



Finance Sector
Deforestation Action (FSDA)
**Expectations for Commercial
and Investment Banks**

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IIGCC

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Finance Sector Deforestation Action (FSDA) Expectations for Commercial and Investment Banks¹

The Finance Sector Deforestation Action initiative (FSDA) brings together 33 financial institutions² who are using best efforts to eliminate agricultural commodity-driven deforestation risks in their investment and lending portfolios by 2025. In 2024, FSDA appointed the Institutional Investors Group on Climate Change (IIGCC) as Secretariat. These expectations were developed by the FSDA and IIGCC to support investor engagement with banks on deforestation.

Forests are crucial for regulating the global climate system. They hold a century's worth of current annual fossil fuel emissions.³ Forests are also home to 80% of the world's terrestrial animal, plant and insect species,⁴ three quarters of the world's accessible freshwater⁵ and directly support the livelihoods of 1.6 billion people.⁶ Despite their importance, forests continue to be cleared to produce agricultural commodities, infrastructure and other extractive resources. Deforestation and forest degradation currently account for approximately 11% of carbon emissions.⁷ The continued fragmentation and loss of these ecosystems could lead to catastrophic impacts for the climate, biodiversity and humanity.⁸

Deforestation therefore poses a systemic risk⁹ for financial markets, and in order to keep 1.5°C within reach,¹⁰ the majority of commodity-driven deforestation needs to be halted by 2025 and all remaining land "conversion" eliminated by 2030.¹¹

Banks can be exposed to deforestation risks through the financial services they provide to companies that produce and/or utilize products contributing to deforestation within their direct operations or value chains. Banks that fail to address deforestation are exposed to financial risk through various channels, including physical risk, transition risk and systemic risk.¹² Nonetheless, banks are uniquely positioned to tackle deforestation through engagement across value chains, their financing decisions and encouraging best practice and transparency among clients. As shareholders in banks, investors have a fiduciary duty to consider and manage the financial risks associated with deforestation.

With the adoption of the [Global Biodiversity Framework](#) (GBF) in 2022 and the [Global Stocktake](#)¹³ in 2023, countries around the world signalled a strengthening of policy and regulatory frameworks to combat deforestation; exemplified by the European Union Deforestation Regulation. To achieve the goals of the GBF and the Paris Agreement, it is imperative that financial flows are directed towards land-use practices that contribute to climate change mitigation, biodiversity protection and sustainable livelihoods as well as food security.

This document sets out investor expectations for banks on eliminating commodity-driven deforestation, conversion and associated human rights abuses in their lending and investment practices.

It builds from the general [Finance Sector Deforestation Action \(FSDA\)](#) and covers: (1) all of a bank's non-consumer financing lines.¹⁴ Ideally banks should begin with their most material and impactful activities and expand coverage from there. For many banks this is likely to start with project finance and corporate lending. (2) All forest-risk agricultural commodities that are understood to be tied to the most significant deforestation impacts (palm oil, soya, beef and leather, pulp and paper),¹⁵ and where the bank has material exposure to such commodities, either directly or via financing the supply chain. (3) Direct operations of financed clients and all relevant upstream and downstream activities in their value chains.¹⁶

We acknowledge that each bank's ability to meet these expectations will depend on the legal and regulatory environments in which they operate and their individual circumstances and commitments, and these expectations should not be seen as prescriptive for all banks or all situations. The intention of these expectations is to set out global best practice, and considerable effort will be required on the part of banks to meet them. Emerging market and developing economy (EMDE) banks are also crucial to achieving global sustainability goals, and investors welcome the opportunity to engage with these banks on these expectations. As EMDE banks implement these expectations, it may be pragmatic to adopt a stepwise approach, starting with a focus on the most material activities. This will be different for each bank, but might begin, for example, with a focus on project finance activities, followed by corporate lending and then remaining banking activities such as investment services, cash management and advisory services. Investors also recommend that banks generally disclose how they are joining relevant initiatives to improve their alignment with sustainable development goals, and thereby improve their chances of attracting institutional capital.

Commitments must be supported by robust actions and policies to be considered meaningful. Net-zero targets will be out of reach and exposure to financial risk increases unless deforestation is urgently halted and reversed. Banks should also ensure deforestation policies complement and align with their individual net zero commitments, especially as it relates to decarbonisation targets for high-impact sectors where issues of deforestation and climate overlap¹⁷. Finally, banks' expectations of clients and associated policies should be periodically reviewed, at a minimum every 2 years.

1. Note: FSDA intends to publish a supporting document on implementation guidance which will set out examples of good practice, (including on certifications and further resources on client engagement), and guidance on priorities. This guidance is forthcoming.

2. These investors are subject to their own individual strategies, jurisdictional requirements and client mandates. See the [2024 FSDA Progress Report](#) for further information on FSDA.

3. World Resources Institute, [Forest Carbon Stocks](#), 2022.

4. United Nations, [15 Life on Land](#).

5. World Wildlife Fund, [Top 10 facts about forest](#), 2023.

6. International Union for Conservation of Nature Issues Brief, [Forests and climate change](#), 2021.

7. UNEP, [Deforestation Factsheet](#), 2021.

8. Flores, B. et al., [Critical Transitions in the Amazon forest system](#), 2024.

9. Global Canopy, 2023: [A watershed year for action on deforestation](#), 2023.

10. The 2015 Paris Goal to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial level, [PARIS AGREEMENT](#), 2015.

11. The UN High-Level Expert Group on the net zero emissions commitments of non-state entities, [Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions](#), 2022.

12. [When the Bee Stings Counting the Cost of Nature-Related Risks](#), p.3 2023

13. The [first Global Stocktake](#) identified halting and reversing deforestation by 2030 as integral to achieving the temperature goal of the Paris Agreement.

14. The bank's entire non-consumer financing activities should be included (on- and off-balance sheet activities), including e.g. project finance, corporate lending, business finance (trade finance), and capital markets.

15. Note: These commodities are in alignment with [FSDA commitment](#) and [Global Canopy Finance Sector Roadmap](#). We would encourage the inclusion of additional commodities covered by the EU Deforestation Regulation: coffee, cocoa and rubber if a bank is exposed.

16. The FSDA Expectations for Commercial and Investment Banks encourage alignment with the recommendations of the Taskforce on Nature-Related Financial Disclosures (TNFD) on prioritising nature-related dependencies, impacts, risks and opportunities across direct operations and related upstream and downstream activities, and the International Sustainability Standards Board (ISSB) as guidance moves towards [integrated reporting](#) and [nature-related issues](#) are brought into the global baseline for sustainability disclosures.

17. The [IIGCC Banks Standard](#) sets out potential mechanisms for operationalising decarbonisation strategies, e.g. client engagement and exclusions.

Summary of Investor Expectations for Commercial and Investment Banks

For detailed implementation expectations see pages 5-6

- 1) **Risk assessment:** Conduct a deforestation risk assessment of exposure to commodity-driven deforestation through its financing activities to determine highest risk related to commodities, sectors and regions.
- 2) **Commitment and governance:** Set a public commitment to deforestation- and conversion-free banking across all material non-consumer financing activities,¹⁸ including all forest-risk agricultural commodities and all operations and geographies to which the bank has material risk exposure,¹⁹ while ensuring human rights are respected. The target date should be aligned with the 2030 Global Stocktake goal, with best efforts to eliminate deforestation caused by high-risk commodities no later than the end of 2025.
- 3) **Expectations of clients:** Set expectations of clients that encourage them to: establish traceability, manage non-compliance, support the economic inclusion of value chain actors in deforestation-free production models, and provide financial products to support clients in investing in innovative solutions.
- 4) **Monitoring and compliance:** Perform ongoing due diligence on clients for deforestation commitments, integrate monitoring systems into existing bank processes, set expectations on non-compliance engagement and escalations, and require annual client reporting on deforestation risk. Reporting requirements are suggested across two categories (1) for financing clients directly involved in upstream forest-risk commodities (2) for financing clients sourcing or trading commodities.

- 5) **Disclosure:** Disclose the bank's deforestation policies and publicly report progress on an annual basis including across the following categories: risk assessment; commitment and governance; monitoring, engagement and compliance.



18. See footnote 14

19. Based on the bank's risk assessment results in 1) Risk Assessment by considering its exposure to high-risk commodities, sectors and regions.

Detailed Investor Implementation Expectations for Commercial and Investment Banks

1) Risk assessment:

- a. Conduct a portfolio-wide risk assessment on exposure to deforestation, conversion and associated human rights abuses to understand the overall risk profile.²⁰ As part of this risk assessment, banks should identify high-risk regions and sectors and identify priority forest-risk commodities.
- b. Banks may choose to classify clients as high-, medium- and low-risk to reflect both (1) the scale of financing and investment, and (2) the extent to which the client is exposed to forest risk commodities and operating in high-risk sectors and or regions, ideally with consideration of how the client is managing these risks.
- c. Banks should also consider the absolute deforestation risk impact of the client's exposure within high-risk regions when compared to overall deforestation within high-risk regions.

2) Commitment and governance:

- a. Set a comprehensive public commitment to deforestation- and conversion-free²¹ banking across all material non-consumer financing.²² This commitment should cover all forest-risk agricultural commodities²³ and all operations and geographies where the bank has material risk exposure to such commodities,²⁴ and all of the client's holdings across its entire value chain, while respecting human rights.²⁵ The target date should align with the Global Stocktake goal of halting and reversing deforestation and conversion by 2030, and best efforts to eliminate deforestation caused by high-risk commodities no later than the end of 2025, or as soon as possible.
- b. Have explicit oversight for this commitment at the board level and commit to sufficient internal and external resources to integrate this commitment throughout the organisation, including a stakeholder engagement process to implement at the group and subsidiary level.
- c. Maintain and commit time and resources to participate in collaborative actions within industry, and with key stakeholders, and governments to advance sustainability in agriculture commodity financing, including alignment of lobbying activities. Where relevant, support work in production landscapes²⁶ to foster practices and initiatives such as those that promote public availability of deforestation data.

3) Expectations of clients:

- a. Encourage clients to make a public time-bound deforestation commitment with an accompanying plan²⁷ outlining how they will engage with their value chain and establish full traceability²⁸ and compliance systems that monitor and control deforestation, conversion, and potential impacts on human rights across value chains.
- b. Encourage clients to test for the Free, Prior, and Informed Consent (FPIC) of Indigenous Peoples and local communities prior to acquiring new interests in land or resources and prior to new developments or expansions, not proceeding with these operations unless consent has been given.
- c. Set clear expectations for clients to manage non-compliance with clear processes, and to maintain an effective, public grievance mechanism²⁹ for their operations and value chain to report issues with formalised procedures for addressing complaints in a timely manner and providing fair and just remedy.
- d. Encourage clients to support the economic inclusion of value chain actors in new deforestation- and conversion-free production models which are supported by - and do not exclude - small rural producers, and local suppliers.³⁰
- e. Provide financial products (e.g., sustainability linked loans, support in structuring sustainability linked bonds, or other financial benefits^{31, 32}) and advice to support clients in investing in innovations³³ and transitioning to deforestation- and conversion-free production systems. Integrate learning into new processes and scale what works.

20. Including market access, policy, regulatory, reputational and physical risks as listed by [The Global Canopy Finance Sector Roadmap](#).

21. For definitions of key terms and additional guidance please refer to the [Accountability Framework Initiative](#)'s definitions and guidance.

22. See footnote 14.

23. At a minimum palm oil, soya, beef and leather, pulp and paper in alignment with [the FSDA commitment](#) and [Global Canopy Finance Sector Roadmap](#), encouraging inclusion of additional commodities covered by the EU Deforestation Regulation: coffee, cocoa, rubber.

24. Based on the bank's risk assessment results in 1) RISK ASSESSMENT by considering its exposure to high-risk commodities, sectors and regions.

25. Including human rights associated with deforestation and in alignment with international norms, specifically: labour rights, gender rights, smallholder inclusion, Free Prior and Informed Consent of relevant communities, the protection of customary rights to land, resources and territory of Indigenous peoples and local communities, and zero tolerance of threats and violence against Forest, Land and Human Rights Defenders.

26. Forest Positive Coalition of Action, [Collective Action and Investment in Landscape Initiatives: The Business Case for Forest Positive Transformation](#), 2022.

27. For best practice guidance, see [The Accountability Framework Core Principles and Operational Guidance](#).

28. In alignment with the [TNFD's LEAP approach](#), [EU Deforestation Regulation](#), and the core principles of the [Accountability Framework Initiative](#) guidance full traceability should include the origin of land where commodities are produced. This can feed into the bank's risk assessment.

29. For definitions and additional guidance on grievance mechanisms please refer to the [Accountability Framework Initiative](#), see [Operational Guidance on Remediation and Access to Remedy](#), 2019.

30. E.g. following the guidance set out in the [Accountability Framework Core Principles](#), 2023.

31. In line with [ICMA's Sustainability-Linked Bond Principles](#) and illustrative KPIs registry, for example.

32. University of Cambridge Institute for Sustainability Leadership, [Banking Beyond Deforestation](#), 2020.

33. E.g. agroforestry systems, regenerative agriculture, community-based land management. See [Innovative Finance for the Amazon, Cerrado and Chaco \(IFACC\)](#) as a resource.

4) Monitoring and compliance:

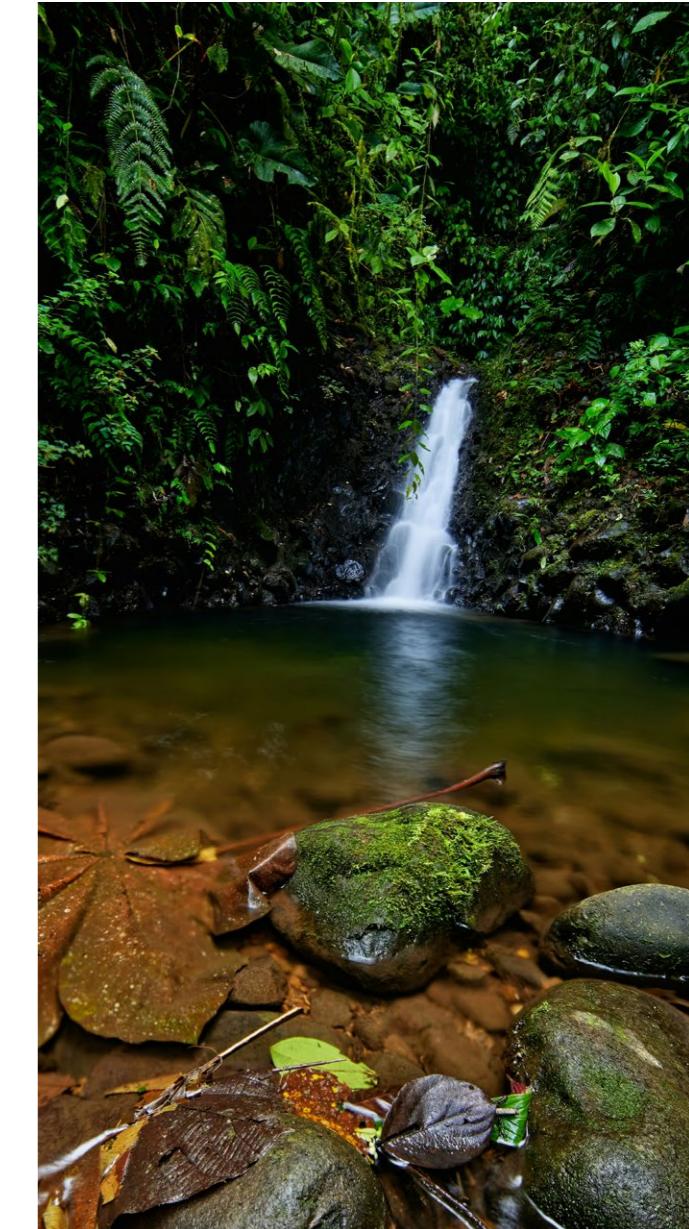
- a. Perform ongoing due diligence on clients for compliance with the bank's own commitment to deforestation- and conversion-free activities.³⁴
- b. Integrate both active and passive monitoring systems into existing bank processes related to client compliance with loan agreement terms and covenants; and conduct new due diligence as part of any new or renewed funding.
- c. Require annual client reporting on deforestation risk as outlined in recommended disclosures of the [FSDA Investor Expectations for Companies](#) (see simplified table in Appendix).
- d. If there is an incidence of non-compliance with the bank's deforestation policies or expectations for clients, set clear expectations of a timeline with corrective action and remediation.
- e. If terms continue to not be met, be transparent about any escalation, including conditions on future financing.

5) Disclosure - publicly report progress on an annual basis³⁵:

- a. Risk Assessment and Exposure
 - i. The bank's approach to deforestation risk management, how deforestation risk is identified and monitored (including methodology for determining materiality), and the actions taken to mitigate such risks.
 - ii. A baseline sector-level materiality and commodity-level exposure split by the bank's overall lending portfolio (%) over the last 12 months.
 - iii. A baseline sector-level materiality and commodity-level exposure split by the percentage of capital markets issuance over the last 12 months.
- b. Commitment and Governance
 - i. The bank's deforestation policies, including requirements at the sector or commodity level (for high-risk commodities) and relevant client expectations.
 - ii. The bank's involvement with initiatives to eliminate deforestation and support more sustainable, regenerative, and equitable agriculture, and disclosure of lobbying alignment.³⁶

c. Monitoring/Engagement/Compliance

- i. Percentage of clients that meet the expectations of the bank's deforestation policies and methods for determining that status, including through traceability to regions of negligible risk, or full traceability and monitoring of production units to ensure no deforestation has taken place since an appropriate cut-off date,^{37, 38} or through certification schemes which fulfil the relevant criteria for determining deforestation-free status.^{39, 40}
- ii. The bank's approach for engaging and escalating with cases of non-compliance.
- iii. The bank's financing of new innovative products and activities that conserve and restore ecosystems with specific KPIs to demonstrate progress at the project level, with disclosure of how the bank has conducted due diligence on the credibility of these projects.



34. Following the recommended actions in Phase 3 of the [Global Canopy Finance Sector Roadmap](#).

35. Noting alignment with Cambridge Institute for Sustainability Leadership's '[Soft commodities' Compact](#)' which concluded in 2020.

36. In line with Convention on Biological Diversity's (CBD) [ecosystem approach](#) which covers the [three goals](#) of the CBD: 1) The conservation of biological diversity; 2) The sustainable use of the components of biological diversity; 3) The fair and equitable sharing of the benefits arising out of the utilization of genetic resources

37. Suitable business-to-business supply chain control mechanisms may be used to pass along this information and ease company efforts in monitoring production units, but it is incumbent on buyers to ensure that any such information is robust and reliable (See: [Deforestation- and conversion-free supply chains and land use change emissions](#)).

38. As defined by the Accountability Framework Initiative ([Operational Guidance, Cut-off dates, September 2023](#)): "Cutoff dates for deforestation should not be later than 2020. A 2020 cutoff date aligns with global goals to halt deforestation, such as Target 15.2 of the United Nations Sustainable Development Goals. It also aligns with cutoff dates used in regulatory mechanisms such as the EU Deforestation Regulation (EUDR) and voluntary mechanisms such as the Science Based Targets Network (SBTN) land targets".

39. For instance, several Asian banks with significant exposure to the plantation sector already disclose this.

40. Not all certification schemes assure deforestation-free status of volumes. Some schemes have criteria that prohibit deforestation after a stated cutoff date and use a chain of custody model that links products to the site on which they were produced (See: [Deforestation- and conversion-free supply chains and land use change emissions](#)).



Appendix

Simplified Version of FSDA Expectations for Companies

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To guide annual **client** reporting to banks on their deforestation risk.

On your deforestation- and conversion-free commitment:

If financing clients directly involved in producing forest-risk commodities, require clients to report:	If financing clients who source or trade commodities, require clients to report:
Hectares of forest and/or other natural ecosystems converted since an appropriate cut-off date on land owned or managed by the company. And proportion of the total hectares owned/leased/managed that this represents.	For each commodity: volume of commodity, and proportion of total commodity volume, which is known to be deforestation/conversion-free, and method for determining that status. Including through certification ⁴¹ , traceability to regions of negligible risk, sourcing from suppliers with suitable control mechanisms or full traceability and monitoring of production units.
Hectares of land owned/leased/managed for which deforestation or conversion has not been assessed or monitored, and proportion of total that this represents ⁴² .	For each commodity: volume of commodity, and proportion of total commodity volume, with unknown deforestation/conversion risk.
Processes and action plans in place to improve monitoring and reduce conversion, including the use of community-level data.	Processes and action plans in place to improve supply chain traceability and/or control for volumes of unknown risk, including expectations of suppliers, and engagement.
Activities planned for the next year in line with the action plan.	
Activities to respect human rights and eliminate violations associated with deforestation.	
Provide a summary of grievances that have been raised and the status or resolution of these grievances.	

41. Using schemes that include criteria prohibiting deforestation after a stated cutoff date and use a chain of custody model that links products to the site on which they were produced (See: [Deforestation- and conversion-free supply chains and land use change emissions](#)).

42. While not in the original FSDA Expectations for Companies, companies should also be encouraged to disclose the hectares of land owned/leased/managed that potentially overlaps with customary land tenure.

