

1 June 2023

Taskforce on Nature-related Financial Disclosures Forum

Via website: <https://framework.tnfd.global/provide-feedback/public-consultation/>

To whom it may concern

### **Taskforce on Nature-related Financial Disclosures (TNFD) Feedback**

The Australian Sustainable Finance Institute (ASFI) and Chartered Accountants Australia and New Zealand (CA ANZ) welcome the opportunity to provide a joint submission to the TNFD on its fourth and final beta framework. As TNFD forum members, both ASFI and CA ANZ support the mission and objectives of the TNFD. We have focused our feedback on those areas where we consider we can add the most value as detailed in Appendix A, particularly with a view to ensuring useability and uptake of the framework which will be critical to the TNFD achieving its objectives. Appendix B includes additional feedback from ASFI only. Appendix C provides more information about ASFI and CA ANZ.

Should you have any questions about the matters discussed above or wish to discuss them, please contact Nicole Yazbek-Martin via email at [nicole.yazbek-martin@asfi.org.au](mailto:nicole.yazbek-martin@asfi.org.au) or Karen McWilliams via email at [karen.mcwilliams@charteredaccountantsanz.com](mailto:karen.mcwilliams@charteredaccountantsanz.com).

Sincerely,



**Karen McWilliams FCA**  
Sustainability and Business Reform Leader  
Chartered Accountants Australia & New Zealand



**Nicole Yazbek-Martin**  
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The Australian Sustainable Finance Institute

## Appendix A

### General Recommendations

Designing and integrating meaningful risk management and reporting on nature-related risks and opportunities which considers the key drivers of nature loss is critically important, however is new for many institutions and will require significant time and capacity, even amongst institutions that already have robust ESG reporting capabilities. ASFI and CA ANZ recommend consideration of the following points as feedback to the TNFD to support implementation of nature-related reporting, from the perspective of preparers and financial lenders and investors.

#### **Considerations and links to other frameworks:**

- We support the establishment of a global baseline for reporting on nature related-risks and opportunities and welcome the outcomes from the 2022 United Nations Biodiversity Conference (COP 15), recognising that target 15 could provide momentum for the adoption of reporting and management of nature risks and opportunities.
- We welcome efforts to align the TNFD with the existing Taskforce for Climate-related Financial Disclosures (TCFD) recommendations. However, we recognise that the TNFD is more complex than TCFD and also has several links to other existing frameworks. We would welcome more information on how the TNFD are engaging with public sector standard setters and addressing interoperability with other frameworks including the Global Reporting Initiative (GRI) and European Sustainability Reporting Standards (ESRS). This is essential in our view and, particularly with the International Sustainability Standards Board (ISSB), considering the intersection of climate and nature in their upcoming standards.
- We note that with time, the TNFD plans to consider transition reporting. We suggest that this work builds on work already ongoing in this area, particularly the progress made by the UK's Transition Plan Taskforce.
- We note that for reporting entities nature risk is often localised and complex and the degree and proximity to nature risk and dependency is highly concentrated in certain sectors and less relevant to others. Accordingly, the degree of materiality should be considered upfront within the TNFD framework, and more guidance and clarity should be provided around materiality considerations. In considering materiality, a similar approach to the TCFD could be considered by identifying control and proximity to different types of impact. Likewise, the TNFD could identify the key sectors for which nature-related risks are most likely to be material and for whom the disclosures will be most relevant to.
- Reporting is important, however should be seen as one part of the solution to solve the nature crisis, with policy and regulation also being important parts of the overall solution. While TNFD has a focus on voluntary, private sector reporting the value of this as part of the overall suite of solutions to enable more capital to flow towards nature positive outcomes is closely linked to the regulatory context in different jurisdictions.
- We see an advocacy role for TNFD to continue to engage with supra-governmental and regulatory agencies to ensure global regulations and standards reflect the targets agreed to at COP 15.

#### **Framework structure and definitions:**

- We are concerned that some organisations may use this framework to make claims around nature positive. With the increase in greenwashing investigations both in Australia and New Zealand, we see a critical role for the TNFD to provide clear expectations around the use of this term by entities and jurisdictions.

- We are also concerned that the greenwashing risk could be exacerbated by companies reporting against metrics and drivers that are not material or decision useful to their operations, mis-directing efforts and masking the need for meaningful action to mitigate actual nature-risks and dependencies. This highlights the need for more focus defining materiality through the framework.
- The TNFD interactive website can be complex to navigate, involving log in details and cross referencing across multiple reports and example documents, which limit the ability to compare information in the one source. It would be beneficial to enhance the accessibility of important information on this website through simplifying and streamlining the key aspects of the website. An example is that definitions of key terms such as nature and the drivers of nature change are included in the overarching framework but not reinforced throughout corresponding documents such as the '*Additional guidance for financial institutions*'. We recommend defining these terms up front within all related documentation for the TNFD guidance.

#### **Materiality and the LEAP process:**

- Determining the materiality of impact should be the first step in the reporting process as clarity around how to identify the material metrics for an organisation will be important.
- For financial institutions and large, diversified entities in particular, a clear understanding of materiality will allow reporting entities to better target nature-related risks whilst avoiding large scale, whole of portfolio assessment across immaterial components. This will be crucial to encourage adoption of the standard.
- The LEAP process offers a methodical process to gain detailed insights of nature related risks, however this process has limited applicability for financial institutions. Completing the LEAP process will be a significant undertaking for most organisations. While we recognise that the TNFD does not recommend disclosure of all information identified, assessed and evaluated using the LEAP approach, organisations will still need to undertake the entire process to ascertain their material impacts and dependencies on nature. We recommend the TNFD give consideration as to how the LEAP process could be made scalable for different sized entities, or for those with primarily financed or supply chain impacts and dependencies rather than direct impacts and dependencies, including key guidance around materiality at the beginning of the process and on how to evaluate which disclosures are required.
- The four core phases in the LEAP process contain 16 analytic components, each of which will be complex and will take significant time to work through. It would be useful for case studies and use cases to be developed to show the level of detail necessary for each component and how each organisation approached it. These case studies should be as user friendly as possible, linked to the specific components of the LEAP process and cover the entire process. It is important to provide the workings for these examples to help illustrate the process that organisations will need to undertake.
- Additional guidance on how to measure and calculate each metric will also be required as many are not well-established metrics. We recommend extensive piloting of the selected metrics, both with investors and with pilot entities, to identify the complexity and challenges of each one. It is important to ascertain the usefulness of each metric for investors, to ensure they do not add unnecessary reporting burden to the reporting entity and to work through data challenges and appropriate proxies in different jurisdictions. Lastly, we recommend the TNFD carefully consider whether there may be any unintended consequences arising from application of the proposed metrics, i.e., creating incentives for the wrong behaviour. For example, the metric on the rate of reuse and recycle may not encourage organisations to reduce use in the first instance.

## Assurance

- There is a critical role for independent external assurance to lend credibility to any information reported by organisations. In our view, the goal should be for investors and other stakeholders to rely on the assurance performed and the integrity of the information provided in the same way as they do for financial information. Clear reporting criteria including suggested frequency of reporting are required to facilitate assurance, which will elevate the level of trust and confidence in the information reported and avoid confusion or misunderstanding amongst investors and other stakeholders. Time will be required for understanding in this space to build and for reporting processes and assurance practices to mature.

## Appendix B

### Specific feedback in relation to the Finance Sector

TNFD Financial institution feedback questions:

1. Should financial institutions be expected to disclose on each driver of nature change as proposed for all sector and global disclosure metrics or are aggregate disclosures across all drivers equally meaningful?
2. Should specific definitions be provided for the financial institution metrics, whether by individual impact driver or in aggregate, and if so, which ones should be proposed? Alternatively, should financial institutions be provided with flexibility until more consensus on the methodology develops?
3. How can the recommended core global metrics best be translated to financial institutions? Does this differ by financial institution sub-sector (i.e. bank, insurer, asset manager, asset owner, development bank)?

### Disclosure on the drivers of nature change:

- Reporting on drivers of nature loss should be guided by materiality. Not all the drivers of nature loss may be materially relevant to financial institutions. For example, invasive alien species could be less material to some institutions than land use change from financed operations. The overarching purpose and consideration for reporting should be to provide decision useful information to investors and financial decision makers in relation to the reporting entity.
- We also note that the risk of nature loss from climate change, may be best understood and could be reported on more effectively utilising the existing TCFD framework.

### Availability of Data:

- Many financial institutions are motivated to incorporate ESG risk and opportunities into their decisions around their portfolios and to report against these, however the ability of financial institutions to disclose meaningful nature-related information is highly dependent on the availability and quality of data. TNFD's additional draft disclosure guidance for financial institutions acknowledges the third-party data reliance of lending, investee and insurers exposures with external data providers utilising proxy data for financial institutions.
- Meaningful reporting on actual impacts and dependencies under the TNFD by financial institutions will be constrained until the financed companies start to undertake nature-related reporting, given that financial institutions typically have lower direct impacts on nature compared to the entities they finance.

### **Metric guidance to reporting on potential impacts:**

- The additional draft disclosure guidance for financial institutions on metrics for “potential exposures” is unlikely to be decision useful for financial institutions. Comparing “potential” nature risk within financed emissions portfolios utilising broadly defined drivers without clear guidance on how these factors interact with actual risks could lead to overestimation of problem scale whilst at the same time failing to provide decision-useful insights to drive meaningful changes.
- To enhance the guidance for financial institutions it would be beneficial to provide flexibility to reporting guidance so that alignment of actual and material risks is provided in the methodology to drive meaningful outcomes.

## **Appendix C**

The Australian Sustainable Finance Institute (ASFI) and Chartered Accountants Australia and New Zealand (CA ANZ), welcome this opportunity to provide input on the design and development of the Taskforce on Nature-related Financial Disclosures (TNFD).

ASFI represents Australian financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms – that are working to align the Australian financial system with a sustainable, resilient, and inclusive Australia. ASFI members collectively hold over AU\$19 trillion in assets under management and are committed to allocating capital in a way that supports positive social and environmental outcomes.

ASFI has a comprehensive work program in partnership with industry and the finance sector to enable the integration of natural capital considerations into financial decision making and unlock the implementation challenges of nature-related risk management, disclosure and reporting. As a TNFD forum member ASFI has worked with its members over the past 18 months to support education, information sharing and awareness raising around the mission and objectives of the TNFD and to test and engage with the framework.

CA ANZ represents more than 135,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate in the public interest. Our support of the profession extends to affiliations with international accounting organisations. As a TNFD forum member CA ANZ has started to raise awareness of the nature crisis with its members and will continue to enhance its resources in this area. We see a translational role for our members in the nature crisis to help organisations report on nature impacts.