FINANCIAL SECTOR COMMITMENT LETTER ON ELIMINATING COMMODITY-DRIVEN DEFORESTATION

For new financial institutions that want to join post COP26, please refer to the timeline in the addendum.

We have a fiduciary duty to act in the best long-term interests of our investors, beneficiaries and clients and recognize the increasing urgency of addressing climate, biodiversity and food security-related risks and opportunities across our portfolios.

Forests play an important role in climate change mitigation, absorbing one-third of the CO_2 released from burning fossil fuels every year.[1] Home to 21% of the world's population and 80% of the world's plants and animals,[2] they are also crucial for biodiversity protection and food security.

Yet tropical forest deforestation related to 'forest-risk' agricultural commodities (palm oil, soy, beef, pulp and paper) accounts for 8% of all CO_2 emissions, more than the entire EU, and the Amazon rainforest is now emitting more carbon dioxide than it can absorb.[3]

The IPCC 2021 report[4] finds immediate, rapid, and large-scale action is needed if emissions are to peak by 2025 and warming is to be limited to 1.5°C.[5] Ending deforestation and investing in natural climate solutions could provide a third of the solution to meeting the Paris climate target[6] while supporting the global goal for nature to halt and reverse biodiversity loss by 2030.

We recognise the importance of ending commodity-driven deforestation to tackle climate change, reduce biodiversity loss, and support food security, and believe that we should have policies, practices, and metrics in place to address investment and financing activity regarding forest-risk agricultural commodities and their respective value chains. We see this as part of a global transition towards sustainable production supply chains and associated investment and financing opportunities.

The conditions for investing in, and providing financial services to, forest-risk agricultural commodities, operations and supply chains are increasingly uncertain. We see that weakening environmental and human rights policies and lack of effective enforcement are exposing the sector to growing ESG, market, reputational and litigation-related risks, as well as regulatory uncertainty. We believe these risks should be addressed.

In addition, many of us have set net zero targets, made biodiversity commitments, and are taking immediate, results-driven action towards meeting them. We recognise the immense potential of addressing forest risk agricultural commodity-driven deforestation towards achieving our goals.

We also recognise that forest-risk agricultural commodity supply chains and operations are critically important to economic development and livelihoods, particularly in countries and jurisdictions where production and processing takes place.

We, the signatory organisations, therefore:

- Believe there is an urgent need for sustained engagement and ongoing stewardship with forest-risk sectors and regulators to drive the shift towards sustainable production and consumption with clear social benefits.

- Embrace the COP26 Presidency's call for financial institutions to commit to achieving zero-deforestation impacts across investment and lending portfolios by 2025.
- Commit to best efforts to eliminate forest-risk agricultural commodity-driven deforestation activities at the companies in our investment portfolios and in our financing activities by 2025, consistent with the timelines, measures and objectives identified below. We will achieve this principally through active ownership, ongoing stewardship, and other measures that are expected to lead to real-world impacts.
- Call on policy makers and regulators to adopt policies and pursue actions that provide an appropriate enabling environment, including via enforcement as to illegal deforestation and, where necessary, adoption and implementation of policies to curb legal deforestation.
- Call on all other financial institutions to join us in the above.

We, the signatory organisations, further commit individually to create organisational plans, milestones, and incentives to fulfil the proposed timeline for commitments on deforestation-free forest-risk agricultural commodity portfolios, aligned with a Paris Agreement-compliant 1.5°C pathway, as set out below:

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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.

By 2023:

- Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement

By 2025:

- Publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment/lending portfolios through successful company engagement, and only provide finance to clients that have met risk-reduction criteria. Increase investment in nature-based solutions.

In striving to eliminate commodity-driven deforestation from our investment and lending portfolios by 2025, we intend to reduce deforestation-related risks while supporting the transition to a sustainable agricultural sector.

We see this as an important part of enabling progress towards limiting temperature rise to 1.5°C and reducing the overall systemic financial markets risks associated with climate change, biodiversity loss and food security concerns.

Moreover, we believe that achieving zero-deforestation across our portfolios will contribute towards our fiduciary duty to act in the best long-term interests of our investors, beneficiaries, and clients.

Signatories

As of 2nd November 2021, this statement was endorsed by over 30 financial institutions representing (US) $8.7 trillion in assets.

ADDENDUM: Adjusted timeline for Financial Institutions signing post COP26 22 February 2022

Financial Institutions that would like to sign this commitment letter post COP26 should follow these milestones below:

- **Milestone 1 to be achieved as expeditiously as possible consistent with the spirit of the timeline for this milestone as laid** out in the November 2, 2021 commitment letter **:** 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.
- **Milestone 2 to be achieved as expeditiously as possible consistent with the spirit of the timeline for this milestone as laid out in the November 2, 2021 commitment letter:** Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement.
- **By 2025:** Publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment/lending portfolios through successful company engagement, and only provide finance to clients that have met risk-reduction criteria. Increase investment in nature based solutions.

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