



28 March 2024

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<https://tnfd.global/publication/additional-disclosure-guidance-for-financial-institutions/#publication-content>

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## TNFD sector guidance for financial institutions

The Australian Sustainable Finance Institute (ASFI) and Australian Council of Superannuation Investors (ACSI) welcome the opportunity to provide input and feedback on the Taskforce on Nature-related Financial Disclosures' (TNFD) additional guidance for financial institutions. As TNFD Forum members, we support the mission and objectives of the TNFD.

Our feedback is based on insights garnered from our members and is focused on supporting the feasibility and decision-usefulness of the framework, which will be critical to the TNFD achieving its objectives.

### About ASFI

ASFI is a not-for-profit organisation committed to aligning the Australian financial system with a sustainable, resilient, and inclusive Australia. Our members are 45 of Australia's leading financial institutions – including major banks, superannuation funds, insurers, asset managers, and financial services firms. ASFI members collectively hold over AU\$23 trillion in assets under management and are committed to allocating capital in a way that creates positive social and environmental outcomes.

### About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over \$1trillion in funds under management. Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

### Recommendations

As TNFD forum members, ASFI and ACSI support the mission and objectives of the TNFD and welcome this landmark framework. The TNFD sector guidance for financial institutions provides a welcome starting point for nature disclosures. Our recommendations below aim to make the framework more decision-useful and practical for financial institutions, to support

maximum uptake and use. Likewise, the TNFD should recognise and set appropriate recommendations for different types of financial institutions (eg. issuers of capital as compared with non-issuers of capital), whose audiences differ in their reporting needs. Further work is also required by regulators, governments, and the private sector to operationalise nature-related reporting in Australia in a way that enables strong take-up by financial institutions and supports their needs.

As an overarching recommendation, it is important to recognise that the capacity of financial institutions to report robustly against the TNFD will improve over the coming years, as they develop the necessary systems and are able to access better data from portfolio assets. For example, institutional investors in Australia currently face a severe lack of data being shared by the majority of their investee assets, particularly unlisted assets. Investors should engage with their investee assets as far as possible to seek further information and push for better reporting. Until such information is forthcoming, it is difficult for institutional investors to undertake or disclose a robust or detailed assessment of risk. This would also apply to banks and many of the customers they finance. The guidance and expectations for financial institutions should therefore be adapted over time as capabilities and data mature. Meanwhile, financial institutions should be using stewardship and engagement with portfolio companies and/or clients to better understand their nature risk and drive improved practices and disclosure from portfolio assets.

1.1	<p><b>Core global risk disclosure metrics, from the perspective of financial institutions</b></p> <p>We recommend the TNFD provide more granular and tailored guidance on the application of the core global risk metrics for financial institutions for nature-related disclosure reporting to be decision useful. This will enable capital markets to better understand, price and mitigate nature-related risk and allocate capital accordingly.</p> <p>Regarding the metrics:</p> <ul style="list-style-type: none"> <li>• Value of assets, liabilities, revenue, and expenses that are assessed as vulnerable to nature-related transition risks (total and proportion of total).</li> <li>• Value of assets, liabilities, revenue, and expenses that are assessed as vulnerable to nature-related physical risks (total and proportion of total).</li> <li>• Description and value of significant fines/penalties received/litigation action in the year due to negative nature-related impacts.</li> </ul> <p>The TNFD recommends that financial institutions disclose according to these core global metrics for upstream and downstream operations; meaning for their own operations and also encouraging the disclosure for financial institutions' financed activities (e.g., lending and/or assets under management and/or underwriting portfolios), as and where possible.</p> <ul style="list-style-type: none"> <li>• For financial institutions' own activities, reporting on the first two metrics, especially value of revenue, will be highly dependent on reporting by their financed activity entities.</li> <li>• For financial institutions' financed activities, even with widespread reporting, it will be very challenging to collect and aggregate the value of all individual assets, liabilities, revenue, and expenses being financed, that are vulnerable to nature-related risks. It is also unclear whether this level of aggregated information about the financed activities of financial institutions will be decision-useful for both the institution and its shareholders. A more manageable and decision-useful metric could be —once companies start reporting— for financial institutions to identify their overall exposure (either lending or investment) to companies/assets that have high vulnerability to</li> </ul>
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	<p>nature-related risks. This could be based on one or more attributes such as sector, location, specific activity, reputation, etc.</p> <p>We encourage the TNFD to consider whether these metrics are fit for purpose for financial institutions to report their financed activities and how this could be adjusted to ensure that reporting obligations are useful and proportionate.</p> <p>On the third metric, both for a financial institution’s own operations and financed activities, more clarity is needed, particularly regarding the scope and duration.</p> <p>We suggest including in the metric that a financial institution should also disclose whether any fines or penalties have been appealed, and also how a company has responded to the penalty (e.g. remediation etc) and resolved the issue.</p> <p>Additionally, fines, penalties received, and litigation actions are not the only indicators of negative issues; we recommend considering also including markers of community and/or stakeholder disapproval, such as grievances and complaints. We also note that none of these metrics are pro-active in nature as they only report on past negative actions and do not provide information on prevention or due diligence prior to capital allocation.</p>
1.2	<p><b>Core global opportunity disclosure metrics, from the perspective of financial institutions</b></p> <p>Regarding the metrics:</p> <ul style="list-style-type: none"> <li>• Amount of capital expenditure, financing or investment deployed towards nature-related opportunities, by type of opportunity, with reference to a government or regulator green investment taxonomy or third-party industry or NGO taxonomy, where relevant.</li> <li>• Increase and proportion of revenue from products and services producing demonstrable positive impacts on nature with a description of impacts.</li> </ul> <p>Without further regulation and clear guidance/ definitions on nature-related opportunities, and “positive impacts on nature”, these metrics expose financial institutions to claims of greenwashing and making false or misleading claims.</p> <p>In Australia, there is no consensus on the definition of “nature-related opportunities” or “positive impacts on nature”. While progress is being made with the development of the Australian sustainable finance taxonomy, the development of definitions and related guidance is still evolving and, in the first instance, is focused on climate rather than nature. In the absence of clear definitions and guidance that is regionally specific and applicable, more principles-based guidance on the minimum requirements for making such claims would be useful for the market. This would help mitigate instances of greenwashing, by supporting a base level of quality and consistency of claims.</p> <p>While national level governments have the ultimate role in establishing nature-related definitions and requirements within their own context, we recommend the TNFD provides principles-based guidance on minimum requirements that satisfy the objective of the metrics, particularly relating to “positive impacts on nature”.</p>
1.3	<p><b>Core sector disclosure metrics for financial institutions and their usefulness to identify what is material and help decision-makers prioritise their efforts.</b></p> <p>Financial institutions require decision-useful metrics that enable them to clearly understand and narrow down where their nature-related risks are so they can consider actions to mitigate these risks.</p>

*Metric 1 – Financial exposure to a defined set of sectors considered to have material nature-related dependencies and impacts*

As it currently stands, metric 1 is currently limited in how decision-useful it is for financial institutions. Many of ASFI and ACSI's members piloted the TNFD and the LEAP approach, and as part of identifying nature-related dependencies and impacts utilised the ENCORE tool to assess their portfolios by sector. The results showed impacts and dependencies across most assessed sectors (information that was inherently known due to the nature of specific sector activities). However, the path forward to narrow down and identify what is material across sectors and within each sector is not very clear. A complete sector view is limited in its usefulness to understand where priorities lie and what efforts financial institutions should focus on. More granularity is needed to identify key risk areas for action.

Relatedly, the sector list proposed by the TNFD in Annex 1 of the sector guidance is too broad to be highly useful to financial institutions in this prioritisation. The application of this list results in identifying exposure to most sectors financed by financial institutions and does not facilitate further prioritisation for understanding and action. To address this, and to support financial institutions on their journey to understand and manage their nature-related impacts and dependencies, we recommend the TNFD develop:

- guidance on how asset owners and financiers can take their identification of priority sectors further and focus on the most material nature-related risks within these sectors. For example, guidance on what financial institutions should look for in these sectors, to determine which of their investee or financed sectors are highest risk. This could include guidance on how to identify risks based on types of locations and value chains.
- A 'decision tree' could be helpful, which guides financial institutions to assess and prioritise their efforts – via questions and choices to help them assess where their sectoral exposures are.

*Metric 2 – Financial exposure to companies with activities in sensitive locations*

This metric is decision-useful as it focuses on the financial exposure to tangible locations where inaction is not an option. The metric guides an assessment that will point to financial activities with material exposures to nature. However, more detailed country and region-specific information on what are considered sensitive locations is needed to ensure financial institutions are using the same baseline so that disclosures can be comparable. Specifically for Australia, there is a key enabling opportunity for government to provide guidance and definitions of what 'sensitive locations' or 'areas deemed to be ecologically sensitive' are for Australia to support better understanding of Australian businesses and investors' interactions with nature.

It is also important to note that many financial institutions currently face a significant gap in information from portfolio assets about the location of their operations. For example, institutional investors may have ownership in thousands of assets across their portfolios that do not currently provide this information. This would also apply to banks with many of the customers they finance, and is particularly the case for unlisted assets, clients and SMEs. The lack of data is further complicated for investors by the fact that many assets are often managed through asset managers. Financial institutions can start to set up the systems to obtain and track this information, however this process will take time and will depend on the willingness and ability of assets/clients to provide the information. Financial institutions may therefore choose to prioritise their attention in the first instance on areas of material risk where they have the best data.

	<p>We propose the TNFD provides further guidance on how financial institutions might choose to prioritise, to be able to best direct their efforts to the most material exposures and take meaningful decisions to mitigate these.</p>
1.4	<p><b>Core global metrics and their relevance for financial institutions</b></p> <p>All participants in the economic value chain have a role to play in the identification and management of nature-related risk and reporting this risk to help with better decision making. This role is inherently influenced by the proximity to nature and the level of influence over operations that have a direct impact on nature. Likewise, these differences will also affect the nature of, and audience for, disclosures.</p> <p>We welcome the additional sector guidance released by the TNFD and acknowledge that they have the objective of accounting for sector differences. However, we note that with regards to the core global metrics – while acknowledging current data limitations for financial institutions to obtain them – the sector guidance for financial institutions refers to the main TNFD Recommendations document without tailoring the recommendations or providing additional guidance for financial institutions.</p> <p>We recommend the TNFD explore the role of different types of reporters and considers their respective disclosure audiences. For example, there will be differences in reporting approaches between listed and unlisted entities, and between issuers of capital and non-issuers of capital. A listed entity is generally reporting to an audience of investors for which knowledge of business and financial risks can be assumed, whereas an unlisted entity’s audience generally has a different level of knowledge and disclosure needs. The TNFD should acknowledge that reporting should be appropriate and material for the audience of the specific entity.</p> <p>Differences in the nature of entities across the market should be reflected in the level of core global metrics requested from them in the relevant sector guidance. For example, not all core global metrics are relevant for every sector for decision making purposes, and approaching them all without specific guidance can unnecessarily complicate the TNFD adoption process. We understand from conversations with TNFD staff that financial institutions are advised to start by focusing on the 5 core global risk and opportunity metrics but are not expected at this stage to focus on the expanded 9 core global impact and dependency metrics in relation to their portfolios. This acknowledges the fact that this information will be heavily reliant on the quality of disclosure from portfolio companies. This clarification should be made very clear in the guidance for financial institutions, as it helps to prioritise resources and focus. This will also create clarity for any other stakeholders who review the disclosures of financial institutions, thanks to a shared understanding of the scope of disclosures.</p>
1.5	<p><b>Other disclosure metrics for financial institutions</b></p> <p>Adopting the TNFD is a journey, and as highlighted in the TNFD v1.0 recommendations, it is not expected that all organisations will be able to report on all core disclosure metrics immediately. In acknowledgement of this adoption pathway, some of ASFI and ACSI’s members have indicated that optional guiding interim metrics – both qualitative and quantitative – would be useful in initial adoption stages as a foundation to build internal capacity on nature. Some examples include:</p> <ul style="list-style-type: none"> <li>• Educational coverage metrics (e.g., percentage of nature-related training provided across the organisation, number of nature-related training sessions and/or workshops, etc.).</li> </ul>

	<ul style="list-style-type: none"> <li>• Existence and purpose of internal nature-related champions and working groups.</li> <li>• Nature-related projects, investments and/or partnerships that are outside of business-as-usual financial activities.</li> <li>• Percentage of portfolios, assets and/or premiums assessed for nature-related risks, opportunities, impacts and dependencies.</li> <li>• Details on the update or creation of nature-related policies or due diligence requirements.</li> <li>• The establishment of systems and capabilities – such as human resources and IT systems – that build capacity to manage nature-related risk.</li> </ul>
2	<p><b>Financial institutions require country specific data and information</b></p> <p>ASFI and ACSI welcome the Tools Catalogue compiled by the TNFD to help address nature-related data and information needs. While useful, ASFI and ACSI's members have highlighted challenges in sourcing country specific decision-useful data and information – particularly information regarding sensitive locations and baseline data – from global tools as they do not provide enough granularity for Australian locations.</p> <p>While we acknowledge that the provision of country-specific data is an enabling role that governments and market participants could play, we recommend the TNFD acknowledges the value of location-specific data and that the lack thereof could be a barrier to effective risk management and reporting, and works, where possible, with governments in raising awareness to help address this need.</p>

### Concluding remarks

Thank you for the opportunity to provide this feedback. We would be happy to discuss any of our comments in more detail with you. Please contact Angelica Del Hierro (ASFI) at email [angelica.delhierro@asfi.org.au](mailto:angelica.delhierro@asfi.org.au) or Romy Faulkner (ACSI) at email [rfaulkner@acsi.org.au](mailto:rfaulkner@acsi.org.au) if you have any questions.

Yours sincerely,



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Date: 28 March 2024




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Date: 28 March 2024

