

Feedback on Taskforce on Nature-related Financial Disclosures beta framework

HESTA welcomes the opportunity to provide feedback to the Taskforce on Nature-related Financial Disclosures (TNFD) on v0.4 of the TNFD beta framework.

HESTA is a strong supporter of the development of a nature-related financial disclosure framework. Disclosures are an important tool for investors, facilitating our ability to pursue long-term financial outcomes for members by providing transparent and consistent information to enable us to assess and manage risks and opportunities across our portfolios. HESTA has identified natural capital and biodiversity loss as a financially material systemic risk that is linked to the health and stability of the economy.

The operations and supply chains of the companies we invest in may be exposed to risks due to either a dependence on nature and/or activity that leads to a loss of natural capital. As a large and diversified investor across the Australian and global economies HESTA cannot avoid systemic risks that have broad and interrelated impacts. As we experience the acceleration of nature-related degradation, there is a pressing need for investors to have access to consistent, clear and in-depth information on nature-related economic impacts and dependencies.

Nature-related disclosures will be an important tool for investors to identify the nature-related risks and opportunities of the companies we invest in. HESTA is a strong supporter of the TNFD framework as a foundation for improved disclosure, and an important step toward an internationally aligned framework for disclosure of nature-related financial information.

Natural capital and biodiversity outcomes impact retirement outcomes for HESTA members

HESTA is a super fund that invests around \$70 billion of assets on behalf of more than 1 million members who work in caring industries, primarily in the health and community services sectors. Almost 80% per cent of our members are women, and most are on low-to-middle incomes. Our members rely on us to ensure that their experiences are considered in complex policy deliberations that impact their financial security in retirement.

The financial materiality of ensuring sound management and protection of natural resources is clear. The World Economic Forum (WEF)¹ has identified biodiversity loss and ecosystem collapse as a significant global risk over the next 10 years. In their New Nature Economy report², WEF also found over half of the world's GDP – an incredible USD44trn – is moderately or highly dependent on nature.

In Australia, sectors with very high direct dependence on nature – primary industries like agriculture, forestry, fisheries, food product manufacturing, construction and waste and water services – generate \$293.6bn per year, approximately 15.9% of GDP. Sectors with a moderate to high direct dependency on nature – such as mining, real estate, transport and logistics, accommodation, and hospitality – contribute \$602.7bn to Australia's economy, or approximately 33.1% of GDP.³ Nature loss presents a risk for companies, shareholders, and the global economy, and can have a negative impact on communities through the degradation of their natural resources. Protection of nature is also a critical mitigation against climate change - another systemic risk for HESTA's portfolio.

HESTA's approach to addressing natural capital and biodiversity risks and opportunities

HESTA has developed a natural capital and biodiversity assessment approach that will guide our us in addressing risks and opportunities related to natural capital and biodiversity loss across our portfolio. The approach uses data and science-based methodologies to assess the financial materiality of various biodiversity and natural capital risks on the portfolio, guiding HESTA's approach to addressing these risks and opportunities through active ownership and capital allocation strategies.

HESTA encourages the extension of Australia's climate-related financial disclosure framework to cover biodiversity loss and has joined the TNFD as a forum member to support the progress of this work. HESTA is supportive of the direction of the framework in TNFD v0.4 and has welcomed the opportunity to contribute to this work.

HESTA is a member of ACSI and a participant in the Cambridge Universal Asset Owners' Systemic Risk Initiative, and supports the feedback provided by these organisations on the TNFD framework as part of this consultation, in addition to the comments we provide here. We look forward to continuing to work with TNFD, the investor community and our

¹https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf

²https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf

³https://assets.nationbuilder.com/auscon/pages/20826/attachments/original/1665019942/2208_Nature_NatureDependencyReport_FINAL-2.pdf?1665019942

portfolio companies as we address the significant risks arising from natural capital and biodiversity loss.

Providing a foundation for understanding nature-related risks

Ultimately, nature-related financial disclosures should inform decision making for entities and investors, managing material risk by leading to absolute biodiversity outcomes that halt degradation and reverse loss. The effectiveness of the TNFD will be determined by the extent to which companies develop a thorough understanding and assessment of nature-related impacts and dependencies throughout their operations and supply chains. The need for disclosures will provide a catalyst for companies to develop assessment methodologies, and so it is crucial that the TNFD core metrics for risk, opportunities, dependencies and impacts are adequate for driving measurement and reporting against real-world outcomes.

The TNFD v0.4 approach acknowledges that organisations will need to build capability, beginning by focussing on areas of most material risk and expanding reporting over time. This approach should support the development of methodologies that facilitate disclosures that drive the most effective approach for managing risk, rather than feasibility and ease of reporting.

The importance of the approach to materiality

It is important for investors that disclosures take a materiality approach so that activity can be focussed on areas of risk and opportunity that will have the greatest impact on outcomes. HESTA is strongly supportive of organisations taking a materiality approach and that materiality considerations are disclosed, in line with the TNFD proposal that: *The organisation should set out its approach to materiality – aligning to external standards or regulatory requirements where appropriate – to help report users understand the context of the information being presented by the report preparer.*⁴

Consideration should be given to standardising an approach to materiality to improve consistency. HESTA believes the most effective approach to materiality considers impacts based on both financial impacts to the company and systemic impacts on nature as nature-related risks are inherently systemic. This double-materiality approach provides a comprehensive assessment that is most relevant to large and diversified

⁴https://framework.tnfd.global/wp-content/uploads/2023/03/23-23882-TNFD_v0.4_Integrated_Framework_v7.pdf

asset owners who have a responsibility to consider risk at both company and system level.

Providing guidance for target setting

There is a need to develop Global Biodiversity Framework-aligned national and company targets that drive business practices and integrate material nature-related risks into business planning. TNFD guidance on target setting will effectively support this, providing a strong basis to build comprehensive targets, while acknowledging that the necessary capability and processes to both develop targets and deliver in-depth reporting against targets, will need to evolve over time.