

31/05/23

Re: Public comment letter on the Taskforce on Nature-related Financial Disclosures (TNFD)

Dear Taskforce on Nature-related Financial Disclosures Secretariat,

This letter is submitted in response to the request to provide feedback on the Taskforce on Nature-related Financial Disclosures (TNFD) beta v0.4 framework released on March 28, 2023, on behalf of the Climate Governance Initiative.

The Climate Governance Initiative, a global project launched in 2019 in collaboration with the World Economic Forum, has been established to mobilise boards around the world to serve as effective climate advocates within their companies. The Climate Governance Initiative is made up of Chapters – regional networks of non-executive or independent directors – in over 50 countries with the aim to accelerate the transition to a net zero emissions economy by 2050 or earlier, by promoting the implementation of the World Economic Forum's Principles for Effective Climate Governance.

We recognise the intrinsic links between climate and nature and that addressing both these areas is essential to support a planet fit for future generations. We acknowledge the important role of business, and the boards that lead their companies, in moving towards a nature-positive world and the need for nature to be included in business strategies.

Chapters of the Climate Governance Initiative have collectively responded to this consultation, giving our strong support to the TNFD Secretariat for taking the lead in setting a global standard on nature-related disclosures.

We thank the TNFD Secretariat for the opportunity to participate in this consultation.

Best regards,

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Supporting Chapters:

Chapter Zero Brazil, Chapter Zero Brussels, Climate Governance Initiative Central America & Caribbean, Chapter Zero Chile, Chapter Zero France, Climate Governance Initiative Hong Kong, Chapter Zero Italy, Climate Governance Malaysia, Chapter Zero México, Chapter Zero Netherlands, Chapter Zero New Zealand, Chapter Zero Poland, Chapter Zero Romania, Climate Governance Singapore, Chapter Zero Slovenia, Chapter Zero Switzerland, Chapter Zero, the UK Chapter, and Chapter Zero Ukraine & Caucasus.

General feedback to the TNFD framework (beta v0.4)

The Climate Governance Initiative welcomes the work of the Taskforce on Nature-related Financial Disclosures (TNFD) on setting clear guidelines for businesses to assess and disclose their nature-related issues.

Following review of the latest version (beta v0.4) of the TNFD framework, the Climate Governance Initiative has identified the following strengths that it would recommend retaining:

- **Governance pillar of disclosure recommendations.** We welcome TNFD's disclosure requirement on corporate governance to ensure board oversight of nature-related issues. It is crucial for board directors to integrate nature-related risks and opportunities into the strategy and decision-making processes of their companies. We support the requirement of boards to ensure resources are put in place to enable effective management of material nature-related issues including the possibility to draw on external expert knowledge where needed. Board directors do not need to be experts on nature-based issues. However, they need sufficient nature-based literacy so they can hold management to account – to ask the right questions, and to understand and probe the answers. Therefore, we encourage TNFD to promote capacity building and the development of common terminology that can be used by boards to navigate nature disclosure more effectively. The Climate Governance Initiative is working toward this aim by assisting boards across the world with knowledge and tools to support high-level decision-making for climate and nature action.
- **Alignment of TNFD with TCFD framework.** We welcome the alignment of the TNFD's language and design with the TCFD disclosure recommendations, which will support and enable uptake of the TNFD framework by organisations that have already disclosed climate-related information under the TCFD recommendations. Establishing a unified standard for reporting across climate and nature-related issues could encourage companies to adopt voluntary disclosure knowing it is likely to become a widely accepted global norm. The Climate Governance Initiative is made up of Chapters – networks of non-executive or independent directors – in over 50 countries. From their inception, Chapters have strongly supported the TCFD as a model for driving improved climate disclosure, and likewise endorse an approach that builds on the leadership established by this standard to also drive disclosure of nature-related issues.
- **Alignment of climate and nature targets.** We welcome the requirement to align nature-related targets and climate-related targets to ensure that benefits are maximised. This alignment will help to ensure a holistic consideration of sustainability issues and has the potential, if combined with strong stakeholder engagement, to reduce the risk of progress in one area causing negative unintended consequences in other areas. This alignment will enable boards to better understand, monitor and oversee these issues.
- **Implied double materiality.** We welcome the TNFD's approach to requiring disclosure of nature-related risks and opportunities that directly affect the near and long-term financial results of the company, in addition to the impacts that business operations may have on nature. This double materiality approach to assessment and disclosure (i.e. the financial risk to the business as well as the impact the business has on nature) should help achieve more effective management of risks and opportunities by the business – as well as better safeguarding of the environment. Enhancing transparency in this area will shine a spotlight on areas of potential concern, thereby holding organisations and their boards accountable.
- **Priority location definition.** We welcome the expansion of the 'priority locations' definition to incorporate areas where an organisation is likely to have significant potential dependencies or impacts on nature. We believe that boards will be incentivised to take responsibility for ensuring effective management of all priority areas, especially if an active programme of stakeholder engagement, goal-setting and progress review is implemented.
- **LEAP approach.** We welcome the LEAP assessment process, which provides businesses with clear and helpful guidance to assess nature-related dependencies and impacts, risks and opportunities, and provides a framework to:

- Locate interfaces with nature.
- Evaluate dependencies and impacts.
- Assess material risks and opportunities.
- Prepare to respond and report.

As noted in 'The Chairperson's Guide to Valuing Nature'¹, we believe that LEAP is a valuable tool for organisations to incorporate nature into their business strategy, and for setting nature-positive goals.

- **Stakeholder engagement.** We welcome the proposed framework's emphasis on engagement with stakeholders that are affected by companies' operations. By improving understanding of key stakeholders that may be impacted by business operations (including Indigenous Peoples), companies will lay the groundwork for building trust and promoting opportunities for collaboration. This may help to prevent potential conflict and reduce the likelihood of human rights violations, thereby enhancing value both for businesses and communities. The new TNFD recommendation to consider stakeholder engagement embeds this principle holistically into the framework, which will hopefully avoid it being a token exercise. Moreover, we commend the manner in which stakeholder engagement is reinforced by the definition of 'Impact', which includes changes to nature's capacity to provide both social and economic functions, as well as the detailed guidance on stakeholder engagement. We support the view that the company's stakeholder engagement strategy should be monitored and overseen by the board.
- **Target-setting aligned to science-based targets for nature.** We welcome the Science Based Targets Network (SBTN) guidance to set and measure progress towards science-based targets for nature, but acknowledge this is not the only approach in development. We believe that TNFD target-setting based on science-based targets for nature (including the mitigation hierarchy for responding to nature-based issues) will encourage good practice and provide a useful basis for enabling the board to set goals and monitor progress. We note that the science-based targets for nature are still in development, but welcome the fact that they will be evidence-based, time-bound, and require verification and reporting – all functions that the board should rightly monitor and oversee, as it does for other aspects of financial and non-financial performance. Setting science-based targets for nature will therefore enable boards to ensure transparency and accountability for businesses in delivering on their nature targets.
- **Response metrics.** We welcome the aim of the new guidance on assessment metrics – known as 'response metrics' – to support companies in converting their disclosure activity into delivering positive results. We note the lessons learned with the introduction and early implementation of the TCFD, and welcome tools that will facilitate the process, for companies as well as for the boards that supervise them, of moving beyond reporting to action and implementation of good practice.

¹World Economic Forum & Climate Governance Initiative in collaboration with Deloitte (2023). *The Chairperson's Guide to Valuing Nature*.

The Climate Governance Initiative proposes the following areas for improvement to the TNFD beta v0.4 framework:

- **Understanding nature: definition of materiality.** The TNFD implies a preference for double materiality by requesting assessment and disclosure of the associated financial impacts (positive or negative) as a result of nature-based issues and the business impacts on nature (positive or negative). However, it does not provide an explicit definition of materiality and, in fact, encourages organisations to set out their own approach to materiality. This may undermine the credibility and consistency of disclosures. To mitigate this risk, we strongly recommend that the TNFD establish a clear definition of double materiality and a methodology to determine it. This should encompass both the financial impacts on the business resulting from nature and the impacts on nature caused by the business.

- **Guidance on governance pillar.** This pillar could be strengthened by including, in the depiction of ‘the board’s oversight of nature-related issues’, a description of how this oversight promotes compliance with the board’s statutory duties under relevant national corporate laws and regulations. This would clarify how this pillar supports directors’ fulfilment of their duties of diligence and care.
- **Clarity of geographic scope.** It is not clear whether the TNFD framework requires the disclosure of all locations where business operations interact with nature, or is limited to ‘priority locations’ only. Board-level decisions may depend on this geographic scope, for instance, when allocating resources to carry out stakeholder engagement. Our recommendation is to provide a clear methodology to determine materiality and appropriate risk assessment methods which, in turn, will help focus the geographic scope of the nature-related disclosure.
- **Methods for nature-related risk assessment.** Further information and examples on how to conduct and combine the three suggested assessment methods (heat mapping, asset tagging, and scenario-based analysis) would be beneficial to enable companies and their boards to develop a comprehensive understanding of nature-related risks and opportunities. We also suggest that the TNFD provides further guidance or case study examples on TCFD and TNFD joint reporting, as well as advance notification of any expected changes to TCFD.
- **Nature-related knowledge and skills gap.** For companies and their boards, integrating nature-based reporting is a complex endeavour. Organisations may require expert knowledge outside of their existing capacity (e.g., on topics related to ecology, natural science, or local community engagement) to complete TNFD’s assessment and disclosure, and to set science-based targets for nature (which are still in development). It is important to acknowledge that immediate adoption of the framework may be challenging, especially for boards looking at the nature topic for the first time. To support capacity building around nature-related disclosure, we recommend that the TNFD provide simplified, step-by-step guidance and illustrative case studies that other businesses can replicate and adapt. Moreover, we suggest that the TNFD create common terminology that sets the basis for nature-based discussions, as it will facilitate communication across sectors, within companies, between board directors and management.
- **Biodiversity metrics and targets.** Although proxies for measuring impacts on biodiversity are included in the core global metrics for disclosure (for instance land-use change, climate change, or pollution release), there are no direct metrics for biodiversity. Moreover, the TNFD could more clearly support biodiversity by fully aligning with the New Kunming Montreal Global Biodiversity Framework, especially with Target 15 and other relevant targets. We recommend that the TNFD define quantifiable biodiversity metrics, as this would enable companies to provide clear and meaningful indicators of their impact and progress on biodiversity within their companies and with global standards. Having quantifiable and meaningful metrics that measure progress towards biodiversity targets would not only enable board directors to make informed decisions based on overall biodiversity performance and its financial implications, but also help investors and stakeholders reach an informed opinion of the company’s exposure and resilience to biodiversity risk.

Lastly, the Climate Governance initiative proposes additional recommendations for the TNFD framework:

- We encourage TNFD’s plans to develop mechanisms for verification and assurance of disclosures – including assessment of the methodology used to define materiality alongside accuracy of data used to measure impact. Subject to the recommendations made above regarding clarity around definition, scope, relevance and usability of data; effective implementation of TNFD should help companies to understand and address their nature-related financial disclosures, and increase the confidence of investors and other stakeholders in using these disclosures to inform their decisions. Equally, we acknowledge the skills and knowledge gap that exist in the assurance sector regarding nature disclosure and also encourage capacity building for this sector.
- Future guidance on linkages between climate and nature in relation to developing net-zero transition plans would be welcomed.

- Finally, it is crucial to devise ways that encourage directors to adopt TNFD into their disclosure practices. One approach may be to identify and highlight the business opportunities and value creation that may arise from assessment and better management of nature-based issues (including the development of new business models). Highlighting increased expectations of stakeholders and investors for companies to disclose their nature performance, or the potential of the framework to be incorporated into regulatory mandates – as has been the case for TCFD.