Feedback on the Taskforce on Nature-related Financial Disclosure's Draft Framework (V0.1)

This feedback, coordinated by Ceres' Land Use and Climate Working Group, is signed by xx financial institutions representing over USD $XX trillion in assets.

We, the undersigned global financial institutions with diversified portfolios, recognize the systemic importance of biodiversity and ecosystem services as they form the foundation of our societies, environment, and global economy.[1] Echoing TNFD, we believe that businesses can no longer afford to overlook nature in strategy, risk management, and capital allocation.[2] Therefore, we are encouraged that TNFD is attempting to develop a disclosure framework that provides guidance on how organizations should assess their nature-related impacts and dependencies to help markets better understand the risks posed to corporations, investors, society, and the environment.

We want to take this opportunity, while the framework is still in the developmental stages, to provide feedback on aspects of the framework we see as critical. As the goal of TNFD's risk management and disclosure framework is to effectively shift financial flows toward nature-positive outcomes, it is imperative that TNFD establishes the correct parameters for risk and impact assessment.

As the draft framework is currently written, TNFD defines nature-related risks as, "the potential threats posed to an organisation linked to its and other organisation's dependencies on nature and nature impacts." The "Approach to Materiality" section further recommends that organisations follow an enterprise value approach for reporting. We understand this to mean that a company implementing the TNFD framework will only need to identify and disclose the nature-related risks and opportunities that are financially material to a company's enterprise value (EV). This sole focus on impacts to the reporting company is reinforced under discussion of the "Strategy" pillar, i.e., "Disclose the actual and potential impacts of nature-related risks and opportunities on the organization's businesses, strategy and financial planning, where such information is material.'' However, nature loss is a systemic risk that extends beyond the value chains of any one company. Accordingly, this narrow focus on enterprise value to the reporting company will allow companies to continue to consider their impacts on nature as unaccounted for "externalities." We are deeply concerned that this approach to risk will undermine the fulfillment of TNFD's critical mission.

TNFD's focus on nature-related impacts to a company's enterprise value appears to be directed towards answering the following questions:

1. How does nature loss impact individual companies?
2. What can companies do to protect themselves from these risks?

These are important questions to answer, but they should not be the only focus of TNFD.

Companies are already required to disclose material risks to their businesses and generally do not deem nature-related risks to be financially material for a variety of reasons. One of these reasons is due to cases of misalignment between a company's impacts and dependencies on nature, meaning that a company's actions may impair a set of ecosystem services that the company itself does not depend on. Another reason is that often times, exploiting nature could have a positive impact on corporation's financial position, at least in the near-term. As such, TNFD's focus on the nature-related impacts to an organization's enterprise value is a major oversight that could obscure accounting for an organization's contributions to a systemic risk.

[1] *Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. Abridged Version. (London: HM Treasury).*
[2] *https://tnfd.global/wp-content/uploads/2022/03/TNFD-beta-v0.1-full-PDF-revised.pdf*

As global investors trying to evaluate a systemic challenge, we cannot view nature loss only through the lens of individual companies' EV. For example, if Company A converts native vegetation in the Brazilian Cerrado, which is legal under certain circumstances, it may be profitable for it. As a result, Company A may not consider this land use change as having a material impact on its EV, effectively externalizing its nature impacts. In fact, this land conversion will have a measurable *positive* impact on the company's EV, at least in the foreseeable future. However, due to the interdependencies and interconnectedness between elements of ecosystems, this land conversion could disrupt species composition, water availability, and soil health, with significantly negative implications for other companies in our portfolios. Company A may be able to walk away from those negative impacts by sourcing from another region, but investors and local economies will bear the cost. These real and foreseeable nature-related risks would go unreported by Company A, as they fall outside the TNFD's definition of nature-related risks.

To reverse nature loss by 2030, we must understand which companies and which activities are contributing to the problem. Framing a company's nature-related risks and opportunities around its EV not only externalizes nature impacts, but also obscures the drivers of risk. If Company B or C becomes more exposed to nature-related risks due to Company A's undisclosed land use changes, it will be impossible for investors to identify the source or scale of increased nature-related risk exposure. Considering TNFD's additional goal of shifting global financial flows away from nature-negative outcomes, framing materiality only around a company's EV will not help uncover company practices that are resulting in nature-negative outcomes.

We're also concerned that the use of "materiality", without further definition, is an additional limiting factor. Without clear guidance around what constitutes a material risk, impact, or opportunity, companies could impact nature without deeming it material. Unfortunately, even "relatively" small impacts on nature can add up and impair sensitive systems. We fear the repercussions that could stem from surpassing tipping points of critical and irreplaceable ecosystems and biomes around the world.

In sum, we urge TNFD to change its approach to risk and materiality so that a reporting company identifies and discloses nature-related risks and opportunities where there are impacts on sources of natural capital, in addition to the company's enterprise value. This approach addresses the systemic risk of biodiversity loss and ecosystem services by disclosing company impacts on these systems, and acknowledges their interconnectedness, where company operations do not have purely discrete impacts. Further, we ask the TNFD to provide clear guidance and thresholds for materiality in assessing the impact of company operations on natural systems.

We'd be happy to discuss this with you and Ceres is more than willing to facilitate and coordinate.