BlackRock

March 19, 2021

TNFD Consultation, Technical Scope

Submitted via email to TNFD Working Group Co-Chairs,
Simon Zadek and Nicky Chambers

To: simon.zadek@f4b-initiative.net; n.chambers@globalcanopy.org
Cc: TNFD@globalcanopy.org; observersgroup@tnfd.info

RE: Technical Scope of the Taskforce on Nature-related Financial Disclosures Consultation Document, BlackRock Response

Dear Simon and Nicky,

BlackRock[1] is pleased to have the opportunity to respond to this invitation to comment on the technical scoping of the Taskforce on Nature-related Financial Disclosure (TNFD) framework.

Consistent with our fiduciary duty, we engage with companies to advocate for governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

As a long-term investor on behalf of our clients, we recognize that climate risk is investment risk—the mitigation of global warming and preservation of natural capital is an urgent priority.

We therefore welcome the opportunity to comment on the issues raised by the TNFD consultation and are available to further discuss any of our points.

Sincerely,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

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Overview

The BlackRock Investment Stewardship team (BIS) has reviewed the draft proposal of the technical scope of the TNFD framework. As noted by the working group members, we agree with the need to "develop a framework for organizations (non-financial companies and financial institutions) to identify, assess, manage, and report on their impacts and dependencies on nature" and ultimately "help organizations understand and manage the risks and opportunities associated with the deteriorating state of nature."

As we have observed over the last several years, material environmental, social, and governance ("ESG") factors play an integral role in a company's ability to generate long-term shareholder value. In addition, as an investor on behalf of our clients, we believe that in order to deliver long-term returns, companies must also consider the impact of climate change, as well as their use of and dependence on natural capital.

Over the last four years BlackRock has encouraged companies to utilize the TCFD framework, in conjunction with the SASB metrics, to articulate the risks and opportunities presented by climate change, as well as other material sustainability considerations. In 2021, we updated our [Global Principles](#) and [regional proxy voting guidelines](#) to stipulate that we expect companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2° C and is consistent with a global aspiration to reach net zero greenhouse gas ("GHG") emissions by 2050.[i]

In addition, we have made "climate risk and natural capital" [key engagement priorities](#). More than half of the global gross domestic product (GDP)—US $44 trillion—is moderately or highly dependent on nature.[ii] Moreover, one in five companies globally face significant operational risks as a result of collapsing ecosystems.[iii] In order for long-term investors to better understand the risk/ return profile of their investments, disclosure of material climate and natural capital risks is essential—we are interested to know how companies are managing and mitigating risk, while also positioning their strategies for a low-carbon, resource constrained world. Better yet, we want to know how companies are contributing solutions to the preservation of natural resources and technology that will help mitigate the worst effects of climate change.

Strategic considerations for the management and mitigation of climate risk, and implications for natural resources, are essential. At the same time, appropriate board oversight and accountability of strategy is crucial—from a global perspective, governance establishes the foundation from which effective ESG oversight can be implemented. As such, we are focused on the role of the board and the oversight structures in place, alongside disclosure that demonstrates risk management and strategic action.

We have outlined considerations for your review in formulating the TNFD framework.

1.2 Goal

We are aligned with the overall goal of the TNFD "to provide a framework for organizations to identify, assess, manage, and report on their impacts and dependencies on nature, aiding in the appraisal of nature-related risks and opportunities and thereby redirecting global financial flows away from nature-negative outcomes and towards nature-positive outcomes."

However, we believe the TNFD should focus on financially material, business relevant risks and opportunities, rather than double materiality. Its aim should be to develop, implement, and fine-tune reporting standards that result in disclosure that explains to investors how a company has considered its reliance on and access to natural capital. This should be evaluated from a financial perspective, but also in the context of a company's ability to execute on a sustainable business model.

Certainly, non-financial, business relevant ESG considerations are an integral part of a company's ability to generate long-term value. Our focus, as long-term investors, is on reporting that explains enterprise value creation. We also recognize that what investors consider to be material ESG issues today will change over time. This concept of "dynamic materiality" recognizes the need for companies and best in class operators to regularly evaluate risks and opportunities within their strategies, while considering shareholder interests alongside stakeholder impacts. We anticipate that as risk factors change, companies will continue to evolve reporting to reflect these realities.

However, as we seek to streamline global reporting on these issues, we believe financial materiality provides a path forward for companies to quantify natural capital dependencies in the short-term, while also assessing tangible long-term results on the business in the context of a resource-constrained world.

In addition, we strongly endorse the current alignment of the TNFD with the TCFD, including the four pillars of governance, strategy, risk management, and metrics and targets. We also believe that the focus on financial materiality from the TNFD will allow for greater synergies with the TCFD, allowing companies to consider climate and natural capital risks and opportunities in tandem. In our view, this is important given the interdependencies between climate and natural capital.

One point of clarification—the document states that "the TNFD framework will allow for the use of a range of data sources…Corporate disclosure is only one channel, of many, through which relevant information on an organization's impacts, dependences, risks, and opportunities can be received." Who is ultimately responsible for providing TNFD-aligned disclosure? Additional information on this issue may help clarify expectations for companies' disclosure responsibilities, in addition to how other data will be sourced, assessed, verified, and used for accuracy and comparability.

2.2 Definition of nature-related risks and opportunities

In line with our comment above, we are supportive of streamlining definitions, and appreciate the use of the Science-Based Target Network (SBTN) definitions, as companies are increasingly familiar with the work of the Science-Based Targets Initiative (SBTi) in their alignment of emissions-related goals.

Furthermore, a focus on both the physical and transition risks of natural capital use and impact is, from our observation, consistent with how companies are considering their reporting and strategic positioning. However, the statement that "the TNFD framework should not require reporters to assess or report on nature-related systemic risks" may result in incomplete disclosures.

As defined in the document, "systemic risks can refer to (i) the risk that a critical natural system no longer functions properly; (ii) a risk to system-wide financial stability; or (iii) risks that arise at portfolio-level (rather than at organization or transaction-level) of a financial institution." Investors and other stakeholders would likely want to know if a company is depending on a resource that will not be widely available in the future. While this certainly would be applicable to companies across a sector and/ or industry, understanding how a particular company is considering these types of risks to their business model is critical for investors to assess leaders and laggards, as well as drive capital towards best in class operators.

3.1 Prioritization

We agree that companies should use the SASB materiality map to prioritize the most urgent and material natural capital and environmental-related risks. However, additional metrics and frameworks for materiality are also listed in the document for companies to consider.

Over the last year, we have seen the market increasingly coalesce around SASB. We believe this streamlining is essential to reduce the reporting burden on companies and for investors and stakeholders to have clear and consistent information. We urge the TNFD to recommend SASB as the primary source to identify the most material sustainability topics and to ensure comparable metrics across peer groups.

3.2 Staged framework

We recognize that, for many companies, reporting climate and natural capital-related disclosures is a journey—a constant process of refinement as more information and technology becomes available. However, the suggested "three progressive stages" of reporting seem to have many overlapping elements that may lead to more confusion than clarity.

If the TNFD is looking for a staged approach to reporting, two tiers, “basic” and “comprehensive,” may help avoid confusion, given the overlap between the current “basic” and “intermediate” steps. Streamlining the general reporting stages would also better align with the suggested two-step approach for financial flows.

Appendix, Metrics and data

It would be helpful to clarify how the TNFD is considering “data stacks.” From our experience utilizing the data provided in TCFD reports, it is not immediately clear how information will be divided into “data stacks” or how that might help to simplify and streamline information.

Furthermore, in our experience, companies may find the bifurcation of data into “stages” and “stacks” difficult to understand and ultimately implement. As we have observed, where companies see complexities or nuances specific to a single reporting framework, with constrained time and resources, they may hesitate to provide aligned disclosures.

Appendix, Authoritativeness including traceability

We are aligned on the need for accurate and complete data for investors and other stakeholders. We agree that ideally the data provided in TNFD reports should be verified by a third party. However, the TNFD should include more detail on what type of “data trail” will be evaluated and how “reports would be audited by a third party to verify its authoritativeness,” given nuanced and emerging accounting and valuation practices for natural capital use/ impact.

Conclusion

We appreciate the opportunity to provide feedback and comment on the emerging TNFD framework. We look forward to continued involvement and partnership.

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[i] The global aspiration is reflective of aggregated efforts; companies in developed and emerging markets are not equally equipped to transition their business and reduce emissions at the same rate—those in developed markets with the largest market capitalization are better positioned to adapt their business models at an accelerated pace. Government policy and regional targets may be reflective of these realities.
[ii] World Economic Forum, “Nature Risk Rising: Why the Crisis Engulfing Nature Matters For Business and the Economy,” January 2020
[iii] Swiss Re Group. “Swiss Re Institute Biodiversity and Ecosystem Index.” 23 September 2020.