



KPMG NATURAL CAPITAL INSIGHTS

TASKFORCE ON NATURE-RELATED FINANCIAL DISCLOSURES (TNFD)

Putting nature at the heart of finance and business



1. THE NATURE CHALLENGE

OUR ECONOMIES, LIVELIHOODS AND WELLBEING ALL DEPEND ON OUR MOST PRECIOUS ASSET: NATURE¹. NATURE SITS AT THE HEART OF CLIMATE DECARBONISATION MITIGATION AND ADAPTATION STRATEGIES FOR CAPITAL MARKETS, THE REAL ECONOMY AND GOVERNMENT. THE GLOBAL ECOSYSTEM IS RAPIDLY APPROACHING A PLANETARY TIPPING POINT – THE FIRST OF ITS KIND CAUSED BY HUMANS.

¹Dasgupta, P. (2021), The Economics of Biodiversity: The Dasgupta Review. (London: HM Treasury)

The world's stock of natural resources which include land, air, rivers and oceans and all living organisms and communities such as plants, animals and forests are referred to as Natural Capital assets. These assets provide a wide range of 'ecosystem services' back to society which enable the health and wellbeing of human life. To name a few, ecosystem services include the provision of food and clean water, climate mitigation, nutrient cycling, pollination or the control of flood, fire and disease.

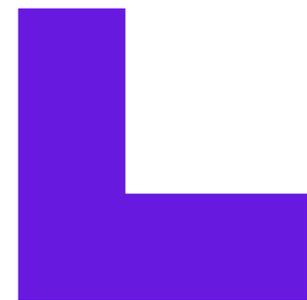
All businesses depend on natural capital assets and ecosystem services either directly or through their supply chains, and those businesses that are highly dependent on nature are considered most at risk from the consequences of nature degradation and biodiversity loss. In particular, the finance sector is not only contributing significantly to this through its lending, investment and insurance practices, but is also impacted because of the increased risk nature loss represents to underwriting and investment activities.

Within the Asia-Pacific region (ASPAC), and similarly to other world regions, the sectors most at risk are food and agribusiness, forestry, infrastructure, construction and mining due to their direct dependency on ecosystem services such as healthy soils, clean water, pollination or extraction of resources from mines, forests and oceans. According to the World Economic Forum, six industries, namely chemicals and materials, aviation, travel and tourism, real estate, mining and metals, supply chain and transport, retail, consumer goods and lifestyle, all have 'hidden' dependencies on nature and therefore are also exposed to significant risks.

The materiality of nature-related risks is often invisible because the realised or potential costs associated with nature degradation or loss are transferred onto consumers, citizens, society at large or other third parties, rather than embedded into the balance sheets and income statements of companies. Under the current regulatory and economic systems, such costs are currently considered 'externalities' to the economy.



DEFINING STANDARDS, DATA AND METRICS TO MEASURE NATURE-RELATED DEPENDENCIES AND RISKS IS A CRITICAL STEP UNDERSTANDING OF THE FINANCIAL MATERIALITY AND TAKING STEPS TO ADDRESS THE CHALLENGE.

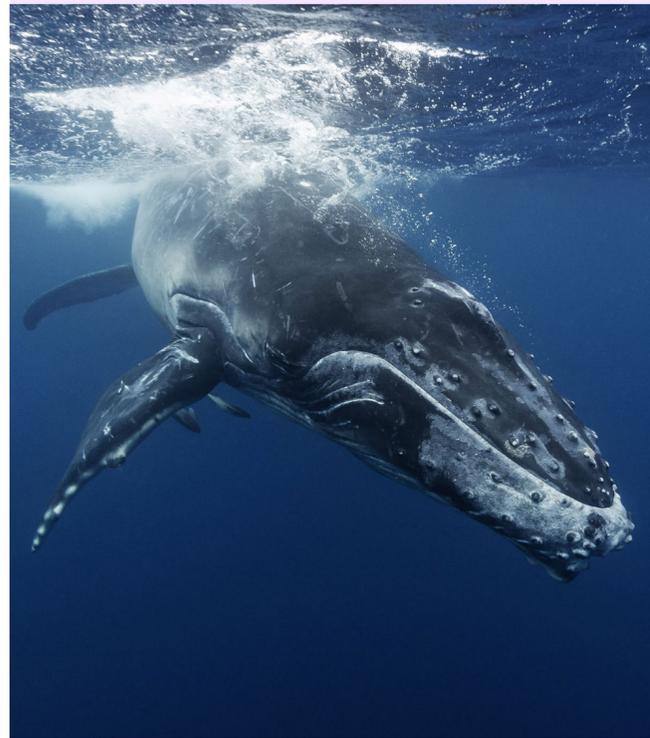




NATURE IN NUMBERS

\$44 TRILLION OR 50% GLOBAL GDP IS MODERATELY OR HIGHLY DEPENDENT ON NATURE

(Source: World Economic Forum)



83% OF WILD MAMMALS HAVE BEEN DESTROYED BY HUMANITY

(Source: World Economic Forum)

THE ENVIRONMENT IS LISTED IN THE TOP 5 GLOBAL RATED RISK SECTORS

(Source: World Economic Forum)



'BIODIVERSITY LOSS' IS LISTED IN THE TOP 3 HIGHLY IMPACTED AREAS

(Source: World Economic Forum)

\$100-900 BILLION ANNUAL COSTS OF PROTECTING BIODIVERSITY THROUGH THE CONVENTION OF BIOLOGICAL DIVERSITY'S GLOBAL BIODIVERSITY FRAMEWORK (GBF)



“Biodiversity loss and the destruction of the natural world can only be prevented if we all push for urgent and necessary changes. A critical step is ensuring that our financial markets drive sustainable growth. KPMG is committed to helping accelerate that transformation, and we fully endorse the critical role the TNFD will play in shaping a nature-positive future.”

Bill Thomas, Global Chairman & CEO of KPMG International



“AS A SECTOR RELIANT ON AND INTRINSICALLY LINKED TO NATURE, UNDERSTANDING AND BEING ABLE TO MEASURE OUR IMPACT ON THE ENVIRONMENT IS CRUCIAL. RECOGNISING AND MEASURING THE FINANCIAL VALUE OF NATURE WILL BETTER INFORM DECISION-MAKING, AND PROVIDING A TRUE PICTURE OF NATURE-RELATED RISKS IS FUNDAMENTAL. WE CAN EXPECT REPORTING DISCLOSURE REQUIREMENTS TO GAIN MOMENTUM AND PROMINENCE AS THE ISSUE OF BIODIVERSITY DEGRADATION AND DECARBONISATION OF SUPPLY CHAINS ACCELERATES GLOBALLY. THE TRANSITION OF SECTORS SUCH AS FOOD AND AGRIBUSINESS WILL BE FUNDAMENTAL IN SHAPING OF A NATURE-POSITIVE FUTURE.”

Georgie Aley,
National Food & Agribusiness
Sector Lead, KPMG Australia

2. WHY IS THIS RELEVANT TO THE ASIA PACIFIC REGION?

The ASPAC region, which comprises over 60 countries, is considered one of the most biodiverse regions in the world, being home to 17 of the 36 global biodiversity hotspots.²

ASPAC is the region with the highest number of threatened species³ in the world and its sharp decline in tropical species populations indicated in the Living Planet Index mirrors an alarmingly high and widespread habitat loss within the region⁴.

The rapid economic growth and the increased exploitation of natural resources to support the development of urban societies are putting significant pressure on the region's biodiversity⁵.

Extreme weather events, the intensification of agricultural practices, invasion of exotic species and spread of new diseases are all contributing to a decline in value of ASPAC's natural resources. The rainforests of South East Asia and Oceania,

Australia's Great Barrier Reef, the temperate forests of northern Asia and the many river ecosystems in the region are all at risk, despite being recognised as some of the most complex and valuable ecosystems in the world.

The preservation of nature has never been so important for ASPAC. The finance sector has a critical role to ensure investment, lending, underwriting and business within the region support nature positive outcomes and not further degradation of nature.

The establishment of the Taskforce on Nature-related Financial Disclosures (TNFD) is a critical step towards achieving this outcome.

EXCEPTIONALLY BIODIVERSE

ALMOST HALF OF ALL THE WORLD'S BIODIVERSITY HOTSPOTS ARE WITHIN THE ASPAC REGION*



ACTION URGENTLY NEEDED

40% OF CORAL REEFS AND MANGROVES IN ASPAC

HAVE ALREADY DISAPPEARED DUE TO UNSUSTAINABLE EXPLOITATION OF MARINE RESOURCES AND EXTENSIVE COASTAL DEVELOPMENT, FISH STOCKS ARE DECLINING*

RAPID DEVELOPMENT

ASPAC IS HOME TO 60% OF THE WORLD'S POPULATION, ~ 4.3 BILLION PEOPLE. THE REGION IS ALSO WITNESSING ACCELERATED ECONOMIC GROWTH**



WORLD'S 1ST ASPAC WAS FOUND TO BE THE REGION WITH THE HIGHEST NUMBER OF THREATENED SPECIES*

*Source: United Nations Environment Programme

**Source: United Nations Population Fund

² Biodiversity 'hot spots' in Asia-Pacific are under threat, endangering critical safeguards for food security and livelihoods | [FAQ in China](#) | [Food and Agriculture Organization of the United Nations](#)

³ UNEP (2016). State of Biodiversity in Asia and the Pacific, [outlook-asiapacific-en.pdf \(cbd.int\)](#)

⁴ [awsassets.panda.org/downloads/lpr_living_planet_report_2016.pdf](#)

⁵ [Scientists warn of dangerous decline in Asia-Pacific's biodiversity \(unep.org\)](#)



3. THE ANTICIPATED TNFD FRAMEWORK – AT A GLANCE

In September 2020, an international market-led Informal Working Group (IWG) was established to plan and support the establishment of a Taskforce on Nature-related Financial Disclosures (TNFD).



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The IWG comprised of representatives from 74 financial institutions, corporates, governments, regulators, supervisory bodies, think tanks and consortia⁶. It was brought together to define a recommendation for the technical scope and operating model of the TNFD.

The TNFD is catalysed by founding partners United Nations Development Program (UNDP), United Nations Environmental Program Finance Initiative (UNEP FI), Global Canopy and The World Wide Fund (WWF) for Nature. The TNFD officially launched on 4 June 2021 and has already received broad endorsement by the global finance community and governments including the G7 Finance Ministers and the G20 Environment Ministers.

PROPOSED GOAL OF THE TNFD

The goal of the TNFD is to develop and deliver a transparent and practical framework for organisations (financial institutions and corporates) to report and act on evolving nature-related risks, with the objective to ultimately support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. It aims to enable organisations to better understand their risks, impacts and dependencies on nature and build momentum for market adoption. The framework will be supported by guidance on how organisations can align their business practices and financing, underwriting and lending approaches.

Importantly, the TNFD does not intend to create a new standard but will align with and draw from existing initiatives, standards and metrics relevant to nature-related risks and opportunities, such as those published by the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Climate Disclosure Standards Board (CDSB), and the forthcoming International Financial Reporting Standards (IFRS) Sustainability Board.



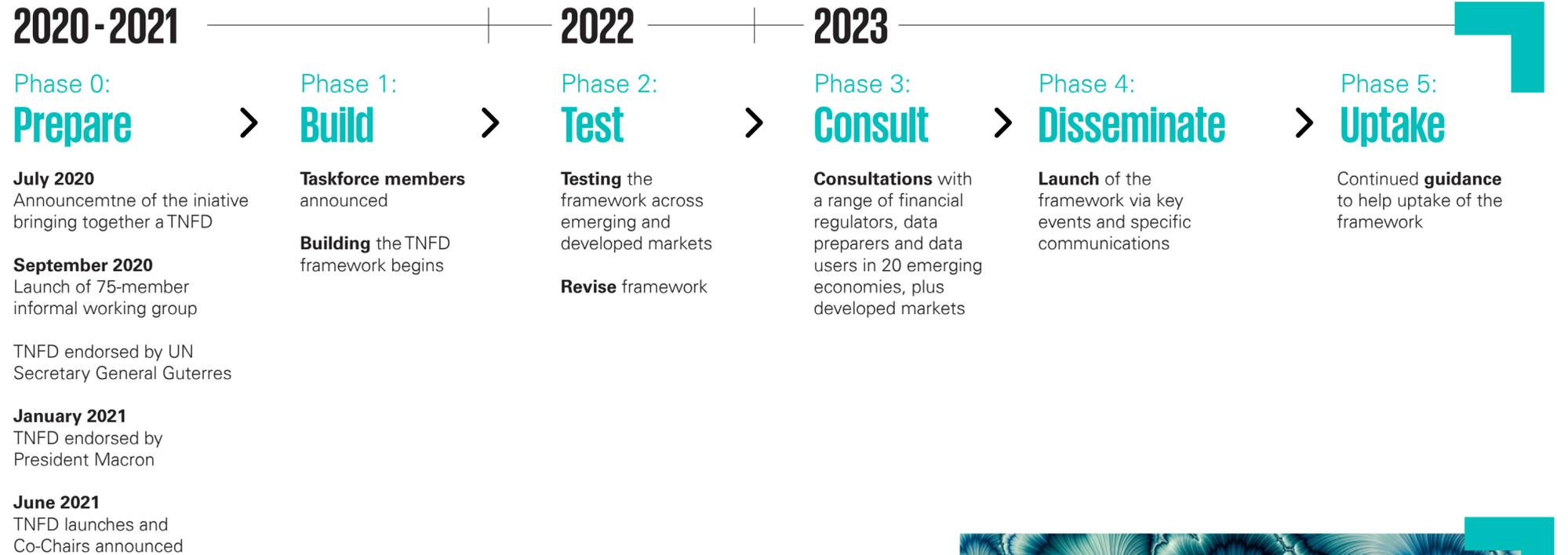
THE TNFD WILL BROADLY SEEK TO ALIGN WITH THE TWO GLOBAL TARGETS IN THE UN CONVENTION ON BIOLOGICAL DIVERSITY'S (CBD) ZERO-DRAFT GLOBAL BIODIVERSITY FRAMEWORK OF "NO NET LOSS BY 2030 AND NET GAIN BY 2050".

⁶ TNFD – Taskforce on Nature-related Financial Disclosures

HOW WILL THE TNFD WORK?

Over the next 2 years, the TNFD will develop and test the framework and consult with a broad range of stakeholders globally. Meanwhile the TNFD will continue to build capacity and awareness to mitigate the negative impacts of the financial sector on nature and biodiversity.

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The TNFD is also expected to produce more detailed technical guidance for reporting entities on how to fulfil the requirements and provide broader guidance on how to identify, assess and manage nature-related risks and opportunities and more to help the market action the framework.

TNFD Roadmap. Source: TNFD



HOW WILL THE TNFD FRAMEWORK ENHANCE NATURE-RELATED DISCLOSURE?

DOUBLE MATERIALITY

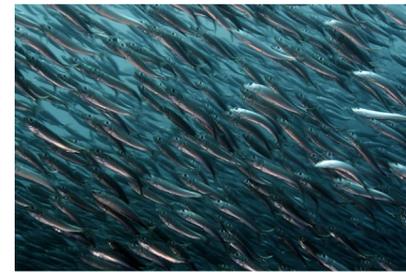
The TNFD is collaborating with, and building on the lessons learned by the Task Force on Climate-related Financial Disclosure (TCFD), which became a foundational global framework for climate-related disclosures. In contrast to the TCFD, which is limited to disclose dependency-related risks, the TNFD will adopt a 'double materiality' approach and considers the two-way interaction with nature – meaning that organisations should disclose not just how nature may (positively or negatively) impact the organisation's immediate financial performance, but also how the operations of an organisation (positively or negatively) impact nature.

Due to be finalised in 2023, the TNFD framework will be structured into four core pillars. The four-pillar approach includes: governance, strategy, risk management, metrics and targets.

The TNFD's approach to risk is consistent with TCFD's broad approach to financial materiality that extends beyond immediate risks to consider transition risks through the use, for example, of scenarios. The TNFD's preparatory report titled 'Nature in Scope' indicates that nature-related financial risks will be placed in two broad categories: 1. physical; and 2. transition.

PHYSICAL RISK AND OPPORTUNITIES:

The physical risks are those that result from nature loss which may be event driven (acute) or longer-term. These losses may have financial implications for organisations including direct damage to assets, as well as financial implications for other parties, such as financial losses in the agricultural sector from land use and management or reduced pollination from insects. Opportunities include increased resilience of business production processes or demand.



TRANSITION RISKS AND OPPORTUNITIES:

Transition risk entails the potential financial impact due to changes in policy, legal, technology and market changes that penalise negative impacts on nature, which can have impacts on a company's reputation, compliance and litigation. The possibility of stranded assets also looms large in the transition risk. Transition opportunities are when an organisation benefits financially due to changes in market preferences/demands that reward the positive impact they have on nature.



THE 'NATURE IN SCOPE' REPORT ALSO FLAGS THAT THE FRAMEWORK WILL IDENTIFY NATURE-RELATED 'SYSTEMIC RISK' SUCH AS SYSTEMIC LOSS OF SOIL FERTILITY. SYSTEMIC RISK CAN HAVE MULTIPLE ELEMENTS, BUT TNFD-ALIGNED REPORTING ENTITIES WILL BE REQUIRED TO REPORT ON:

1. the risk that a critical natural system no longer functions properly
2. the risk that arises at a portfolio-level of a financial institution.



“KPMG IS COMMITTED TO HELPING ACCELERATE THE TRANSFORMATION OF CAPITAL MARKETS TO A SUSTAINABLE FUTURE AND HAS BEEN ON THE JOURNEY OF THE TNFD FROM THE VERY BEGINNING. OVER THE 12 MONTHS KPMG CHAIRED THE TNFD RESOURCING WORKSTREAM AND ACTIVELY COLLABORATED WITH BANKS, CORPORATES, GOVERNMENTS, NGOS, REGULATORS AND CONSORTIUMS TO PROVIDE CRITICAL RECOMMENDATIONS FOR THE OBJECTIVES AND ROADMAP OF THE TNFD. THE TNFD IS A MARKET-LEADING TRANSFORMATIVE EFFORT AND WE LOOK FORWARD TO CONTINUING OUR SUPPORT FOR THE JOURNEY TO AHEAD.”

Carolyn Leeshaa, KPMG TNFD Taskforce Member

WHAT TO EXPECT?

As market awareness grows, it is likely that the TNFD will follow a similar trajectory to the TCFD increasing corporate and prudential regulatory and market pressure on banks, asset managers, insurers and corporates to adopt the framework as a standard practice. In time, we can expect nature and biodiversity-related financial disclosures to be required in the same way as climate-change disclosures are now expected by capital markets and increasingly required by regulators.

To be ready to adapt to the new TNFD standards of disclosure, financial institutions, asset managers and corporates should proactively start identifying their short, medium and long-term exposure to nature-related risks in their current value chains and portfolios. Then, they should begin to consider appropriate metrics, targets and internal reporting mechanisms, and be particularly wary of assets that are at risk of becoming 'stranded' during the transition towards nature-positive economies.

Financial institutions, corporates, governments, regulators, multilaterals, financial and business consortia, NGOs and research organisations taking an interest in the TNFD can contribute towards the development of the framework, and test and pilot it on portfolios and become part of the enabling ecosystem for it to flourish. This can be done by joining the TNFD Forum or participate in the TNFD Knowledge Hub⁷.



“Understanding and identifying biodiversity portfolio risk and dependencies and developing a robust biodiversity risk management strategy will be essential for all financial institutions and asset managers. Those who are on the front foot will be well placed to engage with investees, investors and regulators to respond with more robust sector-specific strategies and develop pathways across their portfolios and capitalise on the opportunity presented by a nature-positive economy by unlocking nature-themed financial solutions and broader ESG investor markets.”

Scott Mesley, Sustainable Finance Lead, KPMG Australia

⁷ TNFD – available at: <https://tnfd.global/engage-with-tnfd/>



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