

1 June 2023

Taskforce on Nature-related Financial Disclosures

Dear Sir/Madam

## FEEDBACK ON VERSION 0.4 OF THE TNFD BETA FRAMEWORK

On behalf of the Australian Council of Superannuation Investors (ACSI), thank you for the opportunity to provide feedback on v0.4 of the Taskforce on Nature-related Financial Disclosures (TNFD) beta framework.

### About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include 26 Australian and international asset owners and institutional investors with over AUD \$1 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to protect and enhance the long-term value of retirement savings entrusted to them to manage. [ACSI commissioned research](#) which highlighted significant nature-related financial risks and opportunities for investors. ACSI also engages with publicly listed companies in the ASX300 about how they are managing their interaction with nature and the consequent risks.

### Summary

ACSI strongly welcomes the TNFD framework as an important step in improving transparency and better management of nature-related risks. There is an urgent need for more detailed and high-quality information on the nature-related impacts, dependencies, risks and opportunities faced by companies across markets. The TNFD provides a strong foundation for improved disclosure, which will support urgently needed progress on nature protection and restoration.

ACSI welcomes many aspects of v0.4 of the beta framework, including (among others) the guidance on target-setting, the acknowledgment that disclosure will improve over time, and the link that is made between managing nature-related risk and remuneration policies. ACSI suggests that some changes could be made to improve the framework, which are outlined below.

Overall, ACSI is supportive of the general approach and content of the TNFD v0.4 and looks forward to engaging with investors and companies on implementation of the framework. Likewise, governments will have a fundamental role to play in supporting implementation of the TNFD, by building an enabling environment in which high quality data is more readily available and with strong alignment on metrics and methodologies. ACSI looks forward to also working closely with the Australian Government to develop these systems and legal frameworks.

### ACSI supports many aspects of the TNFD framework

As active owners and stewards of capital, institutional investors recognise that nature is a resource that companies both impact and depend upon, and which needs to be valued, measured, protected and restored. Globally, nature faces destruction at unprecedented rates,<sup>1</sup> which gives rise to financially material

<sup>1</sup> Australia's State of the Environment report 2021: <https://soe.dcceew.gov.au/>

risks for business and investors.<sup>2</sup> It is therefore crucial to have better information on these risks, and the TNFD is a positive step to support greater transparency across markets.

ACSI welcomes the approach and focus areas of the TNFD and acknowledges the significant amount of work and consultation that have led to v0.4. The following are areas that ACSI considers to be particularly positive inclusions in the TNFD beta framework (among others, this list is not exhaustive).

- **Targets:** the guidance on target-setting is important, and we welcome the acknowledgement that targets should be designed to best support an organisation's wider impact and risk management objectives. Nature-related risk should be mainstreamed into a company's risk management framework to be effectively managed alongside other financially material risks. Given the level of detail in the recommended disclosures on targets, ACSI acknowledges that organisations might not be able to respond to all requirements in the short-term but would expect to see progress over time.
- **Improved reporting over time:** ACSI supports the TNFD's recognition that nature-related disclosures will be new to many organisations, and that it will be prudent in many cases for organisations to start with a narrow scope and then expand reporting over time. To report comprehensively, companies will need to develop the appropriate systems and capabilities to obtain, analyse and disclose data. The capacity to do this will differ depending on the size and relative resourcing of particular organisations (although recognizing that concepts of materiality should also be proportionate). Accessing and analysing higher quality data will require an investment of resources, so we recognise that many organisations will not be able to provide detailed disclosure on all aspects of the TNFD immediately. We support the TNFD being a comprehensive framework with the acknowledgment that there will need to be a transition period, as the quality and detail of disclosures improves. Organisations should describe the limitations they face in disclosure and their strategies to improve information and reporting over time.

It will be crucial to develop robust systems of high-quality open-source data, which should develop over the coming years and consequently improve the quality of reporting. Ideally such systems will be developed through cross-jurisdictional co-ordination, so that multi-national organisations have access to comparable data across their operations. Governments should drive the development of such systems, to ensure that they are widely accessible and comprehensive.

The quality of reporting from financial institutions will always be contingent on underlying portfolio company disclosure and access to robust data tools. Organisations with multiple assets will need tools that facilitate both location-specific data assessment as well as efficient analysis across a diverse portfolio. ACSI welcomes, for example, the guidance that states: '[f]or financial institutions, scoping choices may involve focusing on certain asset classes or financing and advisory lines of business' and that '[c]overage should expand over time'.<sup>3</sup>

- **Link to remuneration:** ACSI welcomes the TNFD connecting nature-related risk to remuneration policies in the following: '[w]here nature-related risks and opportunities are material, organisations should consider describing whether and how related performance metrics are incorporated into remuneration policies'.<sup>4</sup> A company's remuneration policies should reflect the company's strategy, values, the desired company culture and the company's risk appetite. Executive remuneration should be designed to promote sustainable long-term performance and shareholder value creation. So, where nature-related risks and opportunities are material to a company's risk profile and strategy, consideration should be given to whether executive remuneration should reflect performance on managing nature-related risk. We recognise that this might not happen immediately, as companies will need to build enough longitudinal data to track progress accurately and build systems that are sufficiently mature to set appropriate KPIs.

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<sup>2</sup> ACSI, 'Biodiversity: Unlocking natural capital value for Australian Investors', November 2021: [https://acsi.org.au/wp-content/uploads/2021/11/ACSI-Biodiversity-Research-Report.Nov21\\_Final.pdf](https://acsi.org.au/wp-content/uploads/2021/11/ACSI-Biodiversity-Research-Report.Nov21_Final.pdf)

<sup>3</sup> TNFD, 'Draft Recommended Disclosures', <https://framework.tnfd.global/draft-recommended-disclosures/>

<sup>4</sup> TNFD Additional draft disclosure guidance for financial institutions, [https://framework.tnfd.global/wp-content/uploads/2023/04/TNFD\\_v0.4\\_Annex\\_4.4\\_v4.pdf](https://framework.tnfd.global/wp-content/uploads/2023/04/TNFD_v0.4_Annex_4.4_v4.pdf)

## Suggestions

While ACSI supports the content of the TNFD overall, we make the following recommendations to clarify or strengthen the framework.

- **Materiality:** ACSI supports the TNFD's focus on materiality and the requirement that organisations provide a statement explaining their process for determining materiality. It is important that organisations are focusing on the risks and opportunities that are most material, taking into account the short, medium and long term. Organisations should direct resources into reporting more comprehensively on most material areas first, and this could be reinforced more strongly in the text. This will help support a collective focus across markets on the most serious risks. The problematic alternative could be a situation where markets have more information on areas that are lower risk but are easier to monitor and disclose.
- **Scope of reporting:** The expectation to report for all upstream and downstream activities is likely to be difficult in practice in the short term for many organisations, given data and capacity constraints. Having said that, the qualification of 'where relevant and to the extent feasible' is important, as is the flexibility for an organisation to note the current scope of their reporting and whether it is intended to expand in the future. A pragmatic approach will need to be taken, to support disclosure being as comprehensive as possible but also feasible in practice. It will be important for organisations to clearly state the extent of their operations that have been assessed and covered in their reporting, to illustrate clearly where gaps remain.
- **Comparability:** Globally consistent methodologies to measure nature-related impacts, dependencies, risks and opportunities should be developed. Currently, organisations are not using common methodologies for certain important metrics (such as land use change), which limits the comparability of information. Likewise, having data measured using a variety of methodologies could make it difficult for investors to analyse information at a portfolio level. While some flexibility in reporting might be necessary in early stages (given the lack of consensus on certain methodologies), developing comparable data and common approaches as soon as possible should be the focus globally.
- **Drivers of nature change:** ACSI notes the questions specifically posed to financial institutions about the scope of their reporting. Regarding the question about reporting on impact drivers, we suggest that financial institutions aim, as far as feasible, to report on impact drivers separately rather than at the aggregate level, because the strategies, responses and progress may differ between drivers and would be better captured independently. That said, the level of maturity in reporting on this will be constrained by limitations in data and capabilities, particularly in the short-term. This will be a level of reporting for financial institutions to work towards as they build capacity and gain access to better quality data. We support the alignment with the SFDR for financial institutions, to avoid unnecessary duplication in frameworks and support efficiency in reporting.
- **Governance - recommended disclosure 'A':** ACSI welcomes the guidance related to a board's oversight of nature-related dependencies, impact, risks and opportunities. Boards are ultimately responsible for a company's risk management. It is useful to encourage organisations to consider reporting the '[n]umber (absolute and proportion of total) of members of board with competence on nature-related issues'.<sup>5</sup> However, boards can effectively manage risk through a combination of internal expertise and drawing on external expertise. We would therefore suggest encouraging organisations to also report on whether and how their board accesses expertise on nature (beyond the expertise of board members). We would also suggest that an organisation should clearly articulate why the relevant board members have been determined to have 'competence' (i.e. their relevant skills, experience and expertise). It should be noted that there might be significant differences in competence levels depending on the relative size of an organisation.
- **Governance - recommended disclosure 'B':** The following two dot points appear to be very similar, which could create confusion. We would suggest combining the two points into one:

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<sup>5</sup> TNFD, Draft recommended disclosures, <https://framework.tnfd.global/draft-recommended-disclosures/governance/>

- 'Processes by which management is informed about and monitors nature-related dependencies, impacts, risks and opportunities; and
  - How management (through specific positions and/or management committees) monitors nature-related dependencies, impacts, risks and opportunities.'<sup>6</sup>
- **Information for assurance:** In many cases, organisations will have their TNFD disclosures audited by independent auditors (as they do for many other areas of disclosure). The TNFD is lacking guidance on information that organisations would need to provide for assurance purposes, for example on baselines, assumptions, methodologies used etc. We suggest the TNFD consider providing such guidance, to support alignment in reporting on this information.
  - **Stakeholder engagement:** ACSI welcomes the guidance on engagement with affected stakeholders, which reflects a fundamentally important aspect of managing nature-related risks and opportunities. Where legal frameworks in a particular jurisdiction do not reflect international standards for engagement<sup>7</sup>, organisations should go beyond minimum legal requirements and engage according to internationally accepted standards.

It would be useful for organisations to also report on the following in relation to their stakeholder engagement, to the extent relevant and feasible:

- A description of whether an organisation has grievance mechanisms for stakeholders and communities, and whether/how such grievance mechanisms align with the requirements in the UN Guiding Principles on Business and Human Rights. Additionally, disclosure of the number of grievances raised, the nature of the grievances, and how they have been dealt with by the organisation.
- In the section of the guidance focused on enabling participation, this should also include resource constraints as a key barrier to participation that stakeholders may face. A lack of funding or resources can limit the ability of some stakeholders and community groups to collaborate and engage with reporting organisations over the long-term. Reporting organisations should consider whether their stakeholders have sufficient resources to engage, and where this is not the case, seek to mitigate the resource burden. For example, this could include providing funding, providing independent expertise, or using existing channels for engagement that would reduce additional burden.

ACSI looks forward to engaging with companies and investors in Australia on their implementation of the TNFD framework, which will help advance the protection and restoration of nature.

I trust our comments are of assistance. Please contact me or Romy Faulkner - Senior Analyst, Policy and Advocacy (rfaulkner@acsi.org.au) should you require any further information.

Yours sincerely



Louise Davidson AM  
Chief Executive Officer  
Australian Council of Superannuation Investors

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<sup>6</sup> TNFD, Draft recommended disclosures, <https://framework.tnfd.global/draft-recommended-disclosures/governance/>

<sup>7</sup> For example, in the [UN Guiding Principles on Business and Human Rights](#) and the [United Nations Declaration on the Rights of Indigenous Peoples](#).