nature-rated risks your organization is exposed to over short-, medium-, and long-term time horizons and how they are likely to impact your business.



Step 2: Develop a strategy to manage your material nature-related risks and opportunities.

Determine how stakeholders in your value chain impact and depend upon the same ecosystem services you rely on up and down the value chain of your business enterprise.

Particular attention needs to be paid to local stakeholders and partners including Indigenous and Tribal stakeholders, and others with unique place-based perspectives on environmental assets and ecosystem services and the ways risks and opportunities affect those.

When developing your nature strategy, it is important to integrate natural capital assessments into your existing business strategy. While completing this integration, consider the following in accordance with the Natural Capital Protocol's Step 09, Take action:

- How will you avoid, minimize, mitigate, transfer, accept, and/or control nature-related risks?
 - How might your KPIs and objectives support resiliency building in nature and connect to local stakeholder needs through protecting and restoring ecosystem services and natural capital assets (e.g., water quality and quantity)?
 - How will you prioritize your nature-related risk management?
 - How will you integrate your nature strategy into your organization's overall risk management systems?
 - How will you explore partnership opportunities to monitor biodiversity, habitat, water quality, and more over the longer term?
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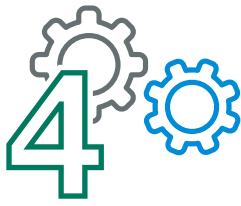
Step 3:

Develop a governance structure to oversee your material nature-related risks and opportunities.

Given the importance of location to managing nature-related risks and opportunities, companies' nature strategy governance must consider how the Board is engaged in strategy development as well as performance assessment and monitoring processes. Businesses need to identify opportunities to embed nature strategy into their climate agenda and consider how it interlinks with other sustainability issues, including human rights, community impact, equity, etc.

At this stage, it is critical to consider:

- The Board's role in overseeing identified nature-related risks and opportunities and the frequencies at which the Board will be updated regarding nature-related strategy and performance.
 - Develop a process for the Board to review and guide progress against nature-related goals and targets.
 - Management's role in addressing identified nature-related risks and opportunities. When doing so:
 - Assign responsibility for addressing nature-related risks and opportunities and developing related governance structures to specific management team members.
 - Specify the frequency at which management will review nature-related risks and opportunities.
 - Develop a process for management to follow in monitoring and managing nature-related risks and opportunities.
 - Incentives for board, executives, and managers
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Step 4: Operationalize your strategy and align your related disclosures with the TNFD.

Finally, operationalize your nature-related risks and opportunities strategy and prepare to disclose details of your process and your material nature-related risks and opportunities. According to the Natural Capital Protocol, going through the process of a natural capital assessment will likely lead to new ways of thinking about how a business is related to nature. Consider how these steps have challenged existing business models or management processes, for instance, it may flag significant dependencies on ecosystem services that you were not previously aware of. When determining what nature-related disclosures to make, consider the following:

- What disclosures are your peers undertaking, and which are most aligned with the TNFD Framework’s recommended “core” and “enhanced” disclosures?
 - What do internal and external experts recommend?
 - What are your company’s short and longer-term objectives?
 - What information/data does your company have available aligned with planned disclosures?
 - Where and how will you present your nature-related disclosures?
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6. Conclusion

What's next for nature-related disclosure?

The natural world is at a pivotal juncture where its future will either be sustained or significantly diminished by the actions society takes today. At this juncture, companies need to better understand and account for how they impact nature and how nature impacts them. Guides like the Taskforce on Nature-related Financial Disclosures' Framework and the Natural Capital Protocol will play an essential role in this process.

The TNFD Framework is redefining nature-related disclosure. As companies wait for the Framework's final recommendations to launch in September 2023, they should prepare by following the four steps outlined in this report. This will ensure they are ready to manage nature-related risks and opportunities and disclose information on these activities. Once the TNFD Framework launches, companies will need to familiarize themselves with it and prepare to disclose in line with its recommendations. ERM subject matter experts anticipate TNFD will grant companies a five-year period from 2023 to progressively comply and mature their nature-related disclosures. Similarly, it is expected that business leaders will move gradually from reactive risk management to proactive value creation after the Framework's release.

The Capitals Coalition is also redefining nature-related disclosure with the development of its Integrated Capitals Protocol, which unites their previous assessment protocols: the Natural Capital Protocol and the Social & Human Capital Protocol.³³ Their team of experts has identified the need to explore the interconnections and trade-offs of both protocols through an integrated lens. Further, the Capitals Coalition has recently launched their Global Value Commission, which brings together leading experts on valuation to determine the criteria for transparent valuations.³⁴ This progress on transparency will let the organization more accurately develop its Value Database which supports progress on making valuation accessible and consistent.³⁵

Over the past few decades, development of a corporate nature agenda has moved slowly. With the emergence of the beta versions of the TNFD Framework, its development is now accelerating. This quickening will continue as more companies and governments take action to reduce nature loss. In this shifting environment, companies must be strategic and proactive in identifying, managing, and disclosing their nature-related risks and opportunities or risk exposing their business to hazards in the physical operating environments that sustain them and within the stakeholder circles they depend upon for legitimacy and prosperity.

With so much at stake, action is not a choice but a necessity for companies. Fortunately, as this guide outlines, the tools to enable this action are or will soon be available. By following their guidance, companies can mitigate their nature-related risks and capitalize on their nature-related opportunities, securing their future and that of the natural world.

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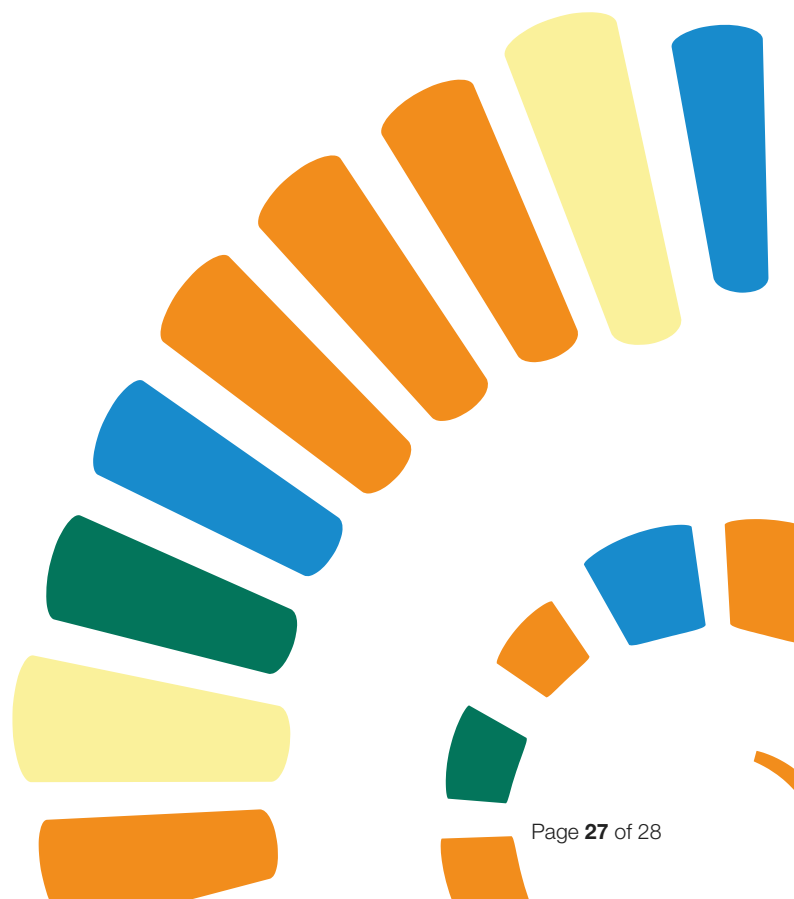
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About Capitals Coalition

The Capitals Coalition is a global collaboration redefining value to transform decision making. It sits at the heart of an extensive global network which has united to advance the capitals approach to decision-making. The ambition of the Coalition is that by 2030 the majority of businesses, financial institutions and governments will include the value of natural capital, social capital and human capital in their decision making and that this will deliver a fairer, just and more sustainable world. The Coalition has published two international protocols - the Natural Capital Protocol and the Social & Human Capital Protocols – that provide a standardized framework for businesses to identify, measure and value direct and indirect impacts and dependencies on stocks of natural, social and human capital.

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