Accounting for Nature®

Materiality Assessment

Guidelines for prioritising environmental assets and areas when designing an Environmental Account

Version 1.0

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VERSION CONTROL

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ACKNOWLEDGEMENT

From 2008 to 2018, the Wentworth Group of Concerned Scientists developed the Accounting for Nature® model. The model sought to establish a practical, affordable, and scientifically robust methodology for creating a common unit of measurement to describe the condition of environmental assets and measure any change in the condition of those assets over a period of time.

From December 2018, the Wentworth Group will not take part in any further development of, or application or implementation of, the Accounting for Nature® model. This will be undertaken by AfN Ltd. The Wentworth Group is not responsible for the use of or implementation of the Accounting for Nature® model or any associated services provided by AfN Ltd.

1 Purpose

Accounting for Nature Limited ('AfN') does not prescribe which environmental assets Proponents should include in an Environmental Account developed under the Accounting for Nature® Framework (the 'Framework'). This is because there is a large range of different purposes, assets, scales, and other circumstances for which an Environmental Account can be developed for.

The purpose of these guidelines is therefore to help Proponents undertake a materiality assessment to assist with identifying and prioritising what assets and locations should be included in an Environmental Account, given the following key considerations:

- Relevance to the account purpose;
- Significance to the proponent, including financial risks and opportunities;
- Significance to stakeholders, society, and the environment; and,
- Any other important factors.

It would not be practical, possible, or cost-effective to measure every environmental asset on a property, in a portfolio, or across a supply chain. Hence the importance of undertaking a materiality assessment.

2 The Accounting for Nature® Framework

Accounting for Nature® is a framework for building asset-based Environmental Accounts using a common unit of measure, an Econd®. The purpose of the Framework is to provide a practical, scientifically accurate, and cost-effective approach to measuring, reporting, and verifying changes in environmental condition over time. Environmental Accounts can be created at various scales and for multiple purposes.

It is consistent with the UN Standard for Environmental Economic Accounting (UN SEEA) and has been recognised by the Taskforce for Nature-based Financial Disclosure (TNFD) as credible standard for environmental condition accounting.

Under the Framework, the AfN Certification Standard sets out the specific rules for Proponents to achieve certification of Environmental Accounts by AfN. To construct an Environmental Account, Proponents must follow AfN's five-step process: design, register, build, submit, and maintain (Figure 1).

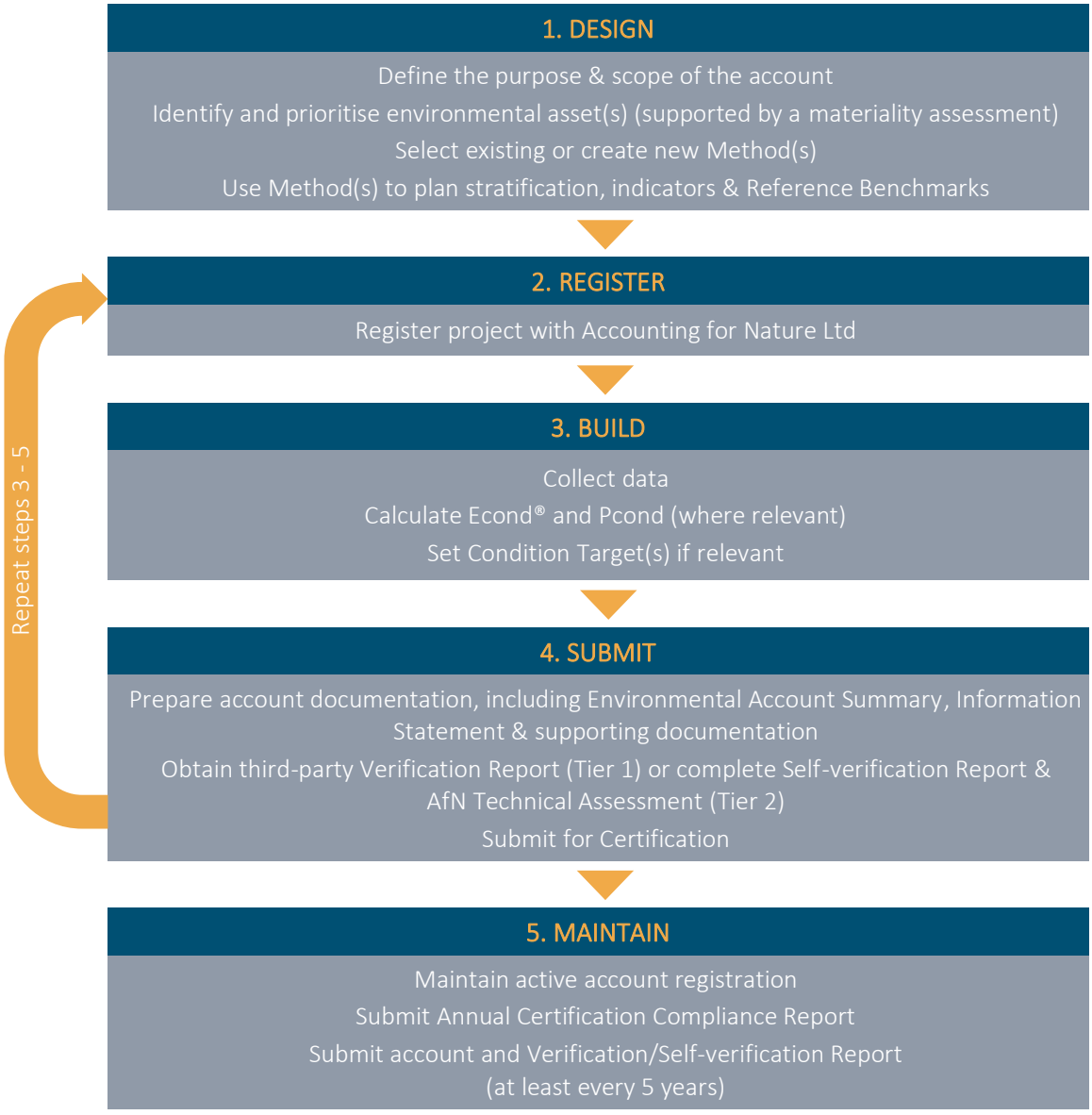

Figure 1. The five steps required under the Framework to achieve Certification of Environmental Accounts

Undertaking a materiality assessment falls within Step 1, design, of the five-step process. This step involves the following components:

1. Define the purpose and scope of the Environmental Account.
2. Identify and prioritise environmental asset(s) that will be monitored in the Environmental Account (with the help of a **materiality assessment**).
3. Select existing or create new Method(s) to monitor the condition of each environmental asset.
4. Use the selected Methods to plan the Environmental Account (i.e. stratification, understanding indicators, and determining reference benchmarks).

This guideline document focuses on the first two points described above. A materiality assessment, in combination with the account purpose, will help Proponents identify and prioritise environmental assets and the locations at which they should be monitored.

3 What is Materiality?

Materiality is widely used in accounting, reporting, and planning, and is used to identify the most important issues for a company and its stakeholders. These issues tend to be those most at risk of causing significant economic, reputational, or legal impact and, therefore must be monitored and reported on in detail.

The International Organization of Standardization Guidance on Social Responsibility (ISO 26000) explains materiality as follows:

> *"An organization should review all the core subjects to identify which issues are relevant. The identification of relevant issues should be followed by an assessment of the significance of the organization's impacts. The significance of an impact should be considered with reference both to the stakeholders concerned and to the way in which the impact affects sustainable development."*

Formed in November 2021 at COP26, the International Sustainability Standards Board (ISSB) has been established to develop overarching standards that provide-high quality and comprehensive guidance for sustainability disclosures that support the demands of investors and financial markets. ISSB focuses on disclosures of the most material sustainability issues to investors. These standards will likely build on existing sustainability standards, such as the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI).

SASB provides sector-specific guidance on the disclosure of financially material sustainability information that spans five key categories, including environmental, social and human capital, business model and innovation, and leadership and governance. Similarly, the GRI Standards enable an organisation to report information regarding its most significant impacts on the economy, environment and people, including impacts on human rights and how these impacts are managed. The GRI Standards also include guidance on identifying the most material 'topics' to report, with the materiality focussing on actual and potential impacts and the significance of those impacts. The SASB and GRI have globally accepted approaches to assessing materiality from a business perspective, but environmental accounting needs to also consider ecological materiality.

This guidance document builds on key concepts for assessing materiality from these Standards using the concept of 'double materiality' – which considers materiality not only from the traditional financial perspective but also from an environmental and social perspective.

The concept of 'double materiality' is being used in emerging global frameworks on nature risk and reporting, such as other frameworks that are compatible with AfN (e.g. Science-based Targets for Nature (SBTN) and Taskforce for Nature-related Financial Disclosures (TNFD)) and builds on the abovementioned standards.

In an ideal world, a holistic Environmental Account would measure all environmental assets within the area owned and/or managed by the Proponent (i.e. their operational boundary). Given the current cost of ecological monitoring, the relative *importance* of various environmental assets and locations over others, and the relative *impact* on environmental assets from various activities or management, environmental assets must be prioritised for inclusion in Environmental Accounts. Furthermore, prioritisations of environmental assets must also include certain ecological considerations, such as ecological importance and threatened or priority species or ecosystems (these are discussed more in Section 4.4).

3.1 What is a materiality assessment?

A **materiality assessment** is a standard process used to identify and prioritise 'material' issues for monitoring and reporting. Accounting for Nature and other emerging global frameworks, such as the TNFD and SBTN, include a materiality assessment in the design phase to help identify and prioritise what environmental assets and at what locations are considered most 'material' (or most important). These assets should be monitored and reported under the framework(s).

A materiality assessment supports the design of an AfN Environmental Account and assesses 'importance' in terms of **relevance** to the account purpose and **significance** to the organisation and stakeholders, (which broadly also includes society and the environment). In summary, the materiality assessment should:

1. Consider the relevance of each asset and location to the Account purpose.
2. Consider various elements of significance and risk from the differing perspectives of the Proponent (such as financial risk, reputational risk) and stakeholders (such as ecological significance, ecological risk, etc.).
3. Rank environmental assets and locations in order of importance/priority.

Materiality in **the context of the account purpose** is essential in ensuring that the most important assets and locations are prioritised for inclusion in the account when resources are limited.

4 How to assess materiality

AfN encourages Proponents to follow the below steps when assessing the materiality of assets and locations to include in an Environmental Account:

1. Define the purpose of the Environmental Account.
2. Map the greatest possible accounting area that is relevant to the purpose.
3. Identify all environmental assets and locations within the possible accounting area (i.e. create a spatially explicit asset inventory).
4. With the help of existing datasets and screening tools, assess each environmental asset in the inventory for its relevance to the account's purpose and significance relating to ecological, social, and financial perspectives.
5. Generate a shortlist of 'material' assets and locations that will be monitored as part of the Environmental Account. These locations will form the accounting area boundary.

4.1 Defining the Environmental Account Purpose

When designing an Environmental Account, the first step is to clearly articulate the 'purpose' of why an Environmental Account is being developed and what the intended use of the account is. The purpose of the account informs all subsequent decisions when designing and creating an account. In doing so, it is important to consider the aim, and the target audience and how they are expected to use the information presented in the account. Possible purposes for developing Environmental Accounts include, but are not limited to:

- Provide verified environmental co-benefits to support carbon units;
- ESG reporting;
- Impact Investment due diligence, including disclosure of "nature-risk";
- Supporting public green claims, e.g. "Nature Positive" investment or food product,
- Applying for a government incentive;
- Tracking the performance of Green Bonds and Environmental Performance Bonds; and,
- General monitoring and management for healthy and productive landscapes.

4.2 Map the relevant possible accounting area

Once the purpose is defined, the Proponent must map the greatest possible accounting area relevant to the purpose of the account, as defined in the previous step. This step broadly aligns with L1 – Business Footprint in the TNFD LEAP (Locate your interface with nature, Evaluate dependencies and impacts, Assess material risks and opportunities, Prepare to respond and report) assessment approach.

For organisations operating within a complex supply chain, there will likely be multiple, diverse interactions across the supply chain; these interactions with nature may be direct or indirect. To narrow the area down, the Proponent should first define its **operational boundary**, which describes which locations within the supply chain will be accounted for based on the relevance of those locations to the account purpose.

To generate a map of the greatest possible accounting area, the Proponent must identify which areas within their operational boundary are within their **operational control**. In general, only the entity with operational control may develop or initiate the development of an Environmental Account.

Often, the Proponent's operational boundary and area of operational control will be the same. However, in some instances, different entities may have operational control within one operational boundary. In these instances, it will be up to the entity with operational control to develop an environmental account for that area.

4.3 Spatially explicit asset inventory

This step is an initial screening of the possible relevant environmental accounting area to identify all environmental assets that could be included in the Environmental Account. It broadly aligns with L2 – Nature Interface in the TNFD LEAP assessment approach. For ease, existing datasets and screening tools can be used to identify assets within the possible accounting area. Some examples of these datasets are included below, but Proponents are encouraged to use whatever datasets or tools are available and appropriate.

Datasets that can be used to develop this inventory include (please note this is a non-exhaustive list):

- Species sightings (from published databases, e.g. Atlas of Living Australia, or via field surveys, wildlife cameras, acoustic monitoring etc.);
- Ecosystem mapping such as Global Ecosystem Typology[1] (IUCN) or more locally relevant vegetation mapping (can also be used to identify critical habitats for threatened species);
- Land-use/management maps (to identify where the Proponent interfaces with nature or depends on nature and might be causing an impact);
- UN Biodiversity Lab[2] global datasets; and,
- Oceans+[3] datasets on marine habitat and biodiversity importance.

[1] https://global-ecosystems.org/page/typology
[2] https://unbiodiversitylab.org/about/
[3] https://oceanplus.org

Tools that integrate multiple datasets that are also valuable tools to identify assets and screen their broad condition state (please note this is a non-exhaustive list):

- Integrated Biodiversity Assessment Tool (IBAT) (Birdlife, Conservation International;
- IUCN, UNEP-WCMC)[4];
- Global Critical Habitat Screening Layer[5];
- Globio Tool[6];
- ENCORE[7] ;and,
- inVEST[8].

4.4 Assess each environmental asset in the inventory for its relevance to the account purpose and its significance

The Proponent must then assess environmental assets identified in the previous step for their relevance to the account purpose and their significance to the Proponent and stakeholders. The account purpose could clearly identify which assets would be relevant. For example, the Proponent could develop an account to underpin a target (for instance, under SBTN) of improving koala condition and habitat (i.e. this is the Account purpose). In this example, the two most relevant asset classes to include in the account are native vegetation (or koala habitat) and koala, thereby making other assets less relevant (e.g. soil or water).

Where the account purpose is less evident in what assets should be included (for example – general ESG reporting or nature-related disclosures under the TNFD), the Proponent should also consider the significance of assets. The significance of an environmental asset is generally relatively subjective, can be defined from many perspectives (proponents or stakeholders), and can be based on several operational, financial, social, environmental, and stakeholder-related considerations.

To date, Materiality Assessments have historically focused on the business or economic considerations, which are also important for an Environmental Account. Key financial considerations for determining the significance of an environmental asset include:

- If the Proponents core business might **depend on or interact** directly or indirectly with the environmental asset at a given location;
- If there might be reputational and/or financial **risk** associated with the **impact** on environmental assets at a given location; and,
- If there might be **opportunities** or strategic management goals associated with the environmental asset.

[4] https://www.ibat-alliance.org; 5 to 50 km resolution, depending on plan
[5] https://data.unep-wcmc.org/datasets/44; 1 km resolution
[6] https://www.globio.info
[7] https://encore.naturalcapital.finance/en
[8] https://naturalcapitalproject.stanford.edu/software/invest

However, as discussed above, Environmental Accounts also need to consider the ecological significance. From an ecological perspective, all Environmental Assets would be regarded as significant. However, from a more targeted stakeholder and societal perspective, environmental assets could be considered significant if they are, for example:

- Impacted on or at risk of impact (or degradation) by the Proponents activities;
- Threatened or protected species (such as a threatened species or habitat for a threatened species, threatened ecosystem);
- Culturally significant;
- Recognised locally, nationally, or globally as significant or as a priority for conservation (such as a Ramsar Wetland);
- Rare (a species or ecosystem that may not be threatened but is naturally rare);
- Performing a specific and important ecological function, contributing to a specific ecosystem service;
- An indicator species; and/or,
- In a poor state of condition.

How the asset is defined could also affect its significance from varying perspectives. For example, an environmental asset within the fauna asset class could be defined as a general bird asset (which may include a general assessment of both common and threatened bird species). Alternatively, a specific bird species may also be defined as an asset (e.g. a targeted assessment of an endangered species). Therefore, consideration must be given to how assets are defined within the assessment.

It is important also to note that while the above criteria include rarity and low condition, it is generally the condition of common assets that will have the most significant impact on the ecosystem and landscape functioning. It is therefore recommended that where common assets are likely to be impacted, these should be considered significant and prioritised for inclusion in the Account. For example, an Account might measure vegetation condition within their entire accounting area and then select additional assets that meet the other criteria.

All the above considerations are examples of key criteria that can be used to assess the relative significance of environmental assets and locations within the Proponent's possible accounting area and, subsequently, rank the environmental assets in order of priority for inclusion in an Environmental Account. The below sections discuss example approaches that can be used to help prioritise environmental assets to include in the Environmental Account.

4.4.1 A materiality matrix

A materiality assessment is often presented as a matrix that looks at how particular issues (in this case, environmental assets) are important to or would impact stakeholders such as society and the environment and how the issues are important to or would impact the Proponent (the corporation, individual or group undertaking the Environmental Account).

Table 1 provides an example of a materiality matrix, ranking the environmental assets in order of importance (darker blue being more important): Asset 3 (most important), Asset 2, Asset 1 (least important).

Table 1. Example of a materiality matrix

		Stakeholder Importance (Key ecological and social considerations)			
Importance to Proponent (Key organisational and financial considerations)		Low	Moderate	Significant	Major
	Low				
	Moderate		Asset 1		
	Significant				Asset 3
	Major		Asset 2		

4.4.2 A multi-criteria analysis

The Proponent can conduct a more detailed approach to assessing materiality through a modified multi-criteria analysis approach, which can be used to aggregate the above stakeholder and economic considerations into a quantifiable score that can assist with the ranking of assets. This approach involves creating a series of set criteria (such as those listed above) and a scoring system to determine how each asset corresponds to that criterion (Table 2). Table 3 shows an example comparing three assets/locations using the criteria and scoring system shown in Table 2, with a resultant ranking of assets/locations. A Proponent may also add weightings to each criterion below to reflect their relative importance to the Proponent (for example, impacts might have a larger rating than the broad condition state).

Table 2. Simple example criteria and scoring system. Assets to which the criteria do not apply can be given an N/A.

Criteria		Scoring		
		1	2	3
Stakeholder (ecological and social) criteria	Ecological significance	Not threatened, or culturally significant	Moderately significant (e.g. near threatened)	Endangered ecosystem or species
	Rarity	Very Common	Relatively Common	Rare
	Ecological role	Asset provides minimal ecological functioning/ ecosystem services	Asset provides some ecological functioning/contributes to ecosystem services	Asset provides important ecosystem functioning/ contributes significantly to ecosystem services
	Broad condition state	Asset is in good condition	Asset is in relatively good condition	Asset is in poor condition
Proponent Criteria	Dependency/ interaction	core business does not depend/interact;	core business interacts (but does not depend) on the asset.	core business highly depends on asset
	Impacts	The asset is not impacted by the proponent	There are moderate impacts on the condition of the asset by the Proponent	There are significant impacts on the condition of the asset by the Proponent
	Financial and reputational risk	Asset is less important from a financial and reputation perspective	Asset is moderately important from a financial and reputation perspective	Asset is important from a financial and reputation perspective
Account Criteria	Relevance to Account purpose	Less relevant	Moderately relevant	Highly relevant

Table 3. Example application of the criteria and scoring shown in Table 1.

Criteria		Asset 1	Asset 2	Asset 3
Stakeholder (ecological and social) Criteria	Ecological significance	1	N/A	3
	Rarity	2	N/A	2
	Ecological role	1	1	2
	Broad condition state	1	2	2
Proponent Criteria	Dependency/interaction	2	2	3
	Impacts	1	1	3
	Financial and reputational risk	1	2	1
Account Criteria	Relevance to Account purpose	1	1	2
Total		10	9	18
No. of criteria relevant to asset		8	6	8
Score (between 0 and 1) Calculated as no. criteria/total		0.8	0.67	0.44
Rank		3 (least important)	2	1 (most important)

4.5 Generate a list of 'material' environmental assets and their locations that will be included in the Environmental Account

Consider which assets and locations are the most important from the ranked list. While the materiality matrix or multicriteria analysis is an objective approach to assessing importance, it is recommended that judgement is used when deciding what final assets and locations to include in the Environmental Account. This is because the decision is complex and nuanced and may not be fully and accurately captured by the objective assessment – therefore requiring human judgement. Consideration can also be given to those assets and locations that are feasible to measure, given available resources and financial constraints, and whether an appropriate AfN Accredited Method is readily available or a new Accredited Method is required. Additional environmental assets can always be added to an Environmental Account at a later point in time.

Areas and locations of selected assets will define the final boundary of the Environmental Account, noting that only the entity with operational control may develop or initiate the development of an Environmental Account.

The Proponent must then decide what Confidence Level is required for each material Environmental Asset and decide on an appropriate AfN Accredited Method (if the existing Methods are not suitable, then a new Method will need to be developed and accredited). The subsequent steps within the AfN five-step process must then be completed by the Proponent to develop the Environmental Account.

5 Transparency and Materiality

At its core, an Environmental Account is a tool to monitor the condition of environmental assets over time and communicate the results transparently. The AfN Claims Rules highlight that Proponents can only make public claims about the condition of Environmental Assets that were specifically included and monitored within the Environmental Account. Therefore, by measuring the most 'material' Environmental Assets, the Environmental Account and associated public claims can assist a proponent in demonstrating how they are improving or maintaining the condition of their most material Environmental Assets.

The process of undertaking a Materiality Assessment allows proponents to objectively explain and justify why they have chosen what they are measuring in the context of their business and activities. It can also help avoid greenwashing by ensuring that all assets have been appropriately considered for inclusion in the account through the materiality assessment process.

AfN requires that an Information Statement accompany all Environmental Accounts. The Information Statement is a transparency and disclosure report that documents, in non-technical terms, the rationale for the selection of assets, choice of Methods, the origins of the data, the analysis and treatment of data, account limitations and construction of the Econd®, and the account certification status.

If a materiality assessment is conducted to inform asset and location selection, then the process used must be detailed and documented in the 'rationale for the selection of assets' section in the Information Statement. This is to provide full transparency into how an asset was or was not considered material within the context of the account purpose, and subsequently whether the asset was included within the Account. The outputs of the assessment could be included in the Information Statement to help justify the decision. For example, if a materiality matrix or a multi-criteria analysis was used, the outputs of these assessments could be included in the Information Statement. Final judgement on rankings and what assets were ultimately included in the account should be explained and justified in the Information Statement, along with disclosure on intent to add any additional assets or areas in the future, along with justification for this.

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