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Task Force on Nature-related Financial Disclosures (TNFD)
Glasgow Financial Alliance for Net Zero (GFANZ)

Via electronic submission

RE: TNFD *Discussion Paper on Nature Transition Plans*
GFANZ *Consultation Paper – Nature in Net-Zero Transition Plans*

To The TNFD and GFANZ:

The American Bankers Association[1] appreciates the opportunity to comment on the *Discussion Paper on Nature Transition Plans* ("The TNFD DP"). The TNFD DP details draft guidance to help organizations develop and disclose nature transition plans aligning with the Kunming-Montreal Global Biodiversity Framework (GBF),[2] agreed upon by governments globally (ex-US) at the December 2022 United Nations Biodiversity Conference (COP15). Financial regulators worldwide have given significant attention to the GBF, which was also a focus point of COP16 in October 2024. Among other things, governments around the world committed during COP16 to impose nature-related disclosure and risk management requirements in compliance with the GBF upon large corporation and financial institutions by 2030.

The TNFD DP must be understood within the context of the Consultation Paper simultaneously published by the Glasgow Financial Alliance for Net Zero (GFANZ)[3] titled *Nature in Net-Zero Transition* Plans (The GFANZ CP), which proposes guidance focused on nature in support of net-zero transitions. Both proposals set expectations for the private sector around nature-related issues and transition planning and are based on the five themes for transition planning set out in GFANZ's 2022 report *Financial Institution Net-zero Transition Plans* (2022 GFANZ report).

ABA members consist of a wide range of lending institutions of all sizes and business models. As discussed in more detail below, the characteristics of nature-related financial risks are often highly localized. As a result, mid-sized and community banks are uniquely positioned to be impacted by nature-related financial guidance. Mid-sized and community banks in the U.S. are often the backbone of many specific communities, and it is the ongoing resilience of these

[1] The American Bankers Association is the voice of the nation's $23.7 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $18.8 trillion in deposits and extend nearly $12.5 trillion in loans. Learn more at www.aba.com.

[2] The mission of the GBF is to "halt and reverse biodiversity loss" by 2030, with a 2050 vision of "a world living in harmony with nature."

[3] GFANZ describes itself as "a global coalition of leading financial institutions committed to accelerating the decarbonization of the economy."

communities that will be critical if the objectives of the TNFD recommendations can be achieved.

ABA's long-standing position is to preserve banks' ability to make the choices that make the most sense for their customers, the communities they serve and the bank's business plan—within the requirements set by law to ensure service to protected classes and to prevent money laundering or other illicit activities. We oppose – at any level of government – efforts that would force banks to lend to designated favored entities or that would discourage or prohibit banks from lending as a way to indirectly regulate or restrict certain activities or businesses. ABA's support of that principle applies to any government action seeking to use the banking industry to achieve indirect ends, but we are particularly concerned with those efforts by unelected international bodies. In short, standards should remain voluntary, recognizing the wide range of approaches taken by the equally wide range of banks working to meet customer and community needs and expectations. It is in this context that we comment on the voluntary guidance provided in the TNFD[4] DP and the GFANZ CP.[5]

With this in mind, banking institutions are eager to assist in their clients' efforts to address nature and climate -related activities and the guidance in both the TNFD DP and the GFANZ CP may be useful resources for certain companies. Considering the importance of addressing the challenges associated with climate change and nature loss, however, ABA and its members are concerned that the TNFD DP and GFANZ CP will not drive progress on meeting these challenges as intended. Looking to the financial sector to drive progress on these goals will not be sufficient. As experience in the net zero transition has illustrated, governments must play a critical role in providing the orientation, policies, and incentives needed to create the enabling conditions for real economy activity to meaningfully shift.

With these things in mind, ABA urges TNFD and GFANZ to address the following concerns:

A. <u>Financial Institutions are Unable to Drive Real Economy Outcomes.</u>

The proposals are based on the conceptually flawed assumption that financial institutions are able to drive outcomes within the real economy, whether they be specific nature-positive outcomes or net zero emissions targets of their clients. As financial intermediaries, banks' primary role is to support their clients by facilitating and financing the real economy transition activity of those enterprises, rather than dictating or creating these activities. The demand for such financing is significantly impacted by external factors such as governmental policies and incentives, technological advancement, and consumer preferences. Due to these dynamics, developing and disclosing financial institution transition plans within the proposed framework

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[4] While the TNFD DP does not refer to its guidance as "voluntary," the original recommendations of the TNFD (September 2023) were largely issued to "influence the voluntary standards landscape."

[5] The GFANZ guidance is labeled as "voluntary" and "non-binding."

will not on their own make them achievable and further severely diminishes the decision usefulness of such disclosures.

Experience in the net zero climate transition has shown us that:

1) Real economy enterprises respond to incentives which must themselves be aligned with the relevant goals, and
2) Financial institutions can then support that real economy activity.

In order to drive progress on achieving nature-positive outcomes, government policies must not only clearly set out expectations for actions to halt and reverse nature loss across geographic locations and economic sectors but also provide incentives that enable these real economy activities to be economically viable, especially in industrial sectors with high levels of impact and/or dependency. Financial institutions can then support these efforts by using their expertise to bring innovative financing and risk mitigation approaches to market participants and ultimately facilitate the channelling of capital towards projects intended to enable nature-positive outcomes.

B. <u>GFANZ-defined financing classifications are not strategies.</u>

Both the TNFD DP and the GFANZ CP categorizes real economy activities into four transition financing strategies, building on those set out in GFANZ's originally set out in the GFANZ 2022 Report.[6] These categories, however, are not financing strategies, but rather classifications of real economy activities being financed. This distinction is important because characterizing these categories as strategies and expecting financial institutions to disclose targets around these categories misaligns financial institutions' responsibilities, inappropriately implying their ability to drive these activities. It is critical to recognize that categorization and disclosure of transition finance does not create the enabling conditions necessary for real economy companies to pursue these activities and thus to create demand for finance.

In reality, financing strategies will anticipate and manage market-specific opportunities and competition – both in the banking and non-bank lending sectors – while managing risk tolerance levels (among them, credit, liquidity, and concentrations) that involve pricing, structuring (tenors, collateral, etc.), services, and geographic considerations, among other things. In the competitive markets in the U.S., banks will be more concerned with structuring financial products that meet their borrower’s needs than with reaching goals set within the strategic classifications.

[6] The strategies are 1) climate solutions 2) aligned 3) aligning and 4) managed phaseout. See GFANZ Technical Review Note: Scaling Transition Finance and Real-economy Decarbonization (December 2023).

Additionally, the level of judgment often needed to classify lending activities into such strategies can be substantial and often be overlapping, severely diminishing both the consistency and comparability of such information.[7]

C. <u>Key differences between nature and climate risks may make the GFANZ template potentially unsuitable.</u>

Applying a transition template developed for the climate sphere to nature-related issues suffers from the same limitations as those of net-zero transition planning. However, it also introduces additional complexities that may put into question the usefulness of the template to assess private sector actions to reduce impacts on nature, to reverse nature loss, and to measure progress of net-zero and nature-related efforts.

- **There is no singular, generally-accepted global goal for nature and therefore no common understanding of what corporations are transitioning to. Governments must lead with clarity on national implementation plans and the creation of incentives.**

  Unlike the clear and actionable goal of net zero, the GBF lays a wide range of biodiversity and nature-related goals which signal high-level support for the single goal of nature conservation and restoration. However, these issues are nonetheless highly diverse in terms of focus areas, scope, structure, and indicators, each of which can affect the degree to which different national-level policies can be aggregated and then judged as being aligned with global goals. While the GFANZ DP notes that "there is no net-zero without nature," this wide range makes it a formidable task to design and communicate strategies that are understandable to most stakeholders. This significantly complicates how stakeholders will evaluate corporate priorities, progress made during the year, as well as that progress compared to other institutions. An example of such a complication is assessing and evaluating whether a portfolio or activities in a geographic area should target (or be classified as) "nature-positive" or "nature-neutral" status.

  Given the above, it is not clear that financial institutions and other private sector actors will be able to apply the same 'pathway-based' approach developed to address climate. Consistent with what is explained above, high-level commitments, like those in the GBF, must first be led by specific governmental policies that provide clarity (including incentives) throughout the general economy at the national, or even local, level. Without a roadmap for national governments to achieve their nature-related commitments by providing the enabling conditions and incentives to create opportunities for real economy companies to act, corporate efforts will often lack coordination and effectiveness. A lack of coordination can even unnecessarily put local economies and the accompanying regional and community banks that support them at risk. Governments must, thus, lead

[7] Consistency typically refers to classification from period to period by an institution whereby comparability refers to similar treatment of similar transactions or instruments between institutions.

with clear policy signals to create enabling conditions for private sector action, as voluntary efforts alone will face limitations without supportive national policies.

- **Differences in nature-related impacts, dependencies, and actions from those of climate limit banks' ability to take portfolio-level approaches.**

  Private enterprises often anchor their climate change efforts to the common, global, economy-wide objectives of reducing greenhouse gas emissions and/or removing CO2 from the atmosphere. These objectives are generally scalable across geographic regions with minimal adaptation.

  In contrast, nature-related risks and impacts can be highly granular, location-specific, challenging to scale across locations, and multiple mitigation options can be used. In other words, the objectives and related metrics are non-fungible, and their meaning will vary widely from location to location. For example, specific pollinator populations may be impacted by several sources (e.g., land use, pesticides, parasites, invasive species) that are unique to the geographic locality. Likewise, issues related to both water availability and flood control will differ based on the geographic region, as will their mitigation techniques.

  This challenge is further increased by the recognition of the synergies and trade-offs between and within nature and climate actions. While some of these interplays are acknowledged, quantitative impacts are currently not well-understood in any level of detail and potential actions are often possible only after local or jurisdictional due process and approval.

  This leads to the need for a diverse range of highly-granular metrics to assess and portray a firm's exposures will often not be comparable between institutions and even often not comparable on a year-to-year basis for a specific institution. However, until consensuses are achieved at identifying and prioritizing nature-related objectives at agreed-upon levels (considering the local considerations just noted), it will be extremely difficult to standardize, set and measure nature-related goals and their related financing goals. This practical reality could, in fact, prevent the achievement of the very objectives of the TNFD recommendations and ultimately provide little assistance to the efforts being made by the very communities that financial institutions are seeking to serve.

D. **<u>Interest in nature- and biodiversity-related issues remains relatively low among several key stakeholder groups and expertise remains a challenge.</u>**[8]

Research related to nature and biodiversity conducted by the staff of the International Sustainability Standards Board (ISSB) indicates a mix of strength of interest of investors, with most investors acknowledging they are “at an early stage” in assessing how such information would impact their investment decisions. The ISSB staff also cited the 2023 PWC Global Investor Survey in noting that only 10% of 345 surveyed investors from thirty countries thought that nature and biodiversity risks were important to consider when evaluating the companies they invest in or cover.

The ISSB staff also cited a Credit Suisse report noting that a third of investors note that insufficient expertise in nature and biodiversity is a challenge for them. These figures indicate a high risk that nature and biodiversity risks may be significantly misjudged, conflated with other risks and objectives, or otherwise misunderstood by key stakeholders.

<u>Conclusion: Emphasize the voluntary nature of the guidance.</u>

In summary, while we recognize the importance of addressing these global challenges, it is imperative that the financial sector is not relied upon to drive progress and real economy outcomes. Governmental policy clarity and support are critical first steps to enable this activity and drive progress on the relevant goals. Additionally, key differences between climate and nature will mean that the approach to assess and measure progress against these goals will need to be different in the two spheres, and we believe any disclosure of strategies or metrics should always be considered voluntary and not be relied upon for regulatory purposes.

Presented as “voluntary,” the guidance in both the TNFD DP and the GFANZ CP may be useful resources for certain companies and ABA urges both TNFD and GFANZ to clearly emphasize the voluntary nature of the guidance as well as the critical role of governmental policy, not only to corporates and financial institutions but to broader stakeholders, including regulators and policymakers.

Thank you for your attention to these concerns and for considering our recommendations. Please contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss this further.

Sincerely,

Michael L. Gullette

[8] See ISSB Staff Paper for November 2024 ISSB meeting at https://www.ifrs.org/content/dam/ifrs/meetings/2024/november/issb/ap3c-literature-review-investor-interest.pdf