

Building biodiversity

**Australian nature credit
markets beyond the TNFD**

September 2023



Contents

| | |
|--|-----------|
| About this project | 1 |
| Foreword | 2 |
| Executive summary | 3 |
| Introduction | 6 |
| A framework for corporate biodiversity risk | 7 |
| Box out: Unpacking the TNFD | 9 |
| Market foundations | 12 |
| Box out: A stepped approach to biodiversity risk | 14 |
| Opportunities from a unique market | 17 |
| Conclusion | 21 |

About this project

Building biodiversity: Australian nature credit markets beyond the TNFD is a report written by Clayton Utz in partnership with The Action Exchange, a thought leadership and strategic engagement agency.

This report explores the way the Taskforce on Nature-related Financial Disclosures (TNFD) is likely to shape emerging voluntary Australian biodiversity credit markets that will fund nature protection and restoration.

It includes an examination of the risks, opportunities and legal considerations businesses will need to consider to manage the financial impacts they face from degradation of the natural environment.

Clayton Utz and The Action Exchange offer their thanks to the following people who were interviewed for this research:

- **Murray Ackman**, credit ESG analyst, Pental Group
- **Rob Angus**, chief financial officer, Restore Blue
- **Alpa Bhattacharjee**, global associate director, nature-based solutions, South Pole
- **Emma Carmody**, co-founder, Restore Blue
- **Luke Donovan**, partner, global carbon markets, Apostle Funds Management
- **Tony Goldner**, chief executive officer, Taskforce on Nature-related Financial Disclosures (TNFD)
- **Camille Goldstone-Henry**, chief executive officer and co-founder, Xylo Systems
- **Kristy Graham**, chief executive officer, Australian Sustainable Finance Institute (ASFI)
- **Rowan Griffin**, executive director ESG, Queensland Investment Corporation (QIC)
- **Rachel Lowry**, chief conservation officer, WWF-Australia
- **Andrew Saunders**, head of natural climate solutions, Queensland Investment Corporation (QIC)

We acknowledge the Traditional Owners of Country throughout Australia and recognise their continuing connection to land, waters and culture. We pay our respects to their Elders, past and present.



Written by [The Action Exchange](#)

Foreword

Clayton Utz is committed to the role that we can play in driving improved social and environmental sustainability across Australia. Nature credit finance is central to this goal, and the development of a robust nature credit market is essential to help Australia meet the Kunming-Montreal Global Biodiversity Framework (GBF¹), which commits governments to protect 30% of land and 30% of oceans for nature by 2030.

The launch of the Taskforce on Nature-related Financial Disclosures (TNFD) framework is a significant step towards the development of such a market. It will help companies play their part in reversing nature's decline and restoring biodiversity across our unique country.

The TNFD arose from an urgent need to recognise that nature underpins the global economy and that our economies are embedded within nature, not external to it. The world's central banks have made it clear that biodiversity loss is a growing and serious source of systemic risk alongside climate change.

However, the TNFD is not a market-maker. It is a market-led, science-based, and government-supported framework to help companies respond to the biodiversity crisis. It provides market participants with a risk management and disclosure framework to identify, assess, respond, and, where appropriate, disclose their nature-related issues.

Information is power, and that is where the TNFD's real impact lies. The disclosure and risk management data it enables will be a vital foundation upon which a high-integrity nature credit market can grow in Australia and a critical tool for companies to reduce their nature risk.

It's now up to the corporate sector to leverage this framework. Companies across multiple sectors of the economy need to begin the journey to map how their supply chains, operations and enterprise values depend on and impact nature and how they will redistribute the benefits or burdens of their actions across that supply chain equitably. They also need to consider how this will enable them to manage nature and climate holistically.

Meaningful and legitimate engagement with First Nations people, who are custodians of the land, and agricultural communities will be paramount, and government will be important in providing law and policy settings to ensure high integrity and good governance.

As this report demonstrates, there is enormous opportunity and significant momentum in this nascent market. Supported in the right way, it will grow quickly and give business and government the means to make a positive impact on nature and the broader environment here in Australia.

Clayton Utz looks forward to playing a part in helping companies navigate this new, nature positive business environment and to turn their nature risk into an opportunity. Australia has been a global leader in transforming its natural resources into wealth, it is now time to harness this opportunity be a global leader in nature restoration.



Claire Smith
Partner
National Practice Group Leader
Environment and Sustainable
Development
Clayton Utz

Executive summary

The release of the Taskforce for Nature-related Financial Disclosures (TNFD) framework is a significant milestone. It will help governments, financial institutions and companies adopt an informed and structured approach to identify and manage biodiversity risks and nature positive opportunities.

It is also a tipping point in the development of transparent and functional voluntary biodiversity credit markets that finance nature positive gains. The TNFD's nature risk disclosure and reporting guidance will provide baseline information that investors, issuers and businesses need to make informed decisions in this emerging market.

Australia is uniquely positioned to capitalise on any biodiversity credit market growth for nature

positive outcomes. It is a large, developed, megadiverse² country with a robust legal system and financial services sector, and it has experience in developing mandatory biodiversity offset compliance markets where negative impacts on biodiversity in one location can be 'offset' or compensated for by purchasing biodiversity units in another location.

But markets don't grow themselves. Businesses and governments must be willing to openly collaborate if the TNFD is to catalyse functional domestic biodiversity credit markets that attract both domestic capital and global investment.

This report aims to help spark such action in Australia and focuses discussion on the next steps required to harness the TNFD's momentum.



Key findings:

- **Australian companies need to act fast on TNFD.** Those that move quickly to integrate climate and nature reporting will have a first-mover advantage.
- **Biodiversity credit markets are nascent.** But a tipping point has been reached where companies and investors are prepared to invest in market-based solutions.
- **The structures, regulatory environment and data solutions needed to underpin nature markets are emerging.** Improved levels of funding, policy development, and corporate cooperation will be needed, together with robust accounting and verification regimes, to grow this opportunity.
- **Getting started will lead to solutions.** No one has ideal data or disclosure at such an early stage of market development. Those who can invest using clear strategies, due diligence, and verification will help develop solutions to these challenges.
- **Climate change and nature are inherently linked.** Nature-based solutions will become a vital environmental risk management tool for mitigating biodiversity risk, climate adaptation risk, and boost domestic and global food security.
- **Carbon and biodiversity markets will begin to overlap.** This will make for an increasingly complex investor landscape as parties seek to maximise the value of sales and purchases, and minimise their risks.
- **Innovation and partnerships are critical.** New instruments and structures beyond biodiversity credits that meet different investor needs will be required if Australia is to become a world-leading biodiversity market.
- **Agriculture is a foundation for Australian nature credit markets.** Project proponents need to consider how to maximise the value of their landholdings to achieve holistic nature positive, carbon reduction, and food supply outcomes.

"While nature is complex, it does not have to be complicated to understand. The key starting point is to ask the basic question: How is our business or capital portfolio dependent on nature?"

Tony Goldner, chief executive officer, Taskforce on Nature-related Financial Disclosures (TNFD)



Introduction

Australia's wealth has long been derived from nature's gifts—these assets are so important they are enshrined in the national anthem. While the nation's combined services sector has grown to become the largest segment of the economy, industries that rely on natural resources continue to have an outsized impact. Nine out of ten of Australia's top exports in 2021-2022 were from resources or agriculture³ and mining remains the nation's largest single-sector contributor to GDP.

Despite this, Australia's corporate and finance sectors have traditionally undervalued the country's natural capital. Australia is one of the most ecologically rich countries in the world⁴, and it has been easy to take its natural bounty for granted. This changed in September 2023 with the release of the Taskforce on Nature-related Financial Disclosures (TNFD) nature-based risk management and disclosure framework⁵.

Designed to be a single, globally coordinated framework to help businesses report and act on nature-related risks and opportunities, the release of the final TNFD recommendations is a significant milestone. It is vital to the development of transparent biodiversity impact disclosures in Australia and overseas, which in turn will help account for the value or depreciation of natural capital assets and ecosystem services that businesses depend on.

The TNFD framework is not just altruism at work—it provides structure for the financial information needed to spur the growth of voluntary innovative green finance instruments that will finance nature positive gains. These contrast with mandatory

biodiversity offset markets that are found in NSW, Victoria and Queensland and some global jurisdictions

The framework is vital to the long-term stability of the world's economy and will enable companies and financial institutions to include nature, one of the world's "fastest deteriorating global risks,⁶" in their decision-making processes. It is also particularly relevant for Australia. Over half of global GDP is highly or moderately dependent on nature, with construction, agriculture, and food and beverage the most nature-dependent—and therefore at-risk—industries⁷.

Expectations are high. Most businesses lack the knowledge and experience required to identify and manage their impacts on nature and the financial consequences to their business. But the framework is not a panacea. The TNFD gives businesses and investors a common framework to quantify the business impacts of biodiversity loss, but it is just one of the foundational pillars from which the capital markets that will facilitate real risk reduction—and potential gains—can grow.

This report aims to focus discussion on the next steps that are needed for Australia to harness the TNFD framework's momentum. Featuring interviews with biodiversity market experts, it considers the partnerships and legal questions companies may need to consider as they begin putting the TNFD into practice. Most importantly, it highlights not just the risks from biodiversity but the opportunities for Australian businesses that move quickly to put a more meaningful value on nature.

A framework for corporate biodiversity risk

Following 18 months of Beta testing, the TNFD released the final version of its “market-led and science-based⁸” risk-management and disclosure framework in September 2023. Highly anticipated by financial and corporate sectors alike, the TNFD release provides a voluntary framework that will help organisations recognise, report on, and disclose nature-related risks and opportunities.

Expectations are high. Most businesses lack the knowledge and experience required to identify and manage their impacts on nature and the financial consequences to their business.

The TNFD release has been welcomed by stakeholders globally for several reasons. For companies, the TNFD provides a level playing field for nature-based reporting requirements to track their progress toward nature-based goals and targets agreed at the COP15 biodiversity conference in Montreal in December 2022⁹. This agreement, called the Kunming-Montreal Global Biodiversity Framework (GBF), commits governments to protect 30% of land and 30% of oceans for nature by 2030.¹⁰

It also provides foundational market information that gives the private sector the tools to meet two other critical GBF targets. Target 15, which requires countries

to ask companies in their jurisdictions to disclose their risks, dependencies and impacts on biodiversity of their operations and supply and value chains. And Target 19, which requires countries to commit to new mechanisms to mobilise at least US\$200 bn per year by 2030 into nature positive solutions, including via biodiversity offsets and credits, co-benefits associated with carbon credits, and blended finance solutions.

Finance will be critical to stem nature risk. A 2020 Paulson Institute report estimates between US\$722bn to US\$967bn will need to be invested annually over the next decade to reverse the decline in biodiversity globally by 2030¹¹. As the private sector reaps many economic benefits from biodiversity—\$44 tn of economic value is moderately or highly dependent on nature—it is expected that this finance gap should be shared between the private and public sectors¹².

The TNFD is highly relevant for Australia. As a large, developed, megadiverse¹³ country with a robust legal system and financial services sector, Australia is uniquely positioned to capitalise on any nature credit market growth. The development of mandatory biodiversity offset compliance markets in some states is testament to this. Many Australian companies and sectors, including mining and agriculture, also face extraordinarily large and complex nature risks.

“There's growing recognition that [biodiversity and nature] is an emerging risk and opportunity, but it's much more complex than other risks and [most businesses] don't have in-house biodiversity or ecological expertise at the moment. The TNFD helps

them start to understand nature related terminology, risks and opportunities” explains Kristy Graham, chief executive officer of the Australian Sustainable Finance Institute (ASFI).

“The TNFD’s approach is designed to provide market participants with an accessible language and framework for understanding nature, based on a natural capital approach, and the tools and guidance to start assessing their nature-related issues,” adds Tony Goldner, chief executive officer of the TNFD.

Camille Goldstone Henry, founder and chief executive officer of Xylo Systems, a technology company that measures biodiversity impacts, says the TNFD takes a problem that was previously put in the “too hard basket” and makes it achievable for companies in Australia to begin to take biodiversity action.

“The TNFD is a tool in our toolbox for tackling a huge global issue in a digestible and easy-to-understand manner,” explains Ms. Goldstone-Henry. “It has changed the conversation from ‘why should we consider biodiversity?’ into ‘how can we consider biodiversity?’ That very subtle change will drive massive positive change for biodiversity around the world.”

Rowan Griffin, executive director ESG at QIC, says the TNFD will also enable organisations to measure environmental risks more holistically and pursue climate and nature opportunities in a more cohesive way. “I’m excited to see the TCFD and the carbon market move as far as it has. The release of the TNFD is an important step that will support the development of nature markets alongside these,” he says.

“There’s growing recognition that [biodiversity and nature] is an emerging risk and opportunity, but it’s much more complex than other risks and [most businesses] don’t have in-house biodiversity or ecological expertise at the moment.”

**Kristy Graham, chief executive officer,
Australian Sustainable Finance Institute
(ASFI).**

BOX OUT

Unpacking the TNFD

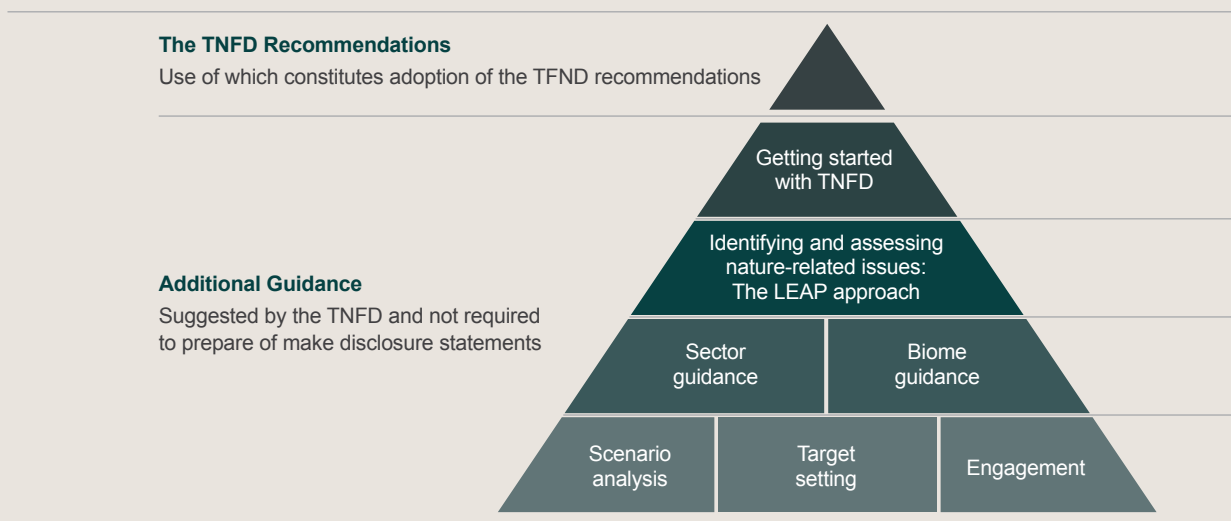
The TNFD was founded in 2021 as an international cross-sector initiative between governments, finance institutions, companies, and NGOs globally. Although a cross sector initiative, funding for the TNFD was restricted to international governments, including Australia, philanthropic organisations, and The United Nations (UN) to foster an “open innovation” approach to framework development.

It ensures that the final framework meets a broad set of needs and that no single organisation can own the intellectual property that underpins it. The final version of the TNFD framework was developed by a 40-member private-sector taskforce—which includes Australia’s Macquarie

Group—with feedback on the framework’s beta versions provided by a consultative TNFD Forum¹⁴ of over 1,000 organisations including all of Australia’s major banks.

Comprising guidance on scenarios, data, metrics and targets, the central tenant of the final TNFD framework is a set of recommended disclosures, a risk and opportunity assessment approach—or the LEAP Approach—and core concepts and definitions that underpin the recommendations. The TNFD will also inform and feed into other specific standards and disclosure requirements, like the International Sustainability Standards Board (ISSB) and the Sustainability Accounting Standards Board (SASB).

Figure 1. The TNFD framework

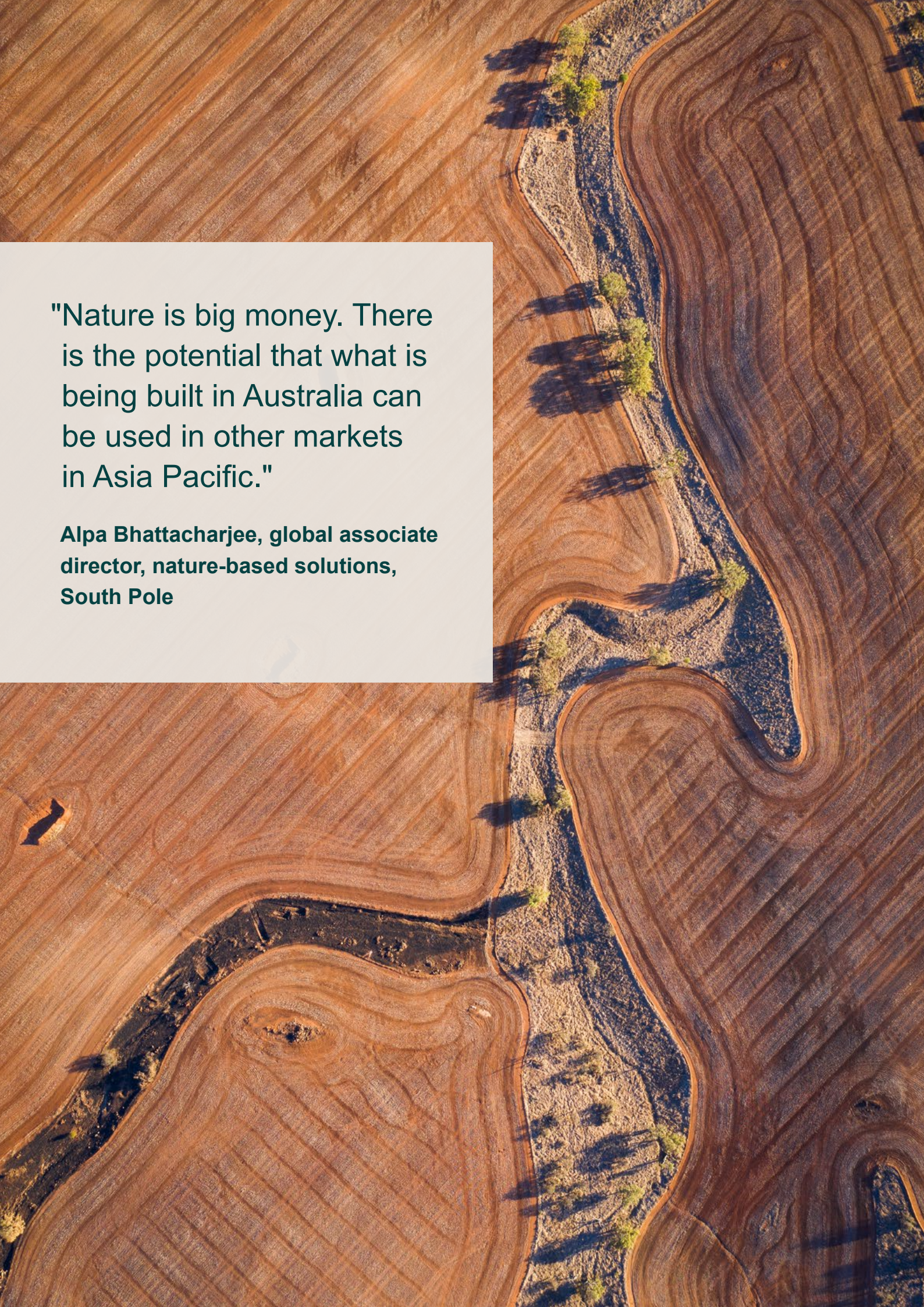


Source: TNFD, 2023

Cognisant of the increasing climate-related reporting requirements companies face, the TNFD intentionally developed the framework using a similar approach to the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations.¹⁵ The TCFD was established by the Financial Stability Board (FSB) in 2015 to address the need for consistent and comparable disclosure of climate-related risks and opportunities in financial reporting.

Both The TCFD and TNFD aim to enhance transparency and disclosure of environmental risks to the financial markets. They focus on different aspects of environmental risks, but both promote market sustainability and inform financial decision-making. It is hoped that by mirroring the TCFD's approach, structure, and pillars—strategy, risk management, and metrics and targets—in the TNFD, companies will adopt the final nature reporting recommendations more readily into their operations.



An aerial photograph of a dry, brown landscape. The terrain is characterized by numerous winding, parallel paths or tracks that create a complex, maze-like pattern across the land. The color is a deep, earthy brown, suggesting a dry or arid environment. Scattered throughout the landscape are small, green trees and shrubs, some of which cast long, dark shadows. The overall appearance is one of a rugged, natural terrain that has been heavily traversed or shaped by human activity.

"Nature is big money. There is the potential that what is being built in Australia can be used in other markets in Asia Pacific."

Alpa Bhattacharjee, global associate director, nature-based solutions, South Pole

Market foundations

The TNFD may help generate the data needed for a biodiversity credit market to operate, but markets require far more than just information and Australia's market is nascent. As a voluntary set of standards, the TNFD can't force businesses and investors to report their biodiversity risks and opportunities, so market structures—like a taxonomy and a long-term transition to mandatory reporting—will be needed.

“Voluntary disclosure always needs to come first. With that we'll see adoption among the market leaders in any sector and that brings light to the issue. But for the TNFD and biodiversity reporting to be fully effective, we want it mandated and we want legislation.” says Ms Goldstone-Henry.

Collaboration is key

Aiming to be on the front foot, many companies, especially financial institutions and those in industries with a direct impact on nature, like property and agriculture, are “spending an enormous amount of time” actively engaging with government, regulators and other market-based organisations about potential investment vehicle structures and the market implications of potential rules, according to Luke Donovan, partner, global carbon markets at Apostle Funds Management.

Currently, “the biodiversity market is a significant way from being at a scale, size, and level of credibility that a bank could participate in it. However, when the biodiversity market develops into something

meaningful, then I'm going to want to be part of it. And so it makes sense for me to engage as much as I can in its development because ultimately then I'll hopefully have an edge over others if and when it reaches that point,” he explains.

Rachel Lowry, chief conservation officer at WWF-Australia, says this type of cross-sector cooperation will be vital to achieve effective legislation, along with an adjustment period for companies to develop more sophisticated nature positive understanding, practices and internal reporting processes.

“We need a critical mass of champions, agreed standards, and an accreditation or compliance system that's going to keep people honest. The smart corporations see the opportunity and they're trying to get the market advantage by contributing to nature positive outcomes. That needs to be encouraged, but the regulation also needs to be developed alongside that,” she says.

“The biodiversity market is a significant way from being at a scale, size, and level of credibility that a bank could participate in it.”

Luke Donovan, partner, global carbon markets at Apostle Funds Management.

Legal risks and regulation could drive market growth

Ms Graham says ASFI has made several recommendations that it believes are needed to support the development of a robust nature market in Australia. Collaboration will be critical on this front, too.

These include work by the International Sustainability Standards Board on nature related disclosures, building on standard IFRS S2 Climate-related Disclosures (ISSB Climate Standard) reporting requirements—which are expected to become mandatory in Australia for the first phase of companies in 2024/25¹⁶—to include disclosure of climate-related financial risks and opportunities which could be followed by nature disclosures; and expansion of the joint industry-government Australian sustainable finance taxonomy¹⁷ to include definitions of activities that will make a significant contribution to halting and reversing biodiversity loss.

The Australian Government's Nature Repair Market Bill 2023, while not perfect, does address some of these issues. The system it would provide to register and certify biodiversity conservation and restoration projects on land or sea may help preserve core habitat areas. However it is unlikely to lead to a functioning market, including a secondary market, as only one certificate per project is currently proposed.

Although these are complex issues that will take time to resolve, there is a feeling among many stakeholders that biodiversity credit markets will grow much faster than the carbon market. One trigger is potential legal risk among companies that fail to start implementing the TNFD reporting framework.

“Our demands on nature are significantly exceeding its capacity to supply and the risks to business and finance are growing quickly. Large asset owners, like pension funds, who are invested across sectors, geographies and asset classes tell us they increasingly recognise they have nowhere to hide from nature risk and they need to own the problem. They are starting to ask more questions of the companies they invest in,” Mr Goldner explains

“Just like we saw with climate change, disclosure of nature related risks is of critical importance,” says Andrew Saunders, head of nature climate solutions at QIC. He expects fast uptake of nature-related financial disclosures because the TNFD mimics the structure of the TCFD. This means it will more readily fit into existing reporting systems in corporate and financial institutions, which were originally designed for TCFD reporting.

It also means that regulatory developments already underway, and which have been based on the broad market and government understanding of the existing TCFD framework, can more easily encompass TNFD requirements. “I think the development of a nature market is going to sneak up on everyone quite quickly,” Mr Saunders says.

BOX OUT

A stepped approach to biodiversity risk

Every company, business, or investment portfolio is unique, as are the nature-related risks they face. Understanding the type of nature risks a company faces—and how they relate to its climate risk—is vital to decision-making processes. Business leaders must be equipped to anticipate threats, prepare for consequences, and reduce their risk exposure.

Although there is not one agreed definition of nature risk, the TNFD categorises nature-related risks within three categories:

1. Physical risk:

From short- and long-term changes in an environment—like the degradation of natural assets that a company relies on for profits.

2. Transition risk:

That encompasses regulatory and legal risks, reputational risk, technology and market risk—like legal or compliance costs from managing the negative impact a business may have on nature.

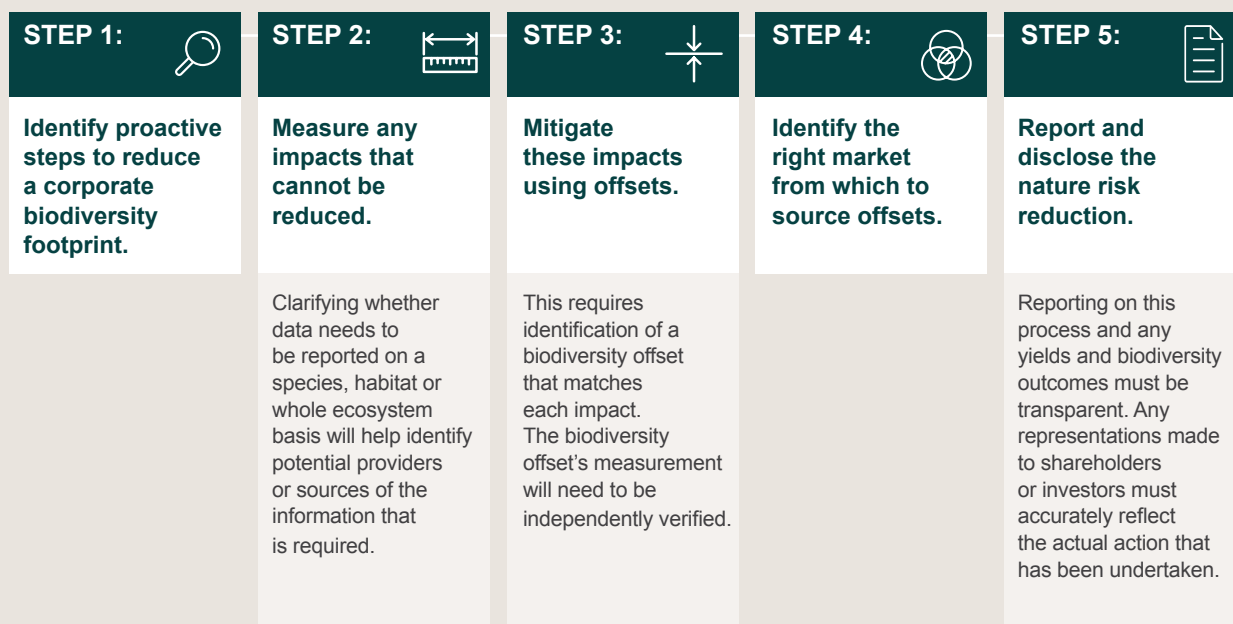
3. Systemic risk:

Which includes ecosystem collapse, and aggregated and contagion risk, where nature loss impacts one of more sectors in a portfolio or causes financial difficulties that spill over to the financial system as a whole¹⁸.



Natural capital markets are an essential tool to reduce these risks, but just like the risks they are designed to hedge against, they are inherently complex. Instruments like biodiversity-linked loans and biodiversity offsets can be useful, but companies need to take a stepped approach to using market solutions to reduce unintended legal risks.


A stepped approach to market-based nature solutions



Many companies will want to go beyond offsetting direct or indirect biodiversity impacts of their business footprints and create nature positive outcomes. That is where nature credit markets come into play.

Recent greenwashing proceedings by the Australian Securities and Investment Commission (ASIC) against companies like Active Super¹⁹ highlight the legal greenwashing risks companies encounter if public statements about their efforts to mitigate nature-related risks and impacts are not backed up by adequate disclosure.

Partnerships are key to reducing the risks of greenwashing, and to maximise any potential returns that can be made from nature markets. The complexity that surrounds risk identification and reporting means any company that undertakes nature-based risk mitigation needs a trusted team of specialists—scientists, engineers, lawyers, data, and AI specialists—to provide independent, verifiable advice to not just identify risks but to guide the best course of market action.

An aerial photograph of a mangrove forest. The dense green trees are interspersed with shallow, turquoise-colored water channels. The water's surface is textured with small ripples, and the overall scene is vibrant and natural.

"You can aim to do the most altruistic things, but if no capital flows are coming in, it doesn't really matter."

**Murray Ackman, credit ESG analyst,
Pental Group**

Opportunities from a unique market

Although debate over the potential estimated size of a domestic biodiversity credit market in Australia is ongoing²⁰, federal and state governments spend an estimated \$2.9 bn each year on conservation and environmental initiatives²¹, and there is consensus that there is substantial market upside from the need to hedge nature risks. Recognising this, a nascent nature credit market has already developed in Australia, with companies like GreenCollar, QIC and Pollination developing new biodiversity credit solutions or biodiversity focused funds.

One of the biggest barriers to a market that the TNFD is grappling with is the complexity of measuring biodiversity impacts and outcomes.

However, the foundation of all markets is supply and demand. Murray Ackman, a credit ESG analyst with Pental Group, says that despite the best intentions of investors and issuing companies, overcoming the fundamental lack of bankable biodiversity projects that have long-term outcomes and returns, and which are large enough to warrant commercial investment, will be an ongoing challenge.

“You can aim to do the most altruistic things, but if no capital flows are coming in, it doesn’t really matter,” says Mr Ackman. “Biodiversity projects aren’t big money yet, so it’s harder to find decent bang-for-buck in relation to the measures that investors are looking for. They are not exciting when compared to projects that are generating renewable energy, for example.”

Mr Ackman says relevance is also a problem for Australian companies, “as not every company sees themselves as directly involved in biodiversity risks.” Many are already battling “reporting fatigue” from climate and modern slavery disclosure requirements, which may mean those companies see the TNFD as “TCFD’s poor cousin,” he says.

Mr Goldner says relevance shouldn’t matter as nature risk is on balance sheets, in cashflows and in capital allocation portfolios today. “The challenge is that most businesses have not been looking for those risks because we continue to view nature as an endless, free provider of inputs into our business models. That needs to change quickly,” he says.

One of the biggest barriers to a market that the TNFD is grappling with is the complexity of measuring biodiversity impacts and outcomes. Without the right advice it can be difficult to know whether progress should be measured on an individual flora and fauna basis, or with a whole-of-ecosystem approach, and at what time frames progress should be measured. The relationship between climate change and nature, and capturing that with co-benefit data, compounds the challenge.

Carbon co-benefits are other positive benefits for nature, indigenous people, and society that can eventuate from projects that were primarily implemented for carbon emission reduction outcomes. Measuring these co-benefits is crucial for a more comprehensive understanding of the impacts of various actions and policies and to better inform decision-making.

Ms Goldstone Henry says sourcing the data required to feed into the TNFD framework remains difficult, but this has opened new opportunities for companies like Xylo Systems to plug the biodiversity data gap.

“Data availability and quality are huge challenges for businesses to overcome. But when you aggregate disparate data sets from academic partners, governments, satellite imaging, and other types of data, you can understand the impact on both habitats and species,” she says.

However significant gaps remain, and cross-sector cooperation will be needed to help grow verifiable nature data capabilities to a scale and level of access where they can match the TNFD framework requirements. This is vital for audit and verification to ensure that nature credits are high-integrity, and to facilitate trading in any future market. It’s also critical to manage risks in what can often be complex business supply chains.

“Until we tackle these data problems, and until we find a way to aggregate different types of biodiversity data sets, it is very hard to look at natural capital accounting or supply chains,” Ms Goldstone Henry adds.

Dr Emma Carmody, co-founder of blue carbon wetlands company Restore Blue, says the increasing discussion on nature-based decarbonisation, biodiversity and natural capital is encouraging, but that there is far too much talk and not enough action. “The critical element is capital. It needs to be patient, with a minimum investment horizon of 10-15 years to reflect the time it takes to restore degraded ecosystems,” she says.

Regulatory concerns may also stymie progress. Legal ownership rights to credits, and governance and integrity issues²² – like those playing out in the Australian carbon market in the aftermath of the

Chubb Review of Australian Carbon Credit Units²³ – will need to be addressed. The Government may need to consider regulating biodiversity credits as a financial product in the future to address these.

The need for Free, Prior and Informed Consent (FPIC) principles that protect indigenous people’s rights and meaningful benefit sharing with indigenous people was another key matter raised at COP15 that will have significant implications for Australia.

Growth from innovation

Regardless of these challenges, innovation will be the most important resource required for the successful development of a robust Australian biodiversity credit market. Most biodiversity projects either have time frames that are too long for investor needs, lack underlying yield, or cannot be accurately measured and verified. So while the demand for quality investments is ostensibly strong, there is a distinct lack of supply.

Alpa Bhattacharjee, global associate director for nature-based solutions at South Pole, an impact-driven climate company and project developer, says biodiversity credits can play a role in the market as they make complex risk mitigation more understandable. But she says people need to put more focus on the opportunities from biodiversity, not just the risks, and use that to develop new instruments to bring to market.

“Financial institutions and governments need to start looking at ways of being innovative and creative in the market, and not focus only on biodiversity credits. Start with a blended finance approach. Partner with a biodiversity project, run feasibility studies, figure out what the costs and revenues actually look like from appropriately valuing nature and start to mainstream that into financing and business decisions. There’ll be such a phenomenal story,” she says.

Ms Graham says the use of blended finance - where government funding is used to mobilise private capital - is something ASFI has recommended to help accelerate the flow of private capital into biodiversity and grow understanding and action while the domestic regulatory systems are being further established.

From a practical perspective, Rob Angus, chief financial officer of at Restore Blue believes corporates should use their balance sheets to finance restoration projects to access high quality credits that support their offset or transition actions. "Banks should upgrade carbon and natural capital asset valuation capabilities and provide debt against improved yields and land use. Funds can play at many levels, including natural capital, agriculture, real assets or alternative real estate," he says.

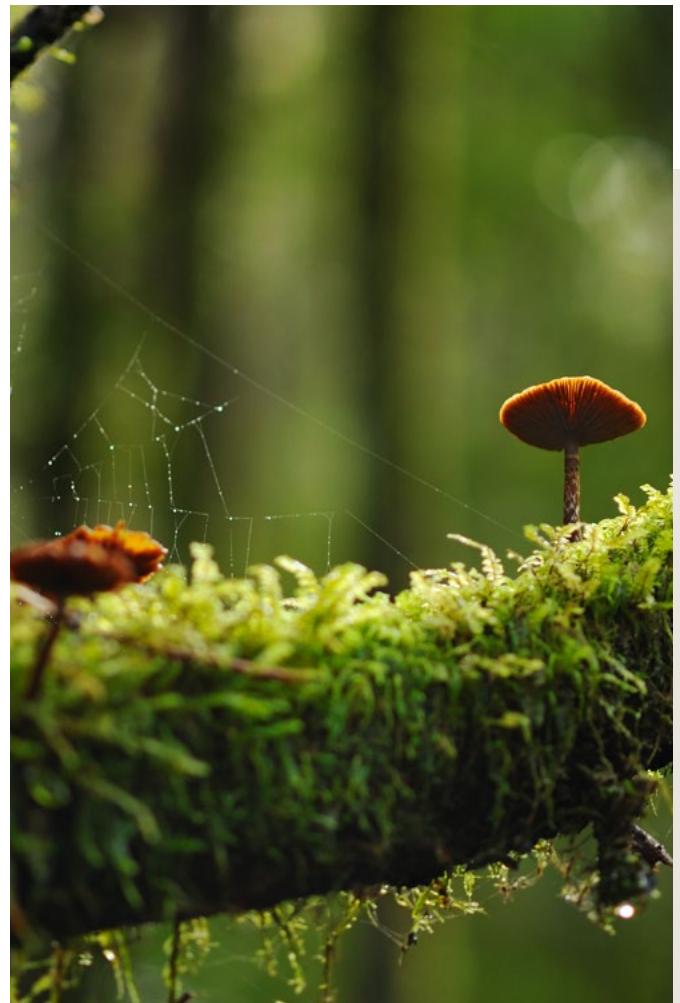
Meanwhile, the green shoots of Australian nature credit market innovation are becoming evident. GreenCollar's NaturePlus™ Credits²⁴, Terrain NRM's Cassowary Credit Scheme²⁵, South Pole's EcoAustralia™ Credits²⁶ and Wilderlands' Biological Diversity Units²⁷ are all early examples of verified Australian biodiversity or blended biodiversity and carbon credit products.


The Commonwealth Bank of Australia (CBA) and the Reserve Bank are trialling a central bank digital currency and blockchain technology that would allow trades in biodiversity credits to settle instantly. This biodiversity marketplace would exchange payment and title simultaneously and provide investors with transparency about the quality of the projects that underpin the credit²⁸ they are purchasing.

Fund managers are also investing in nature innovation. QIC's Nature Capital Fund, and HSBC and Pollination's Climate Asset Management Nature Based Carbon Strategy fund (CAM),²⁹ are 15-year, closed-end vehicles that commingle sectors. In QIC's case, agriculture underpins the biodiversity returns, while CAM uses carbon credits derived from their natural asset restoration projects as the fund's yield.

These funds have been designed to appeal to investors with realistic time frames and underlying assets that boost returns. The fact that agriculture underpins many of these emerging credit and fund structures also highlights the important role this sector will play in enabling nature markets to grow, and to provide co-benefits with emissions reduction through the carbon market.

"These are nascent markets, which are evolving rapidly, but having commercial agriculture as the underlying platform allows different options in terms of how to grow related environmental markets," says Mr Saunders of QIC's Nature Capital Fund.



An aerial photograph of a yellow combine harvester working in a vast, golden field. The harvester is positioned in the lower center of the frame, moving from the bottom towards the top. The field is filled with rows of harvested crops, and the harvester's shadow is cast on the ground. The overall scene is bright and sunny, with a warm yellow and orange color palette.

“Banks should upgrade carbon and natural capital asset valuation capabilities and provide debt against improved yields and land use. Funds can play at many levels, including natural capital, agriculture, real assets or alternative real estate.”

Rob Angus, chief financial officer, Restore Blue

Conclusion

These early-stage Australian nature credit products, most of which are co-benefits, are indicative of the most significant change the TNFD is likely to catalyse. By enabling emissions and nature risks to be disclosed using a similar accounting framework and language, products are more likely to move towards commingling carbon and nature for holistic environmental risk mitigation.

This will help companies better manage their carbon and nature risks together, and lead to the development of a robust, high-integrity nature credit market in Australia. Growth in co-benefits is already being seen in the Australian carbon market, where Australian Carbon Credit Units (ACCUs) that have biodiversity, First Nations people, environmental and socio-economic co-benefits attract premium prices over generic ACCUs³⁰.

Together, this could see Australia deliver on its outsized TNFD potential and spur regional market growth. “Nature is big money, and although there’s still no guarantee that it will end in a mandate in Australia, there is the potential that what is being built in Australia can be used in other markets in Asia Pacific,” Ms Bhattacharjee says.



End notes

- 1 COP15: Nations Adopt Four Goals, 23 Targets for 2030 in Landmark UN Biodiversity Agreement, UN Convention on Biological Diversity press release, 19th December 2022. <https://www.cbd.int/article/cop15-cbd-press-release-final-19dec2022>
- 2 Protecting biodiversity, The Australian Government Department of Climate Change, Energy, the Environment and Water. <https://www.dcceew.gov.au/environment/land/nrs/about-nrs/protecting-biodiversity>
- 3 Australia economic and trade fact sheet, The Australian Government Department of Foreign Affairs and Trade. <https://www.dfat.gov.au/sites/default/files/aust-cef.pdf>
- 4 Protecting biodiversity, The Australian Government Department of Climate Change, Energy, the Environment and Water. <https://www.dcceew.gov.au/environment/land/nrs/about-nrs/protecting-biodiversity>
- 5 Taskforce on Nature-related Financial Disclosures. <https://tnfd.global/about/>
- 6 World Economic Forum, Global Risks Report 2023. <https://www.weforum.org/reports/global-risks-report-2023>
- 7 World Economic Forum, Nature Risk Rising: Why the Crisis Engulfing Nature Matter for Business and the Economy, January 2020. https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf
- 8 Taskforce on Nature-related Financial Disclosures. <https://tnfd.global/>
- 9 How business helped drive 'historic' agreement for nature at COP15, Mark Hillsdon, Reuters, 22 December 2022. <https://www.reuters.com/business/sustainable-business/how-business-helped-drive-historic-agreement-nature-cop15-2022-12-21/>
- 10 COP15: Nations Adopt Four Goals, 23 Targets for 2030 in Landmark UN Biodiversity Agreement, UN Convention on Biological Diversity press release, 19th December 2022. <https://www.cbd.int/article/cop15-cbd-press-release-final-19dec2022>
- 11 Financing Nature: Closing the Global Biodiversity Financing Gap, the Paulson Institute, The Nature Conservancy, and the Cornell Atkinson Center for Sustainability at Cornell University, 2020. https://www.paulsoninstitute.org/wp-content/uploads/2020/10/FINANCING-NATURE_Full-Report_Final-with-endorsements_101420.pdf
- 12 Biodiversity: Finance and the Economic and Business Case for Action, an OECD report prepared for the French G7 Presidency and the G7 Environment Ministers Meeting, 5th May 2019. <https://www.oecd.org/environment/resources/biodiversity/G7-report-Biodiversity-Finance-and-the-Economic-and-Business-Case-for-Action.pdf>
- 13 Protecting biodiversity, The Australian Government Department of Climate Change, Energy, the Environment and Water. <https://www.dcceew.gov.au/environment/land/nrs/about-nrs/protecting-biodiversity>
- 14 About the TNFD Forum, Taskforce on Nature-related Financial Disclosures. <https://tnfd.global/about/the-tnfd-forum/>
- 15 Task Force on Climate-Related Financial Disclosures, TCFD Recommendations. <https://www.fsb-tcfd.org/recommendations/>
- 16 Mandatory climate reporting-second consultation period underway to shape the final regime, G Hoffman, N. Thomas, B. Bateman, C. Smith, M Floro and H, Yan, Clayton Utz, 7th July 2023. <https://www.claytonutz.com/knowledge/2023/july/mandatory-climate-reporting-second-consultation-period-underway-to-shape-the-final-regime>
- 17 Government to back ASFI-led Australian Sustainable Finance Taxonomy, Australian Sustainable Finance Institute press release, 21st April 2023. <https://www.asfi.org.au/media-centre/government-to-back-asfi-led-australian-sustainable-finance-taxonomy>
- 18 TNFD's definitions of risks, Taskforce on Nature-related Financial Disclosures, Version v0.4 Beta Release, March 2023. <https://framework.tnfd.global/concepts-and-definitions/definitions-of-risks/>
- 19 E. Tranter, M. Spain, L. Walsh, and M. Baranyay, ASIC keeps up the pace with its third greenwashing proceeding against Active Super, Clayton Utz, 15th August 2023. <https://www.claytonutz.com/knowledge/2023/august/asic-keeps-up-the-pace-with-its-third-greenwashing-proceeding-against-active-super>
- 20 PwC walks back report used to claim Australia's nature repair market could be worth \$137bn, Paul Karp, The Guardian, 28 June 2023. <https://www.theguardian.com/australia-news/2023/jun/28/pwc-walks-back-report-used-to-claim-australias-nature-repair-market-could-be-worth-137bn>
- 21 A nature-positive Australia: The value of an Australian biodiversity market, PwC, November 2022. <https://www.pwc.com.au/government/A-nature-positive-Australia-The-value-of-an-Australian-biodiversity-market.pdf>
- 22 Biodiversity Credit Markets, The Role of Law, Regulation and Policy, Taskforce for Nature Markets and Pollination, April 2023
- 23 Chubb Review of Australian Carbon Credit Units, the Australian Government department of the Prime Minister and Cabinet, The Office of Impact Analysis, 13th January 2023. <https://oia.pmc.gov.au/published-impact-analyses-and-reports/chubb-review-australian-carbon-credit-units>
- 24 NaturePlus™: A scientifically robust biodiversity credit scheme that values real, measurable results for nature, GreenCollar. <https://greencollar.com.au/our-services/natureplus/>
- 25 Cassowary Credit Scheme, Terrain NRM. <https://terrain.org.au/what-we-do/biodiversity/cassowary-credit-scheme/>
- 26 EcoAustralia™ Credits, South Pole. <https://www.southpole.com/sustainability-solutions/ecoaustralia>
- 27 Why this start-up thinks conservation is the new carbon, Yolanda Redrup, AFR, 5th August 2022. <https://www.afr.com/policy/energy-and-climate/why-this-start-up-thinks-conservation-is-the-new-carbon-20220801-p5b6b1>
- 28 CBA is creating a market for 'nature repair', James Eyers, AFR, 20th April 2023. <https://www.afr.com/companies/financial-services/cba-is-creating-a-market-for-nature-repair-20230418-p5d1gn>
- 29 Climate Asset Management raises \$650 mln to invest in nature projects, Virginia Furness, Reuters, 14 December 2022. <https://www.reuters.com/business/sustainable-business/climate-asset-management-raises-650-mln-invest-nature-projects-2022-12-13/>
- 30 Australian carbon credit units (ACCUs), the Australian Government Clean Energy Regulator, 2022 in review. [https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/december-quarter-2022/Australian-carbon-credit-units-\(ACCUs\).aspx](https://www.cleanenergyregulator.gov.au/Infohub/Markets/Pages/qcmr/december-quarter-2022/Australian-carbon-credit-units-(ACCUs).aspx)

claytonutz.com

Sydney

Level 15
1 Bligh Street
Sydney NSW 2000
+61 2 9353 4000

Melbourne

Level 18
333 Collins Street
Melbourne VIC 3000
+61 3 9286 6000

Brisbane

Level 28
Riparian Plaza
71 Eagle Street
Brisbane QLD 4000
+61 7 3292 7000

Perth

Level 27
QV.1 Building
250 St Georges Terrace
Perth WA 6000
+61 8 9426 8000

Canberra

Level 10
NewActon Nishi
2 Phillip Law Street
Canberra ACT 2601
+61 2 6279 4000

Darwin

17–19 Lindsay
Street Darwin NT
0800
+61 8 8943 2555

Disclaimer

Clayton Utz communications are intended to provide commentary and general information. They should not be relied upon as legal advice. Formal legal advice should be sought in particular transactions or on matters of interest arising from this communication. Persons listed may not be admitted in all States and Territories.

© Clayton Utz 2023