Frequently Asked Questions:

Financial Sector Commitment Letter on Eliminating Agricultural Commodity-Driven Deforestation

[Please see press release here]

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1. What is the commitment financial institutions are making?

As of 2 November, over 30 financial institutions with combined assets under management of more than US$ 8.7 trillion have already signed up to this commitment to use best efforts to eliminate agricultural commodity-driven deforestation (for palm oil, soy, beef, pulp & paper) from their investment and lending portfolios by 2025 and publish credible progress, a critical step toward reversing deforestation globally and aligning the sector with a Paris Agreement-compliant 1.5°C pathway.

The commitment encourages a focus on active ownership and ongoing stewardship as the principal means to tackle agricultural commodity-driven deforestation activities in portfolios. It focuses on high forest-risk agricultural commodities – palm oil, soy, beef and pulp and paper – that are linked to significant deforestation impacts and where there is significant potential to drive rapid change.

Financial institutions that sign the commitment will create organisational plans and milestones in line with the 2025 target for tackling deforestation risks from agricultural commodity production in their portfolios, as a vital step in achieving a Paris Agreement-compliant pathway.

2. Why does the commitment only address agricultural commodity-driven deforestation from palm oil, soy, cattle products, and pulp and paper - what about mining, fossil fuels, or infrastructure? What about agricultural commodities like rubber, cocoa and coffee?

Tropical forest deforestation now accounts for 8% of all CO_2 emissions, more than the entire EU.[1] Agricultural commodity sourcing for palm oil, soy, cattle products, and pulp and paper is by far the largest cause of this deforestation. This means addressing agricultural commodity-driven deforestation for these four products has the potential to make a large and rapid impact on the climate and nature crises.

There is currently more data available on agricultural commodity sourcing for palm oil, soy, beef and pulp and paper than other drivers of deforestation, and a greater number of tools designed to support financial institutions in their efforts to address exposure to these forest-risk agricultural commodities. Some financial institutions already have commodity-specific policies in place, and this commitment builds on that momentum.

That said, it is vital we do everything we can to end deforestation. This means addressing all drivers of deforestation – including other commodities like rubber, cocoa and coffee, as well as mining and infrastructure development – with urgency.

The Finance Sector Roadmap (see question 12) provides a five-phase approach and guidance for financial institutions to eliminate deforestation from their portfolios by 2025. The Roadmap focuses on palm oil, soy, cattle products, timber, and pulp and paper, but also provides modular guidance to facilitate action on other commodities and industries.

3. What does the commitment mean in practice? How will it drive change?

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[1] https://news.mongabay.com/2018/10/tropical-deforestation-now-emits-more-co2-than-the-eu/ If tropical deforestation were a country, it would be the third-biggest emitter globally .

The commitment is a crucial component of the global transition towards a sustainable, nature-positive economy, with the potential to align billions of dollars of capital towards sustainable supply chains and associated investment and financing opportunities. This will support a broader shift in the relationship between nature and finance, helping to create an enabling environment for accelerated, aligned action.

By making this commitment, financial institutions are stating their intent to address agricultural commodity-driven deforestation on a time-scale that aligns with the ambition of the Paris climate agreement.

By focusing on these particular 'forest-risk' agricultural commodities – palm oil, soy, beef and pulp and paper – financial institutions will be focusing their efforts on sectors with significant deforestation impacts and potential to drive change.

By establishing investment/lending policies addressing exposure to agricultural commodity-driven deforestation, financial institutions will be putting in place a structure to ensure that financing activities potentially connected to agricultural commodity-driven deforestation are systematically examined and addressed.

Through their engagement activities, financial institutions will have the opportunity to work with clients and investees to encourage, support and enable the transition away from high deforestation-risk agricultural commodity supply chains and towards sustainable production and nature-based solutions. This active ownership and stewardship approach will help bring together financial institutions to exert collective influence and support the required transition of the agriculture sector as a whole. Engagement, alignment of finance, and collective action is essential in driving the large-scale and urgent transition the world needs.

4. What does the commitment say about divestment?

As described in question 3, this commitment encourages a focus on active ownership and ongoing stewardship as the principal means to tackle forest-risk agricultural commodity-driven deforestation, as part of a global transition towards sustainable production, supply chains and associated investment and financing opportunities. The aim is to achieve tangible impact in halting some of the most common causes of deforestation, noting that premature withdrawal of finance may lead to alternative financing being sourced from providers without sustainability policies, representing a missed opportunity to influence a change in practices. This engagement approach is critical for local communities, ensuring support for sustainable livelihoods as these agricultural commodities transition to sustainable production. Ultimately, redirection of finance from companies and/or clients (i.e., direct financing recipients) with material exposure to agricultural commodity-driven deforestation impacts may be appropriate where risk-reduction criteria are not met.

5. Is this yet another voluntary finance sector initiative? How can this help financial institutions achieve targets and initiatives they've already signed on to?

This commitment creates essential convergence amongst other finance-led climate and nature-related initiatives, providing a united, focused 2025 timeline for aiming to end agricultural commodity-driven deforestation.

5a. Is this commitment already an implied part of 2050 net zero targets or biodiversity commitments?

Halting deforestation is crucial to meeting the goals of the Paris agreement and should be part of all financial institutions' net zero targets. However, most net zero targets do not spell out specific actions on deforestation, and many do not include any interim targets before 2030. This timeline is also aligned with the Finance for Biodiversity Pledge. Therefore, this commitment is filling an important gap which will support financial institutions in their efforts towards other climate and biodiversity goals.

Additionally, this commitment includes measures on public disclosure of risk. Momentum on disclosure in the finance sector thus far has been largely lacking in details for how to address deforestation, making this commitment a critical step for transparency, accountability, and enhanced learning as a sector on this topic.

5b. How is this different from the New York Declaration on Forests?

The New York Declaration on Forests is an important declaration calling for global action to protect and restore forests. It offers a common, multi-stakeholder framework for forest action, consolidating various initiatives and objectives that drive forest protection, restoration, and sustainable use.

This commitment is specifically for financial institutions, to encourage and support them in their immediate efforts to act on agricultural commodity-driven deforestation by 2025, as a key step on the way to fully ending deforestation as called for in the NYDF. Therefore, this commitment can be seen as a critical interim step toward achieving the broader NYDF commitments, just as this commitment serves as an interim step toward fully net-zero portfolios.

6. Don't financial institutions already have policies on deforestation? How is this different?

While some leading financial institutions are already addressing deforestation in their portfolios, the majority are not. This includes many that have set climate or biodiversity commitments such as those covered in question 5.

The latest Forest 500 assessment showed that 95 (including 4 of the world's 5 largest investors) of the 150 most exposed financial institutions still do not have a policy on deforestation for any forest-risk commodities. These institutions were providing $2.7 trillion of financing into the most influential companies in commodity supply chains, with no policy to encourage action.

Further, even those that had a policy for at least one commodity did not show evidence of implementation. Of 55 financial institutions with at least one deforestation policy, almost a fifth (16%) have failed to publish a process detailing how they identify and deal with non-compliance in their portfolios, and 44% did not report on compliance within their portfolios.

This commitment publicly signals an intent to set and implement stronger policies, and report on progress, as signatories scale up action on deforestation with their clients/holdings.

7. Why the 2025 timeline?

If we are to realise the full benefits of ending deforestation and transitioning to sustainable production, we need to act now. Nature-based solutions, including protecting forests from deforestation and degradation, can only deliver their full potential mitigating effect towards global climate targets if they are mobilized at-scale over the next 10 to 15 years. If action is delayed until after 2030, that number drops to 33%, and drops again to only 22% after 2050. Research shows that if nature-based solutions can be ramped up by 2030, they can absorb carbon while avoiding emissions at a rate of 10 gigatonnes of CO_2 per year,[2] more than the emissions from the entire global transportation sector.

8. What are nature-based solutions?

The 2019 IPCC Special Report on Climate Change and Land finds that limiting warming to 1.5ºC, or well below 2°C, requires ‘nature-based solutions’ - the sustainable use of nature for tackling socio-environmental challenges. Nature-based solutions can improve soil productivity, air and water quality, and increase biodiversity.

A subset of nature-based solutions, known as ‘natural climate solutions’, are used specifically to limit warming by increasing carbon storage and sequestration and/or avoiding carbon emissions.

9. Why is this commitment important?

i. Addressing the climate and nature crises: Immediate, rapid and large-scale reductions in emissions are needed to limit warming to 1.5°C, and ending deforestation and implementing natural climate solutions could provide a third of the solution to achieving the Paris climate target, at the same time as supporting the global goal for nature to halt and reverse biodiversity loss by 2030. However, finance-led action to address the climate, nature and biodiversity crises does not yet address deforestation with the focus and urgency required by science, and in recent years 40 times more finance has been allocated to activities that destroy forests than protect them.[3]

ii. Reducing risk and meeting targets: Financial institutions with portfolio exposure to agricultural forest-risk commodity production are exposed to regulatory uncertainty and growing ESG, market, reputational and litigation-related risks. Many have set net zero targets, and addressing deforestation is crucial to meeting these. This commitment includes time-bound milestones, including public risk disclosure and progress reporting - an important element for transparency and accountability as the signatories advance toward achieving their targets.

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[2] Nature-based solutions can help cool the planet - if we act now. (2021). Nature. https://www.nature.com/articles/d41586-021-01241-2

[3] https://forestdeclaration.org/images/uploads/resource/2017_NYDF_Goal8-9-Assessment_Full.pdf p6 Total finance for Goals 8 and 9 (roughly USD 20 billion since 2010 (to 2017)) is marginal compared to the USD 777 billion in “grey finance” for the land sector that influences forests and is not clearly aligned with forest and climate goals.

iii. Building a new nature-positive economy: This commitment will send a powerful signal to regulators and companies that the time to transition to a nature-positive economy is now. Financial institutions have a pivotal role to play in ending deforestation by engaging with forest-risk sectors and regulators in key producing regions to bring existing supply chains and operations into compliance with sustainable production practices. In doing so, they will help enable progress towards limiting temperature rise to 1.5°C and reduce the systemic financial markets risks associated with climate change and biodiversity loss. This commitment will create convergence and a common approach across the sector that will enable shared learning, catalysing accelerated progress in this space.

10. How does this commitment fit into the wider finance and forests agenda at COP26?

Effectively deploying natural climate solutions at-scale and delivering the global transition to a nature-positive economy by 2030 requires the redirection of vast sums of capital. This initiative to eliminate commodity-driven deforestation from portfolios sits among a broad set of finance-related announcements expected at COP26, including actions by companies to transition to sustainable production (by major initiatives such as the FACT dialogue), by governments for instance via reform of agricultural subsidies and redirecting ODA towards nature-positive solutions, and across sectors to ensure high-quality outcomes for nature-based solutions within results-based payments and other financial mechanisms.

11. Why should it be a task for financial institutions to address deforestation — is it not a job for companies and governments?

It is in the best interest of financial institutions to take active measures to address their portfolio exposure to agricultural forest-risk commodity production in order to mitigate their exposure to regulatory uncertainty as well as growing ESG, market, reputational and litigation-related risks. As providers of capital to, and major shareholders in, the agricultural commodity industries associated with deforestation, financial institutions have an important role and responsibility in driving and supporting the industry to eliminate deforestation from their activities.

Investors can build upon a strong foundation of investor-corporate engagement that has demonstrated the ability to catalyze changes that eliminate deforestation impacts across supply chains. Their efforts need to take place alongside and in alignment with work from companies and governments geared towards meeting the same goals, with shared responsibility for a just transition to a nature-positive economy. For example, harmful government agricultural subsidies need urgent reform so they instead contribute to nature restoration and regeneration. Regulatory backstops, such as due diligence regulation (eg. in the UK) and sustainable taxonomies (eg. in the EU) are also critical.

12. What tools are available for supporting financial institutions to meet the commitment?

The Finance and Deforestation advisory group (described in question 18) has created a Roadmap containing detailed guidance and a set of time-bound actions to assist financial institutions in achieving this commitment to tackle agricultural commodity-driven deforestation in their portfolios by 2025. The Roadmap is also set to be launched during COP 26.

The Roadmap is an online guidance tool that provides practical guidance for financial institutions on how to address deforestation risk in their portfolios. Starting with an initial understanding of risk in portfolios, through to setting and implementing effective policies, the guidance has been informed by consultation with financial institutions, civil society, and other key stakeholders. It guides users through five phases, broken down into steps and smaller recommended actions, to tackle commodity-driven deforestation in their portfolios. Each step also includes links to existing detailed guidance and supporting datasets for users to implement each recommended action. Launched on Nov. 3, the Roadmap will be available at https://guidance.globalcanopy.org/roadmap/. It will be regularly updated as more feedback is received, and in line with evolving best practice.

13. How should financial institutions be disclosing their deforestation risk? How is this related to TNFD?

Financial institutions should carry out and annually publish the results of their deforestation risk assessment. This disclosure can include:

- The number and names, as applicable, of of clients/holdings defined as having a high deforestation risk (e.g. those operating in forest-risk supply chains or industries);
- The amount of finance provided to clients/holdings which operate at all stages of the supply chain, as applicable, that produce, process, procure, or finance forest-risk commodities, and at least the high-risk commodities defined above (palm oil, soy, beef, leather, timber, pulp and paper);
- The methodology, data and milestones to determine this risk, as well as mitigation strategies, and ideally share this with peers to leverage collective learning.

The expectation is that by 2023, these financial institutions will publicly report their deforestation risk assessments and mitigation activities via mainstream reporting mechanisms, like CDP Forests, and via inclusion in their annual ESG reports or financial reports. It is worth noting that this is a fast-evolving space and there are likely to be increasing requirements to report on deforestation risk and other impacts and dependencies on nature. A Taskforce on Nature-related Financial Disclosures (TNFD), with broad private sector and government support, has been established to produce a risk management and disclosure framework for nature-related risk building on the work of existing initiatives in this space.

14. How will progress toward the commitment be tracked? What happens if a financial institution fails to make progress?

By 2023, financial institutions that make the commitment must disclose the mitigation activities, including due diligence processes and engagement, that they take to reduce the deforestation risk in their portfolios and publicly report credible progress on the milestones to eliminate commodity-driven deforestation by 2025.

By signing up to the commitment, financial institutions are making a public statement of their intention to address agricultural commodity deforestation-related risks. Accordingly, their progress will be tracked by the Finance and Deforestation advisory group. The signatories will be assessed on their public reporting of progress to ensure transparency, aligned with existing disclosure and reporting expectations. These assessments will be aligned with and carried out in coordination with the annual Forest 500 assessments of the 150 most influential financial institutions. The results of these assessments and progress on the commitment will be reported toward the transformation action plans within Race to Zero as part of the Marrakech Partnership of the UNFCCC.

15. What is meant by 'best efforts'?

Financial institutions will take ambitious measures within their control to meet this commitment, including the steps outlined in the commitment letter. To demonstrate best efforts, signatories will:

1. By the end of 2022:
    a. complete an assessment of their deforestation risk exposures associated with investment and financing related to the forest-risk agricultural commodities that are responsible for the lion's share of deforestation impacts – specifically, beef and leather, soy, palm oil, pulp and paper,
    b. adopt policies to address these deforestation risk exposures,
    c. commence and/or deepen engagement with clients and/or investees with regard to addressing deforestation impacts; and
    d. support policies that create a better enabling environment for businesses to avoid deforestation impacts;
2. By 2023: disclose deforestation risk exposures and mitigation activities (including due diligence and engagement activities) associated with their investment and/or financing portfolios, while sustaining engagement and stewardship activities; and
3. By 2025: publicly report credible progress toward eliminating forest-risk agricultural commodity-driven deforestation impacts in their investment and financing portfolios through successful engagement, and take the results of these engagements into account when making investment and financing decisions – including, for example, by only providing finance to clients (i.e., direct financing recipients) with material forest-risk agricultural commodity deforestation exposure if they have met risk-reduction criteria.

16. What is entailed in the 2025 commitment to "publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in investment/lending portfolios…?"

16a. What is the definition of 'credible progress'?

"Credible progress" implies positive change to the rate of deforestation, or evidence that the necessary preconditions for such a change are being put in place with a reasonable likelihood of succeeding.

Investors may set expectations of companies they invest in to demonstrate that they have put in place measures to reduce and eliminate deforestation risk within their activities and agricultural commodity supply chains. Investors should demonstrate how their influence is leading to progress on the approach to deforestation-risk within investee companies and they may take varying approaches to escalation for those not making sufficient progress.

16b. How would this requirement apply to different types of financial institutions?

This will vary – however the common thread is better reporting and disclosure. This is true whether the institution is a bank lending directly, or an asset manager investing and engaging as a steward of assets, or indeed the ultimate beneficial asset owner, for example a pension fund.

16c. How would this requirement apply differently across the value chain – e.g. food retailers, producers, traders, etc.?

There will be a wide variety of approaches – and expectations of investee companies will vary depending on their position in the value chain and means through which they are able to influence and have an impact on deforestation on the ground.

17. How can financial institutions commit to zero-deforestation within investment/lending portfolios where they are not the ultimate owner of the assets (i.e. an asset manager is an agent acting on behalf of clients, not the principal)?

Asset managers act as agents on behalf of clients. They can however offer investment products to reflect climate, biodiversity and other environmental and social implications. Asset managers also have a key role to play by helping increase awareness among asset owners, intermediaries and trustees, as well as the evolution in reporting and data.

Given the nature of exposure to deforestation being embedded mostly in agricultural commodity supply chains, rather than directly by investee companies, investors and financiers' role is to ensure that adequate policies are set and applied at the investee companies. With such policies and reporting in place, investors will have to make decisions on whether and when appropriate actions are taken by them, consistent with the objectives outlined in the commitment letter, to eliminate deforestation impacts associated with key commodities.

18. Who has developed the Finance Sector Roadmap?

The Roadmap was created by the Finance and Deforestation advisory group, a collaborative effort of institutions and leading organisations working at the intersection of finance and conservation. Organisations within the advisory group will closely engage with and support signatories, track their progress, and continue to enhance the Roadmap to ensure it remains aligned with the latest relevant best practices, data, and research.

The advisory group includes: High Level Champions for Climate Action Team, Nature4Climate Coalition, Global Canopy, Conservation International, and WEF Tropical Forest Alliance. This group sprung forth from the 2020 Race to Zero Dialogue on Nature, at which enhanced finance sector action on deforestation was identified as a key area of transformative action. The advisory group was convened to take on advocacy for this key area. Nature4Climate is committed to deliver and report on this action plan as part of the Marrakech Partnership of the UNFCCC and will report on a periodic basis to the High Level Champions.

19. What is the next step for the Finance and Deforestation advisory group and the financial institution signatories?

The Finance and Deforestation advisory group will engage financial institutions to gauge how signatories can be best supported in achieving their commitments, including hosting webinars to showcase the contents of the roadmap online tool.

The advisory group will continue to enhance its guidance on how financial institutions can tackle deforestation risks in their portfolios as more data and research becomes available. In particular, the initiative will provide more tailored guidance to banks and other financial institutions in producer countries including in the Global South, and also incorporate other deforestation-linked sectors, such as mining, energy and infrastructure. In this quickly evolving landscape, the advisory group will continually update the roadmap as new data capabilities are identified, and refine available guidance for various types of financial institutions, beginning with new guidance for pension funds in the first quarter of 2022.

Financial institutions will need to begin to work towards the 2025 target, beginning with the action points set out within the commitment letter for completion by the end of 2022:

- Assess exposure to deforestation risk through financing or investment in clients/holdings, with a focus on ‘forest-risk’ agricultural commodities – palm oil, soy, beef and leather, pulp and paper – that are understood to be tied to the most significant deforestation impacts.
- Establish investment/lending policies addressing exposure to agricultural commodity-driven deforestation.
- Deepen or, where necessary begin, engagement of the highest risk clients/holdings on deforestation in their supply chains, operations and/or financing.
- Engage on policy to support an enabling environment for businesses to avoid deforestation risks and impacts.

COP27 Addendum

1. ***How does making the commitment facilitate progress towards related climate and nature targets?***

Net zero targets will be out of reach unless deforestation is halted and reversed within a decade, so in order to deliver on their net zero targets financial institutions must make action on deforestation a key focus, with the ambition of eliminating it from portfolios by 2025 as part of a sustained engagement process that also looks to scale investments in nature-based solutions.

However, most net zero targets do not spell out specific actions on deforestation, and many do not include any interim targets before 2030. By providing a united, focused 2025 timeline and a supporting roadmap for making best efforts to eliminate agricultural commodity-driven deforestation, the commitment provides a vital enabling framework for related climate and nature efforts.

2. ***How have financial institutions who signed the commitment at COP 26 progressed towards their targets in 2022?***

Signatories to the Financial Sector Commitment on Eliminating Agricultural Commodity-driven Deforestation have been moving forward with implementation as the **Finance Sector Deforestation Action (FSDA) initiative.**

FSDA is working to accelerate action to tackle deforestation whilst increasing investment in nature-based solutions (NbS).

FSDA members have the support of the Finance and Deforestation Advisory Group, who are focused on helping signatories to meet the Commitment. The Group provides ongoing advice and support on data, tools and best practice.

3. ***How can new signatories join FSDA?***

Financial institutions interested in learning more about the commitment and joining FSDA should contact deforestationfree@climatechampions.team. Financial institutions can also sign the commitment and therefore join FSDA directly by completing this form**.**

4. ***Do new signatories to the commitment have to follow the same timeline as those who committed at COP 26?***

No. Financial institutions signing on to the commitment post COP 26 (November 2021) should follow a series of milestones in making best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in their investment portfolios and in their financing activities by 2025. These are detailed here (see page 3).

5. ***How have external developments over the course of 2022 impacted the commitment?***

The past year has seen the further strengthening of the rationale for front-loading net zero efforts with a focus on deforestation, and re-emphasised the significance of action and collaboration across finance.

For example:

- New data shows that the sustainable transition of food and agricultural sectors can provide 80% of the solution to reducing emissions across the surface of the planet.
- The financial risks of inaction on deforestation have been further quantified, with new research showing farm and food investors face $150 billion loss if they fail to adapt to climate change, with nearly $1.9 trillion at stake as biodiversity loss intensifies nature-related risks.
- A ground-breaking report from the UN Climate Change High-Level Champions found some of the world's most valuable food and agriculture companies could lose up to 26% of their value by 2030, with permanent sector-wide losses equivalent to the 2008 financial crash. At the same time, companies and investors who move early to align their business models with, and help accelerate, the land use transition - developing and tapping solutions for a net zero, nature positive, resilient food system - could generate up to USD$4.5 trillion of new business opportunities annually by 2030.
- The GFANZ co-Chairs' call to action on deforestation says that financial institutions' net zero plans that lack clear targets to eliminate and reverse deforestation are incomplete.
- The scale of the investment opportunity associated with the sustainable transition of the agriculture commodities sector has been further quantified, with USD 285 billion/year by 2050 needed to address the interrelated climate, biodiversity, and land degradation crises.
- Regulatory momentum has continued, with EU proposals requiring financial institutions to demonstrate their activities have no links to deforestation.
- There is an increasing amount of data and methodologies emerging around deforestation– from organizations such as the Science Based Targets Network and the Task Force on Nature-Related Financial Disclosures – to help financial institutions better understand the risks and opportunities and to set robust targets. For example, SBTi FLAG guidance now requires companies setting forest, land and agriculture (FLAG) science-based targets to submit a no-deforestation commitment with a target date no later than 2025 [in line with the timeframe of this commitment], with a recommended cutoff year of 2020.

6. Where can I find more details about the annual assessment of financial institutions' progress towards tackling deforestation?

All financial institutions that are part of Race to Zero and GFANZ are now assessed annually by Global Canopy's Deforestation Action Tracker (DAT). DAT is an annual accountability mechanism to provide an independent baseline review of financial sector action on deforestation. More information on the Deforestation Action Tracker and its methodologies can be found here.