Global Resource Initiative

Finance Report

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Finance Report

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Foreword

In March 2021, the Global Resource Initiative Taskforce (GRI Taskforce) published a Final Recommendations Report[1] which set out a package of 14 interconnected recommendations to tackle the UK's deforestation and land conversion 'footprint', as a first step towards ensuring global agricultural and forestry supply chains have a positive impact on people and planet.

The Report included a recommendation for Government to introduce a mandatory due diligence requirement on companies placing forest risk commodities and derived products on the UK market and to take action to ensure similar due diligence principles are applied to the finance sector. The intention was to oblige these companies and the finance sector to assess and identify environmental and human rights risks and impacts within their supply chains/portfolios and to take action to prevent or mitigate those risks and publicly report on progress. Eleven principles for how the due diligence obligation should be framed were set out in the Report (see Annex 1).

The Government has acted on this recommendation, bringing forward a mandatory due diligence obligation for supply chain companies within Schedule 17 of the Environment Act 2021. This will prohibit obligated companies from using forest risk commodities or products derived from these commodities that have been illegally produced, and require them to introduce a system of due diligence to assess and mitigate these risks and report annually on progress. This is an important step forward though it does not fully implement this GRI recommendation as it requires compliance to legal standards but not to broader sustainability (environmental and social) criteria. UK finance institutions (banks, pension fund managers and other financial institutions) are not within scope of the Environment Act 2021.

The GRI Taskforce were asked to explore how the principles of mandatory due diligence could be applied to the finance sector namely, to consider how financial institutions (FIs) could be required to put in place systems to assess, act and publicly disclose on the steps they are taking to avoid or mitigate the risks that their lending or investment activities are linked to deforestation or conversion. The Taskforce were asked to consider options that were practical, could be built on existing initiatives, and achieve maximum and early impact.

To take this work forward, a separate Finance Working Group was convened of industry experts from finance, civil society, supply chain, Government and independent representatives. The Group met on three occasions over the course of 2021 (see Annex 2 for full membership) with interim and final conclusions being agreed with the GRI Taskforce as a whole.

This report sets out the conclusions of this work and options for how the UK Government could take forward due diligence requirement for the finance industry to tackle deforestation and land use change in commodity supply chains.

[1] https://www.gov.uk/government/publications/global-resource-initiative-taskforce

Executive summary

Deforestation, driven by the expansion of commercial agriculture, in particular by soy, palm oil, timber, pulp and paper[2], accounts for around 13% of the world's greenhouse gas emissions[3]. At least 69% of this land conversion over the last decade has been conducted illegally [4] - once removed, these forests cannot be replaced. No pathway to 1.5 degree pathway is possible without addressing forest loss, nor will commitments on climate from governments, corporate and financial institutions (FIs) at COP26 be achieved. If properly protected and restored, forests and other ecosystems could provide more than one-third of the total CO_2 reductions required to keep global warming below 2 °C[5]. This decade provides a narrowing window of time to act.

The UK finance sector lends and invests, directly and indirectly, in forest product supply chains. Whilst no figure exists for the overall risk exposure, estimates suggests it is likely to be significant. In 2021 WWF estimated the risk exposure for lending and investments by UK FIs for just three commodities (beef, soy and palm oil) to be between £40 billion and almost £200 billion, with over 50% of this finance provided by only 15 large banks and investors[6]. More recently, a joint report by Make My Money Matter (MMMM), Global Canopy and Systemiq estimates over £300bn of UK pension fund investments are in companies, sectors and financial institutions with high deforestation risk[7]. These are likely to be underestimates.

Beyond the leading FIs, however, the majority of FIs to date have not taken steps to actively assess or manage deforestation risks. According to Forest 500's 2021 Report, two thirds (93) of the 150 FIs providing US$2.6 trillion in finance to the companies with the highest exposure to deforestation risk did not have deforestation policies[8]. 11 of these 150 FIs were headquartered in the UK (providing over £300 billion in financing to these companies) and of these 5 had no deforestation policies in place. This snapshot provides a strong indication of the potentially much larger exposure of FIs to high deforestation risk sectors.

A plethora of commitments and initiatives is emerging to accelerate action on climate and forests and, critically, to align these agendas. At COP26 the Glasgow Leaders' Declaration on Forests and Land Use[9], including a commitment to 'facilitate the alignment of financial flows with international goals to reverse forest loss and degradation', was signed by 141 countries, while over 30 financial institutions, managing over $8.7 trillion of global assets, committed to act on commodity-driven deforestation[10]. Within the UK finance sector and financial regulatory authorities there is broad consensus and ambition for FIs to be part of the global response to climate change. This has been driven by a growing awareness of the material (financial) risks associated with investment in fossil fuels and an increasingly active policy agenda requiring greater disclosure and transparency as to how FIs manage and mitigate climate risks within

[2] State of the World's Forests 2020 (fao.org)
[3] 2019NYDFReport.pdf (climatefocus.com)
[4] https://www.forest-trends.org/publications/illicit-harvest-complicit-goods/
[5] https://www.pnas.org/content/114/44/11645
[6] https://www.wwf.org.uk/sites/default/files/2021-09/WWF_2021_Risky%20Finance%20Report.pdf
[7] Cutting-Deforestation-from-our-Pensions-final-report.pdf (makemymoneymatter.co.uk)
[8] https://forest500.org/sites/default/files/forest500_2021report.pdf
[9] https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/
[10] https://racetozero.unfccc.int/system/nature-and-tackling-deforestation/

their portfolios (aligned to TCFD[11]), and in the future, their net zero transition plans.[12]. FIs' understanding and response to 'nature-related' risks, however, including risks associated with investments in or lending to high deforestation risk sectors, is much less advanced, though activity is underway through the Task Force for Nature-related Financial Disclosures (TNFD)[13] to help advance this.

Drawing on the breadth of knowledge and experience of the GRI Taskforce and Finance Working Group members, significant concerns remain that the current pathway of mandatory climate disclosure and voluntary measures will not be sufficient, on its own to tackle the unique challenges of deforestation within financial flows at the scale and pace required, for a number of reasons. Critically, in contrast to investment in fossil fuels where the reputational risk and material risk (risk to credit or return on investments) is now broadly well understood and increasingly impactful, this is not the case for forest risk commodity supply chains. The TCFD approach focuses on measurable emissions and risks yet commodity supply chains are often long, complex and opaque making such measurement difficult. In addition, TCFD and net zero transition plans are not designed to provide an accountability framework to deal with illegal activities which has driven the majority of forest loss in the last decade.

For these reasons, and to ensure the Government respond in full to the GRI Taskforce 2020 Recommendation on due diligence, the GRI Taskforce and Finance Working Group recommend the Government adopt a stepwise approach to the introduction of mandatory legal and sustainable forest risk commodities requirements for both FIs and supply chain companies.

As a **first step**, in line with the forthcoming obligations on supply chain companies under the 2021 Environment Act, the Government should provide a legal duty for FIs to prohibit lending/ investments in illegally produced forest risk commodities, and demonstrate leadership by extending this requirement to UK FIs lending/investments in other jurisdictions outside the UK.

As a **second step**, to take action to ensure FIs and supply chain companies act beyond the avoidance of illegality, to provide assurance on both the legality and sustainability of forest risk commodities. This must be the goal if Government commitments on deforestation and climate mitigation are to be met and is in line with voluntary commitments made by leading FIs and supply chain companies, as well as regulatory proposals for due diligence in the EU.

Finally, the GRI Taskforce recommend Government help identify gaps and coordinate the development of finance sector-specific guidance on deforestation risk management, and fund the creation of a Central Point of Expertise that bring supply chain, deforestation and finance expertise together to share best practice globally.

If properly integrated into the existing pathway of measures, the Taskforce believe these actions would place UK FIs in a strong position to manage these risks to their investments (significantly 'front loading' their net zero transition plans), build greater resilience and financial stability for the UK finance system as a whole and place the UK in a leadership position in global finance

[11] https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law
[12] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf
[13] https://tnfd.global/

markets from which to influence broader adoption on this critical issue within the Glasgow Leaders' Declaration group and FACT communities of world leaders and to take into COP27.

The context

The loss and degradation of forests and native vegetation globally is a major threat to humanity, accounting for around 13% of the world's greenhouse gas emissions[14], and accelerating a sharp decline in global biodiversity over the last decade. It also represents a direct threat to the rights and livelihoods of indigenous communities and peoples who live and rely on forests. Ancient forests and the biodiversity they support once lost cannot be replaced.

Deforestation has been driven predominantly through the expansion and development of commercial agriculture in particular the production of commodities such as soy, palm oil, timber and beef[15]. The majority, at least 69%, of this land conversion over the last decade has been conducted in violation of national laws and regulations, equivalent to an area roughly the size of Norway. In Brazil, over the same time period, at least 95% of all deforestation was illegal[16].

COP26 marked an important step forward in the recognition of the interdependence of forest protection and the world's response to climate change. The message was clear, there is no pathway to the Paris Goals within reach without addressing deforestation, yet if properly protected and restored, forests and other ecosystems could provide more than one-third of the total CO_2 reductions required to keep global warming below 2 °C[17].

COP26 also marked a watershed in government commitments to tackle deforestation. Through the Glasgow Leaders' Declaration on Forest and Land Use[18] 140 world leaders, accounting for 90% of the world's forests, committed to work together to halt and reverse forest loss and degradation by 2030. In addition, 28 government's representing 75% of global trade in key agricultural commodities signed up to a Roadmap of actions to deliver sustainable trade through the Forest, Agriculture and Commodity Trade (FACT) Dialogue[19].

2021 also saw the adoption of legislation in the UK, through Schedule 17 of the Environment Act, making it a legal requirement for UK companies to assess, act and report on illegal deforestation risk within forest risk commodity supply chains, with proposals for due diligence legislation underway in the EU and, USA. This action has been supported, and in some cases, advocated by those companies that have been at the vanguard of voluntary actions, illustrating the challenges that individual companies operating in global commodity supply chains face in making progress unless the broader market steps up or is required to step up.

The 2021 Environment Act is an important milestone for supply chain companies but these provisions require compliance to the laws in the country of production not to broader sustainability (environmental and social) criteria, and importantly, FIs are not obligated.

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[14] 2019NYDFReport.pdf (climatefocus.com)
[15] State of the World's Forests 2020 (fao.org)
[16] https://www.forest-trends.org/publications/illicit-harvest-complicit-goods/
[17] https://www.pnas.org/content/114/44/11645
[18] https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/
[19] https://ukcop26.org/forests-agriculture-and-commodity-trade-a-roadmap-for-action/#:~:text=Joint%20statement%3A%20a%20shared%20path,forests%20and%20other%20critical%20ecosystems.

Finance and the deforestation agenda

The financial sector lends and invests in forest product supply chains including companies engaged in the production, transport, processing, and trade of agricultural and forest commodities or derived products. FIs may directly finance (for example via lending or shareholdings) companies that are exposed to deforestation risk activities, for example beef, palm oil and soy trade but may also be indirectly exposed to these risks, for example through equity investments in banks that lend to forest risk companies.

Deforestation is enabled through a variety of direct and indirect financing pathways making the estimation of deforestation risk exposure for different financial segments difficult. No single dataset is available that provides an estimate of the exposure of the UK financial sector as a whole. However, recent studies has been undertaken on the deforestation risk exposure looking at the financial linkages between UK FIs and companies operating within forest risk commodity supply chains where there is a known risk of exposure to deforestation and land conversion. Whilst the methodologies for these studies are not directly comparable they do highlight a scale of exposure that is significant and likely to represent a considerable underestimate of the overall exposure of UK FIs to deforestation.

The recent 2021 WWF Risky Finance Report[20], drawing on Trase Finance analysis[21] looked at the investment risk exposure for UK FIs to deforestation and conversion in just three commodities: beef and soy supply chains in Brazil and palm oil supply chains in Indonesia. It found almost £40 billion in investment and lending (through equity, bonds, loans and revolving credit facilities) to companies that directly produce, trade and buy these products as a primary business activity by 303 different UK-domiciled financial institutions and funds. Risks were concentrated: over 50% of finance was provided by only 15 large banks and investors in such supply chains. When accounting for finance to all companies operating in the supply chain, including indirect exposure through other investors, funds and passive investment vehicles, the **scale of such risk exposure is estimated to reach almost £200 billion**. These exposure figures are likely to be an under estimate of total exposure as they are limited to three commodities in two sourcing geographies and because of the lack of transparency and disclosure of financial data. For example, while equity holdings are regularly published for example via quarterly SEC disclosures, data for bilateral corporate loans of banks is not, so only a fraction of the overall loan portfolio of banks can be identified.

More recently, greater attention has been focussed on pensions. In a recent joint report 'Cutting Deforestation from our Pensions'[22], analysis by Make My Money Matter (MMMM), Global Canopy and Systemiq calculated the estimated total UK pension fund investments in companies judged to be at high-risk of deforestation. This analysis focussed on public equities and corporate bonds with a combined value of £988 Billion, 36% of the total value of the UK's Pension Schemes Assets Under Management (AuM) of £2.7 trillion (2019). A list of companies and FIs were selected for analysis using the MSCI world index as a proxy for average pension fund holdings, recognising that this does not provide an exact representation of all UK pension funds equity/corporate bond investments. By overlaying this data with several data sets that

[20] https://www.wwf.org.uk/sites/default/files/2021-09/WWF_2021_Risky%20Finance%20Report.pdf
[21] Trase Insights - Trase highlights UK's role in financing deforestation
[22] To be referenced when report published (22rd February)

assess companies on their deforestation risk (Forest 500, Forests and Finance, and Encore) the authors were able to estimate the deforestation risk linked to public equity and corporate bond investments of UK pension funds. The report found that over **£300 billion of UK pension fund investments are in companies and financial institutions with high deforestation risk**. This equates to 31% of the UK pension fund investments within scope (£988 billion). This is likely to be an underestimate given only £988 billion of the £2.7 trillion in AUM in UK pension funds was assessed.

Finally, the Forest 500 reports annually on the 350 companies that produce, use, trade or sell the largest amounts of key forest risk commodities (palm oil, soy, beef, leather, timber, and pulp and paper) and the 150 biggest banks, institutional investors and pension funds that finance them. The latest data[23] showed 11 UK financial institutions identified by the Forest 500 provide more than £300 billion to the 350 largest companies in forest-risk supply chains, highlighting significant exposure for a small subset of the UK finance sector and suggesting total exposure is much higher.

In conclusion, whilst it is difficult to provide an overall figure for UK finance sector lending and investments, directly and indirectly, in high risk forest product supply chains these snapshots, which are likely to be a considerable underestimate, indicate the exposure is significant.

Developing actions

Recent announcements do indicate an increasing ambition from leading FIs and governments to shift the finance system towards forest protection and sustainable development. The Glasgow Leaders' Declaration on Forests and Land Use[24] launched at COP26 includes a specific commitment to:

'facilitate the alignment of financial flows with international goals to reverse forest loss and degradation, while ensuring robust policies and systems are in place to accelerate the transition to an economy that is resilient and advances forest, sustainable land use, biodiversity and climate goals'

COP26 also saw CEO's from more than 30 FIs, with over $8.7 trillion of global assets, committed 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[25].

At the same time the Lowering Emissions by Accelerating Forest finance (LEAF) Coalition announced it had exceeded its target of mobilising $1 billion in public-private financial commitments to support emissions reductions from deforestation by tropical and sub-tropical countries[26] . Nine multilateral banks also launched a joint statement outlining actions to mainstream nature into their policies[27].

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[23] https://forest500.org/sites/default/files/forest500_2021report.pdf
[24] https://ukcop26.org/glasgow-leaders-declaration-on-forests-and-land-use/
[25] https://racetozero.unfccc.int/system/nature-and-tackling-deforestation/
[26] https://leafcoalition.org/
[27] https://ukcop26.org/mdb-joint-statement/

These leading FIs will face challenges in achieving deforestation commitments unless the rest of the financial market follows (as has been demonstrated within the 'real economy' in commodity supply chains). At the same time they will be under increasing consumer and broader public scrutiny to demonstrate progress.

Beyond the leading FIs, however, the majority of FIs to date have not taken steps to actively assess or manage deforestation risks within their lending and investments. The 2021 Forest 500 Report[28] found that globally, two thirds (93) of the 150 FIs providing US$2.6 trillion in finance to the companies with the highest exposure to deforestation risk did not have deforestation policies[29]. 11 of these 150 FIs are headquartered in the UK and provide over £300 billion in financing to these companies and 5 had no deforestation policies in place. This snapshot provides a strong indication of the potentially much larger exposure of FIs to high deforestation risk sectors.

By using their influence FIs could play a transformational role in achieving deforestation-free supply chains. Without it, capital continues to be at risk of being allocated to activities that support deforestation and related unsustainable behaviours and will increasingly present a material risk to FI credit/return on investments. Timebound commitments from 141 governments under the Glasgow Forest Leaders' declaration will present increasing transition risks for FIs and in the UK, the implementation of the Environment Act 2021 in the next 2-3 years is likely to increase this risk landscape still further: under the proposed public reporting obligations on supply chain companies FIs will have access to and be under increasing pressure to respond to data in the public domain that identifies those companies that may be failing to take sufficient action to mitigate the risks of illegality.

Finance and the climate agenda

Within the UK finance sector and financial regulatory authorities there is now broad consensus and ambition for finance to be part of the global response to climate change. The finance sector is stepping up, driven by a growing awareness of the material (financial) risks associated with investment in fossil fuels and, for FIs, an increasingly active policy agenda requiring greater disclosure and transparency as to how FIs are managing these risks within their portfolios. The UK has led the way on the policy agenda, setting out through a range of policy initiatives a clear pathway towards increasing disclosure from the finance sector.

From April 2022 FIs will be required by law to report how they manage the material risks and opportunities arising from climate change in line with the Task Force on Climate-related Financial Disclosures (TCFD)[30], a key plank of the UK's Net Zero Strategy, the first G20 country to make such disclosures mandatory. This year the UK will also publish a transition pathway for the financial sector setting out how the sector will transition to net zero by 2050 and as part of this will consult on a requirement to make publication of net zero transition plans mandatory[31]. The Government are supporting this pathway by taking action to help to address information gaps for investors through greater alignment in metrics and standards to provide a greater flow

[28] https://forest500.org/sites/default/files/forest500_2021report.pdf
[29] https://forest500.org/sites/default/files/forest500_2021report.pdf
[30] https://www.gov.uk/government/news/uk-to-enshrine-mandatory-climate-disclosures-for-largest-companies-in-law
[31] ttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1031805/CCS0821102722-006_Green_Finance_Paper_2021_v6_Web_Accessible.pdf

of decision-useful information. This includes developing a "gold standard" for UK company net zero transition plans and associated metrics, coordinating with international efforts under the Glasgow Financial Alliance for Net Zero (GFANZ)[32]. In addition, plans have been set out in the 'Greening Finance: A Roadmap to Sustainable Investing' to develop sustainability disclosure requirements and support their adoption within globally agreed accounting and sustainability disclosure standards through the newly formed International Sustainability Standards Board[33].

The Taskforce for Nature-related Financial Disclosures (TNFD)[34] launched in the summer of 2021, is intended to provide a risk management and disclosure framework for nature-related risks. If following the path of the TCFD it could provide a foundation for mandatory reporting on nature-related risks in the future.

The Government's policy objective in legislating for greater disclosure from FIs is to ensure climate and in the future nature risks, are more effectively priced in to the 'cost of capital', leading to a natural shift in capital towards net zero and 'nature positive' investments and lending. In doing so, these risks are integrated within FI risk management processes and ultimately into financial decision-making processes at the heart of their organisations. These objectives are set out in the Government's 'Greening Finance: A Roadmap to Sustainable Investing'[35] in a phased approach, with actions to *inform* investors and consumers (addressing information gaps), *act* on this information (creating expectations and requirements that this sustainability information is mainstreamed into business and financial decisions) and *shift* financial flows (ensuring that financial flows across the economy shift to align with the UK's net zero commitment and wider environmental goals). The actions to align reporting and disclosure frameworks aim to provide the 'tools' to facilitate this and if adopted globally, a level playing field across international markets which will be critical for FIs.

Bringing the climate change and nature agendas together

It is very clear that without action to halt forest loss, net zero transition plans will not be realised. To achieve this the agendas on nature (including deforestation) and on climate change need to be brought together, ensuing actions to meet the Glasgow Leaders' Declaration on Forests and Land Use and net zero transition plans are fully aligned.

These are mutually reinforcing and interdependent objectives: FIs investing in high deforestation risk sectors that take steps to remove this risk from their investment/lending portfolios by 2030 will significantly 'front load' their net zero transition plans.

Supporting FIs to act on deforestation

The circumstances and degree to which each financial subsector (banks, asset managers, pension funds, insurers etc) may be exposed to deforestation or land use conversion activities within their lending/investment activities will vary, as will the practical challenges in assessing

[32] https://www.gfanzero.com/
[33] https://www.ifrs.org/groups/international-sustainability-standards-board/
[34] https://tnfd.global/
[35] https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing

these risks and integrating mitigation strategies within their compliance practices and investor relationships.

Guidance has been developed to help FIs develop policies and practices to address deforestation risk. WWF have proposed a model or "best practice" due diligence policy for banks within their recent Risky Finance Report [36] and at COP 26 the Finance & Deforestation Advisory Group (with partners including Global Canopy, Systemiq, Make My Money Matter and others) published a 'Finance Sector Roadmap for Eliminating Commodity-Driven Deforestation'[37] with plans for guidance for pension funds in 2022 but there remains space and a need for more comprehensive sector-specific guidance to support FIs as they develop and implement zero deforestation finance policies.

More broadly, there are opportunities to further support FIs (and further align the nature and climate agendas) by strengthening the supplementary guidance for the Agriculture, Food and Forest Product sector[38] under the TCFD. Currently, it is high level and doesn't sufficiently signpost deforestation risks likely to be found within extended supply chains and lending/investment portfolios (Scope 3 emissions) well beyond a company's direct operations (Scope 1 and 2 emissions). The announcement by the World Business Council for Sustainable Development (WBCSD) to work with leading businesses to develop a climate reference scenario approach for food, agriculture and forestry companies is to be welcomed[39]. The developing work of TNFD will also be increasingly important in this space.

In the coming year the forthcoming obligation on FIs to publish net zero transition plans presents a further opportunity to ensure deforestation and land use change risks are included within these plans, by ensuring deforestation risks are integrated within the sustainability disclosure requirements proposed in the Government's 'Greening Finance: A Roadmap to Sustainable Investing'[40], and by taking steps to support their adoption within globally agreed accounting and sustainability disclosure standards such as through the newly formed International Sustainability Standards Board.

To achieve a mass market shift towards deforestation-free global finance a 'level playing field' is required internationally that minimise risks for FIs in this transition. Consistency, in regulatory frameworks will be critical as will standards for risk assessment, management and disclosure. Taking opportunities to support further exchange of best practice between global, regional and local FIs on the management of deforestation and land use risk within high-risk deforestation sectors will be important to achieving this.

Recommended actions on the provision of further guidance and exchange of best practice in the UK and globally were considered by the Taskforce and recommended actions proposed (see below).

[36] https://www.wwf.org.uk/sites/default/files/2021-09/WWF_2021_Risky%20Finance%20Report.pdf
[37] https://guidance.globalcanopy.org/about/
[38] https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf (page 62)
[39] WBCSD to develop climate reference scenario approach for food, agriculture and forestry companies - World Business Council for Sustainable Development (WBCSD)
[40] https://www.gov.uk/government/publications/greening-finance-a-roadmap-to-sustainable-investing

The role of the Finance working group/GRI Taskforce

Commitments at Glasgow to accelerate action to halt forest loss by 2030 highlight the urgency of acting on deforestation. Given the narrowing window of opportunity to act and the interconnectivity and interdependence of the climate and forest agendas, the critical question the Finance Working Group and Taskforce considered is:

"to what extent and over what timescale this emerging pathway of voluntary and policy led measures are likely to lead FIs to understand and *act on deforestation* risk in line with principles of due diligence outlined in the GRI Taskforce report March 2020 and the UK commitments to halt deforestation by 2030 under the Glasgow Leaders' Declaration on Forest and Land use".

Further, is there an opportunity to take additional action that would place UK FIs in a stronger position to manage these risks as the pressure to do so increases, and for the UK to take a leadership position in financial risk management on deforestation across global financial markets, in line with the leadership shown at COP26 and through the FACT dialogue process.

In order to help evaluate possible interventions for Government, the GRI Finance Working Group considered the key enabling conditions that need to be in place for finance to act on these risks. These were considered to be:

1. Awareness of exposure to deforestation risk (direct or indirect) within investment/lending portfolios;
2. Availability of usable data, for FIs to be able to identify and assess this risk;
3. Sufficient inhouse skills and experience (capability and capacity) to make sense of this data and develop appropriate lending/investment strategies;
4. Sufficient motivation to alter their investment/lending activities to influence and reduce deforestation risk;
5. Regulatory and policy environments operating in the UK and internationally that ensure a level playing field for UK-registered FIs.

A simple gap analysis was completed against these five enabling conditions to assess the extent to which the wide range of existing initiatives, platforms and policy instruments already support finance and where gaps exist. See Annex 3 below.

From this analysis and the further work of the GRI Taskforce and Finance Working Group, the outcome was that the Government take the following three recommended actions.

Recommended action 1 – a step wise approach to legal and sustainable financing, use and trade in forest risk commodities

The Finance Working Group and Taskforce felt the emerging pathway of voluntary and policy-led measures outlined above are helping to drive a new set of behaviours and adding to the tools and data available to FIs to better understand and assess exposure to deforestation risk.

The risk landscape for FIs is undoubtedly changing. New regulatory requirements on supply chain companies to act on deforestation in the UK, EU and US will present transition risks to FIs in the next 5 years. The provisions of the Environment Act 2021, for example, will make it much clearer the extent to which UK companies that are being financed by FIs are taking sufficient steps to avoid illegally produced forest risk commodities.

But these requirements, both in the UK and EU, as currently drafted, impose no *legal* obligation on FIs to do the same. Voluntary commitments to deforestation-free finance by leading FIs are encouraging but will be challenging to achieve unless the broader finance sector steps up. The risks of reputational damage from association with deforestation are low, given the complexity of commodity supply chains and associated financing, and not likely to be a major driver of behavioral change for FIs. Critically, the risk (i.e. to credit or return on investments) for FIs currently investing in high risk deforestation sectors is not sufficiently material, even where that investment/lending is to companies that are trading/using forest risk commodities that are illegally produced.[41]

UK policy measures currently proposed to accelerate this transition are largely through requirements for increased climate risk disclosure. The Taskforce and Working Group members believe these measures are important but will not be sufficient on their own to create the shift in financial flows at the scale and pace required, for a number of reasons:

- In contrast to investment in fossil fuels where the material risk (risk to credit or return on investments) is now broadly well understood, in practice, forest risk commodity supply chains and associated investment flows are often long, complex and opaque. Consequently, the existence and extent of embedded deforestation risk is more difficult to identify and quantify. The TCFD approach focuses on measurable emissions or risks yet emissions from forest loss or land use change are embedded in scope 3 emissions and difficult to measure.
- As described above, the majority (at least 69%), of forest/land conversion over the last decade has been conducted illegally, in violation of national laws and regulations. Disclosure regimes such as TCFD and net zero transition plans are not designed to be provide an accountability framework to deal with illegality. It would be inconsistent and unacceptable to allow UK FIs to benefit from landing and investment activities linked to illegal deforestation whilst new requirements on supply chain companies under the Environment Act 2021 will prohibit this.

[41] BREAKING THE CONNECTION BETWEEN ENVIRONMENTAL CRIMES AND FINANCE (f4b-initiative.net)

- Finally, as noted above, investing or lending in high-risk deforestation sectors does not carry a material risk to credit or return on investment.

Drawing on the breadth of knowledge and experience of the Taskforce and Working Group members (see Annex 2), the Taskforce is of the view that the unique challenges of deforestation will require additional measures from Government. For these reasons, and to ensure the Government respond in full to the GRI Taskforce Recommendation on due diligence (March 2020), the Finance Working Group and Taskforce recommend the Government adopt a stepwise approach to the introduction of mandatory legal and sustainable forest risk commodity requirements for FIs and supply chain companies.

Step 1: Provide a legal duty for FIs that prohibits lending/investment in illegally produced forest risk commodities in line with the forthcoming obligations on supply chains companies under the Environment Act 2021

To ensure the Government maximise the impact of the Environment Act due diligence legislation (and the potential to drive behaviour change through greater disclosure of supply chain companies' exposure to illegality), the Government should make provision in the first instance for a regulatory obligation making it illegal for FIs to invest/lend to companies that are unable to demonstrate forest risk commodities have been produced in compliance with "local laws" (legal).

The intention would be to prohibit FI lending and investment activities that directly or indirectly fund deforestation/conversion linked to forest risk commodities. At the same time the Government should demonstrate leadership by extending this requirement to obligated UK FIs lending and investment activities in other jurisdictions, outside the UK.

These actions would align the 'ask' for both supply chain companies and FIs domiciled within the UK and provide a level the playing field for investments in UK based companies/activities versus investments abroad. It would ensure finance flows shift in alignment with the Government's Glasgow Leaders' Declaration commitment to zero deforestation by 2030, support FIs to achieve net zero transition plans, and set out very clearly a new industry norm for the finance sector, just as the UK is doing for UK supply chain companies.

If properly integrated into the existing pathway of measures, the Taskforce believe this would place UK FIs in a strong position to manage these risks to their investments versus their international competitors, build greater resilience and financial stability for the UK finance system as a whole and place the UK in a leadership position in global finance markets from which to influence broader adoption on this critical issue within the Glasgow Leaders' Declaration group and FACT communities of world leaders and to take into COP27.

The Finance Working Group and Taskforce gave some consideration to the way in which such a legislative obligation could be constructed and whether there were opportunities to achieve the intended outcome through existing as well as potentially new regulation. With the support of the Finance Working Group and Taskforce Members, Finance for Biodiversity (F4B) led a separate piece of work to examine the extent to which the existing Anti-Money Laundering (AML) regulations could be used to address illegal deforestation as an environmental crime. In their report ('Breaking the Environmental Crimes-Finance Connection'[42]) they concluded that there were likely to be limitations to the use of the AML regulations currently, principally because of its focus on illicit financial flows rather than the environmental crime itself. In other words, an FI would not currently be captured under AML where they have benefited from the provision of legitimate (legal) finance to a supply chain company where that company was associated with or benefiting from environmental crimes, e.g. purchasing soy that was produced on illegally procured and/or converted land.

This route was felt to be worth further exploration, but Government will need to give this due consideration, both to the form and construction of such a legal liability and whether this could be achieved through existing or new regulation.

The Taskforce also recognised that different approaches may be needed for different types of financial institutions, dependent on risk and exposure. Further analysis would be required. The Taskforce noted that both the banking and pension funds sectors were exposed to high deforestation risk sectors through their lending and long-term investments (see above) and were amongst the leaders in terms of voluntary action on deforestation, so may be suitable sectors to begin these discussions, that is, to understand how such a legal obligation could be constructed and implemented and suitable timescales. e.g.:

- Banks provide a variety of finance and financial services to enterprises along forest risk commodity supply chains, from term loans, trade finance and revolving credit facilities, to bond and fund structuring, capital raising, project finance and more. Some banks also have indirect connections to deforestation risk through, for example, their financing of traders and other off-takers, who can be a major source of finance for producers. In terms of readiness to act, the banking sector would seem to be ahead of other financial sectors in considering deforestation risks. Many large banks with a presence in the UK have already developed and are implementing deforestation policies (including sustainably sourced commodity policies) as evidenced on the Forest500's[43] ranking website.

- Similarly, UK pension funds, which represent over £2.6 trillion in assets, typically hold assets for longer term and carry longer term risk liabilities[44]. As Mark Carney and others noted at the Make My Money Matter (MMMM) Net Zero Pensions Summit[45] on June 1st 2021 pension funds can play a significant role in ensuring that there is a "sustainable world to retire into". In 2021, TCFD-aligned disclosures were made mandatory for larger occupational pension schemes within the UK Pension Schemes Act 2021. In the recently published report 'Cutting Deforestation from our Pensions'[46], analysis by Make My Money Matter (MMMM), Global Canopy and Systemiq estimated that over **£**300bn of UK pension fund investments are in companies, sectors and financial institutions with high deforestation risk. Further work would be needed to develop an appropriate, workable and impactful obligation on deforestation due diligence that could be applied both to pensions

[42] BREAKING THE CONNECTION BETWEEN ENVIRONMENTAL CRIMES AND FINANCE (f4b-initiative.net)
[43] https://forest500.globalcanopy.org/financial-institutions/
[44] https://makemymoneymatter.co.uk/net-zero/
[45] [45] https://hopin.com/events/net-zero-pension-summit
[46] Cutting-Deforestation-from-our-Pensions-final-report.pdf (makemymoneymatter.co.uk)

funds and/or their trustees, and critically to the Financial Conduct Authority regulated fund managers who invest on behalf of pension funds.

Step 2: To go beyond 'legal only' to ensure UK supply chain companies and FIs are using/investing only in forest risk commodities that are both legal and sustainable.

Meeting the challenge of deforestation in commodity and forestry supply chains in line with corporate and government commitments on deforestation and climate mitigation will require action beyond the avoidance of illegality. Building on a base of legality, the goal must be to ensure UK supply chain companies and FIs are using/investing only in forest risk commodities that are both legal and sustainable. The definition of sustainable will need to be further developed and defined but will include avoidance of legal deforestation, and other human rights abuses and environmental risks and impacts (GRI Recommendations Report 2020)[47]. This approach (acting beyond illegality) is in line with voluntary commitments made by leading FIs and supply chain companies, and regulatory proposals for due diligence in the EU.

The wide range of voluntary and policy led activities outlined within section 1 of this report, within both the supply chain and finance spaces, will support and help provide the foundations for this transition, in terms of data, guidance, standardised metrics/ reporting frameworks supported by increasing mandatory disclosure. But for the reasons already outlined above, and drawing from the broad experience of Taskforce and Working Group members consulted during the development of this report, the same reservations exist as to whether the step from legal to sustainable can be achieved by these measures alone.

For this reason, and to ensure the Government respond in full to the GRI Taskforce Recommendations on due diligence (March 2020), The Taskforce recommend the Government set out a timebound pathway to sustainable forest risk commodities, building on these activities and Step 1 above, and setting out a clear intention to introduce a mandatory requirement for FIs (and supply chain companies), to avoid use of or investment/lending to both illegal and unsustainable forest risk commodities.

[47] https://www.gov.uk/government/publications/global-resource-initiative-taskforce

Recommended action 2: Sector-specific guidance to build FI capability

As outlined above there remains space and a need for more comprehensive sector-specific guidance to support and build FI capability to develop and implement legal and sustainable deforestation finance policies.

The GRI Taskforce recommends that the Government take action to support FIs to build capability and awareness/engagement on deforestation risk through the provision of additional sector specific guidance. Guidance could be provided by Government to accompany legislation but Government could also play a helpful role in mapping out where gaps remain, helping to coordinate the development of additional guidance where required, for example as a task within TNFD and promoting/signposting existing and developing guidance through a central point of expertise (see recommended action 3 below).

Effective guidance needs to address the operational, legal and sustainability questions relevant to each subsector and provide practical advice for different levels of the organisation. Target audiences include those onboarding new clients and commissioning new investments, to those establishing institution-wide compliance infrastructure, as well as to inform credit committees, boards, trustees and other senior decision makers.

The aim of such guidance would be:

- to help FIs understand their exposure to deforestation risk and to develop and comply with their own deforestation policy commitments; and
- to support compliance with future regulatory requirements outlined in Steps 1 and 2 above and align with guidance provided to supply chain companies under the pending due diligence requirements of the Environment Act 2021.

Recommended action 3: A Central Point of Expertise on deforestation free finance

As outlined above, the GRI Taskforce believe there is a strong case for further action to support the development and sharing of best practice on the management of deforestation risk across FIs, alongside regulatory action.

In addition, it was recognised that uptake would be accelerated where such approaches were adopted internationally, across global financial markets.

To support both, the GRI Taskforce recommend the Government support and fund, for an initial phase, a Central Point of Expertise on the management of deforestation and land use risk.

The purpose of a central point of excellence (CPE) would be to:

- Support FIs to build the necessary in-house capability to develop and implement robust deforestation policies within their businesses; and
- Support exchange of best practice between global, regional and local finance organisations.

In doing so, the CPE can help accelerate adoption of deforestation policies in the UK and globally, and provide a key resource to support future mandatory due diligence legislation. In addition the CPE could help to ensure alignment with the Government's broader approach on the financial sector's net zero transition plans.

The CPE would combine expertise from the finance sector and commodity supply chain sustainability field and could be housed within one of many existing organisations already operating within the finance/nature space within the UK.

Initial funding could be provided by the UK Government with a view in the longer term (Year 2 and beyond) to finding alternative industry or other funding sources.

Taking learning from similar models such as the Central Point of Expertise on Timber, Biomass and Palm Oil[48], and UK Sustainable Soy and Palm Oil Initiatives[49], the CPE could provide a number of functions:

- **Training:** Develop and deliver workshops and other training to FI sectors/groups on all aspect of deforestation due diligence. This could be provided to a range of audiences including commercial teams, compliance managers and board members and trustees, raising awareness, building capability, sharing best practice;
- **Technical assistance:** Provide technical assistance to the same FI sectors/groups across different elements of a deforestation policy, e.g. defining the appropriate scope/application, setting goals, targets, defining appropriate KPIs, monitoring verification and reporting, etc.;

[48] 48 https://www.gov.uk/government/groups/central-point-of-expertise-on-timber
[49] National Initiatives and Platforms - Efeca

- **Development of guidance:** To map gaps and respond to and support industry to develop and update existing guidance to reflect evolutions in best practice;
- **Promotion and outreach:** Outreach and communication to FIs to raise awareness;
- **Signposting**: Signposting tools, guidance and other sources of finance/sustainability expertise available to FIs;
- **Sector/Government engagement**: Providing a pre-competitive space for FIs to discuss approaches on deforestation-free finance, and a platform for Government and the finance sector to exchange views on developing deforestation policies;
- **International engagement**: such a platform should also be directed to support dialogue and engagement internationally, providing a platform to share best practice between leading UK/multinational banks and local banks.

Annex 1: Due Diligence Principles

Taken from GRI Final Recommendations Report March 2020[50]

Principles

The framing of a mandatory requirement to exercise due diligence and disclose actions taken should be in line with the following principles. It should:

1. Impose a mandatory requirement both to exercise due diligence and to disclose on actions taken;
2. Be broadly defined in terms of scope, initially prioritising agricultural and forestry commodities and derived products linked to deforestation and land conversion, but with the scope to extend beyond this to other commodities in the future;
3. Cover both human rights abuses and environmental risks and impacts, which will need to be carefully and clearly defined, and require companies to analyse the presence of these risks within their supply chains, take action to prevent or mitigate those risks and impacts, and publicly report on actions taken and planned;
4. Place a shared due diligence responsibility on companies that place agricultural and forestry commodities or derived products on the UK market, with obligations commensurate with the size of the organisation, their impact and ability to influence change;
5. Support the implementation of the proposed legally binding target to address deforestation and land conversion within UK agricultural and forestry commodity supply chains and be aligned with other actions identified within the proposed Strategic Action Plan;
6. Be supported by a robust monitoring and reporting framework for harmonised and standardised company reporting (including assurance and verification) and build on existing reporting frameworks including the Accountability Framework Initiative (AFI)[38] and align with the OECD's Due Diligence Guidance for Responsible Business Conduct (2018)[39] and the Guidelines for Multinational Enterprises[40] (see Monitoring and Reporting recommendation);
7. Be supported by clear guidance on what actions are required of business and to what time scales;
8. Support coherence and minimise administrative burden by building on and aligning with existing corporate reporting and due diligence frameworks, for example the Modern Slavery Act 2015 (which imposes a reporting obligation) or the UK Timber Regulation (which has transposed the EU Timber Regulation due diligence obligation into UK law);
9. Provide a level playing field and facilitate compliance for multinational companies by, where possible, aligning with existing and evolving proposals for due diligence regulation across Europe, and globally;
10. Give consideration to avoiding unintended consequences in both its development and implementation to ensure that the requirement does not lead to companies avoiding 'higher risk' supply chains rather than engaging with and supporting solutions;
11. Government should ensure sufficient resources are made available to ensure proper enforcement with an appropriately strong penalty regime to hold companies accountable in exercising due diligence obligations.

Government should also consider the inclusion of workable grievance and remediation mechanisms for human rights abuses and environmental damage, through which companies participate in remediation mechanisms if they are found to have contributed to these impacts by failing to fulfil their due diligence obligations.

Application of a mandatory due diligence obligation on the finance industry

The financial sector should be covered by a similar obligation, requiring financial institutions to exercise due diligence in order to avoid their lending and investments funding deforestation. Further work will be required to investigate the appropriate mechanism(s) and sequencing to achieve this.

In addition, government, standards bodies and natural accounting frameworks should explore aligning and building deforestation and land conversion risks into existing accounting standards, disclosure frameworks and taxonomies where appropriate, in order to support the transition to mandatory due diligence

In order to ensure the financial sector is adequately capturing physical and transition risk from investing in unsustainable supply chains, the Taskforce calls on:

• The Taskforce for Climate-Related Disclosure and Network for Greening the Financial System[41] to ensure that impacts and carbon emissions associated with forests are appropriately included in scenarios being developed and put forward.

• Other wider standards bodies and natural accounting frameworks to set out guidance for the financial sector to focus on deforestation risk and impact, and to account and disclose the non-carbon impacts of supply chains such as those on biodiversity, ecosystem services and livelihoods.

[50] Global Resource Initiative Taskforce: Final recommendations report 2020 - GOV.UK (www.gov.uk)

Annex 2: Finance Working Group

With grateful thanks to the time, expertise and inputs of the 40+ organisations and individuals who have generously contributed to the GRI Taskforce, its Finance working groups and who have supported the Secretariat.

GRI Taskforce members

- Sir Ian Cheshire – Chair
- Justin Adams – Tropical Forest Alliance/World Economic Forum
- Mike Barry – Mike Barry Eco Consulting
- Tim Benton – Chatham House
- Anna Collins – NGO Forest Coalition
- Beth Hart – McDonald's
- Bernice Lee – Chatham House/Hoffman Centre
- Rebecca Marmot, Hannah Hislop and Arifa Akther – Unilever
- Nick Martell-Bundock – Cargill
- Melissa Pinfield – Meridian Institute
- Julian Roberts – Willis Towers Watson
- Tanya Steele and Mike Barrett – WWF UK
- Christopher Stewart – Olam
- Rhian-Mari Thomas – Green Finance Institute
- Anna Turrell – Tesco
- Ben Valk and Bas Rüter – Rabobank
- Berry Wiersum – Sappi

GRI Finance Working Group members and attendees

The following individuals attended one of more of the meetings of the Finance Working Group at meetings held on 9th March, 22nd June and 24th November 2021.

- Rhian-Mari Thomas – Green Finance Institute (GFI)
- Helen Avery – Green Finance Institute (GFI)
- Sir Ian Cheshire – Barclays
- Ben Valk – Rabobank
- Christopher Wells – Santander (Brazil)
- John Edward Conway – Santander
- Simon Connell – Standard Chartered
- Tony Burdon – Make My Money Matter (MMMM)
- Huw Davies – Make My Money Matter (MMMM)
- Nick Lakin and Annie Adams – Kingfisher
- Judith Batchelar – Sainsbury's
- Tom Stuart – Sainsbury's
- Eric Nederhand – Olam
- Andrew Mitchell – TNFD/Global Canopy
- Nicky Chambers – TNFD/Global Canopy

- Eliza Ader – TNFD/Global Canopy
- Simon Zadek – F4B/TNFD
- Rupesh Madlani – F4B/Global Sustainable Capital Management
- Robin Smale – F4B/Vivid Economics
- Yulia Stange – WRI/Global Alliance to End Environmental Crime
- Davide Cerrato – CDP
- Ana Lima – PRI
- Helen Bellfield – Global Canopy/Trase
- Morgan Gillespy – WRI/FOLU
- Anna Collins – NGO Forest Coalition
- Shona Hawkes – Global Witness
- Alison Midgley – WWF
- Jade Saunders – Forest Trends/Chatham House
- Grant Rudgley – CISL
- Danielle Carreira – Tropical Forest Alliance (TFA)

Government and secretariat

- Maggie Charnley – BEIS
- Katie Caudle – BEIS
- Dan Magrath – BEIS
- Martine Sobey – BEIS
- Julia Falconer – FCDO
- Jo Macrae – DEFRA
- Neha Dutt – DEFRA
- David Randall – DEFRA
- Tess Morris – DEFRA
- Ant Parham - HMT
- Emily Fripp – Efeca/GRI Secretariat
- Jonathan Gorman – Efeca/GRI Secretariat
- Matthew Ford – Efeca/GRI Secretariat
- Francesca Marietti – Efeca/GRI Secretariat
- Lucy Garrett – Partnerships for Forests (P4F)
- Judith Woodman – Partnerships for Forests (P4F)

Annex 3: Gap Analysis of current activities/interventions

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
Transparency tools Trase, GFW Pro, SPOTT, Forest500, etc.	Limited. Raises awareness of risks for those companies using these tools. Gap: not a primary driver for raising awareness of deforestation risk to FIs.	Moderate/helpful. Datasets are increasingly available and used by supply chain companies, but limited use by FIs currently. Different tools provide data in different forms, not always in a form easily used by FIs. Tools can provide data on individual companies and on deforestation risk within different regions/geographies. Gap: to understand what form data is required in order for FIs to utilise.	Limited. Data can inform the process of identifying, measuring, and assessing risk, but companies will require the technical capacity to interpret the data and the systems to ensure the data is acted upon. Gap: FIs need to build capability, capacity and systems to use reported data.	Limited. Transparency tools are not likely to be a primary motivator for FIS to act.	Limited. Transparency tools are available to global FIs (e.g. including national/regional banks) but are unlikely to be a primary driver to influence global FIs to change their practices.
Supply chain voluntary reporting, including CDP, Global Reporting Initiative (GRI), Accountability Framework Initiative (AFI)	Limited. Raises awareness of risks for those companies/FIs using these reporting platforms.	Moderate. Helps to provide data on those companies that report. Within the scheme the data is comparable and standardised.	Limited/Moderate. Data can inform the process of identifying, measuring, and assessing risk, but companies will require the technical capacity to interpret the	Moderate. For those FIs already reporting under the scheme, provides motivation to act on risks	Limited. Reporting tools are globally available, but at this time are not likely to be primary driver to influence global

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
(provides useful reporting guidance).	Gap: further action needed to raise awareness and promote action with other FIs and their clients.	Gap: to understand what form data is required in order for FIs to utilise for due diligence assessment. Reporting platforms may not have data for all companies.	data and the systems to ensure the data is acted upon. Gap: FIs need to build capability, capacity and systems to utilise reported data.	assessed and demonstrate continual progress. As more FIs join, the reputational risk of not disclosing increases. Gap: does not provide motivation to act to those FIs not already reporting.	FIs to change their practices.
Certification schemes can provide a mechanism for supply chain companies to manage/mitigate environmental and social risks within agricultural and forestry supply chains through a system of auditable standards and chain of custody traceability. E.g. FSC, PEFC, RSPO, RTRS, etc.	Limited. Gap: not a primary driver for raising awareness of deforestation risk to FIs.	Moderate. Helps to provide data on supply chain companies using certification schemes. Gap: adoption of certification in commodity supply chains varies considerably and remains small as a proportion of total globally traded volumes.	Moderate. The use of certification standards by supply chain companies can indicate an awareness of risk and that some action is being taken to mitigate those risks. FIs will require the technical capacity to interpret the degree to which the use of certification provides sufficient assurance that risks are being appropriately acted upon. Gap: does not require FIs to establish capabilities and systems to assess, act or report on risks themselves.	Moderate. Recognising certification as a credible action for clients to take as part of a risk mitigation policy can be a positive and practical step to take. Gap: FIs don't use certification themselves (though they can require it of their clients) so does not in itself provide motivation for FIs to assess, act or report on deforestation risks.	Limited/Moderate. Many multi-stakeholder certification schemes engage with FIs, and leading global FIs are increasingly recognising clients that use these schemes. But certification is likely to have a limited influence on changing global FIS practices given the scale of take up within agriculture/forestry commodity supply chains globally.

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
Provision of best practice/guidance for how FIs can carry out due diligence on deforestation risks within their investment and lending portfolios (e.g. Ceres, AFIS, CDP Global Canopy Finance & Deforestation Advisory Group).	Limited. Unless well publicised, do not significantly raise awareness or promote due diligence. Gap: guidance and best practice needs developing and promoting.	Helpful. Does not provide data per se but can be very useful for helping FIs to understand what data to use and how to use it. Gap: guidance and best practice needs developing and promoting. Sector-specific guidance needed reflecting different needs across diff finance sectors	Moderate. Guidance and best practice can help FIs to develop the technical capacity and systems needed to carry out deforestation due diligence. Gap: guidance and best practice (pref. sector specific) needs developing and promoting, and FIs need help to develop the capabilities .	Limited. Widely recognised best practice could lead to FIs comparing their practice with competitors, providing some motivation to assess, act and report on deforestation risk. Guidance does not provide additional motivation to assess/act/report per se.	Limited/Moderate. Sharing best practice between FIs (including with national/regional banks) could be a useful way of raising awareness, building capability and increasing the motivation to act on deforestation risk.
Climate commitments, e.g. unilateral net zero targets, Science Based Targets Initiative (STBi), or multilateral alliances (e.g. Banking Environment Initiative (BEI), Glasgow Financial Alliance for Net Zero (GFANZ), Net-Zero Banking Alliance (NZBA), Net Zero Asset Owner Alliance, Act4Nature).	Limited in the short term. At this time individual and multilateral climate change commitments often do not consider or prioritise land use (e.g. deforestation) impacts within supply chain or financed emissions (scope 3), and so are unlikely to bring relevant new data, raise awareness, build capability or provide motivation to assess, act or report on deforestation risk. A key deliverable of the Forest, Agriculture and Commodity Trade (FACT) Dialogue within the COP26 Campaign is to bring together producer and consumer Governments of internationally traded agricultural commodities to agree collective actions that protect forests and other vital ecosystems, while promoting trade and development. The FACT dialogue will rely on strong commitments from FIs, supply chain businesses and civil society to recognising the pivotal role they play in driving forward and implementing sustainable supply chains. Recent developments are helping to bring climate and nature agenda's together (Glasgow Leaders' Declaration on Forest and Land use launched at COP26 (including commitments on finance) TNFD, Greening Finance: A Roadmap to Sustainable Investing'). Gap: climate commitments/net zero transition plans should include scope 3 emissions and consider deforestation and human rights risks.				

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
Glasgow leaders' Declaration on Forests and Land use					

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
Scenario modelling and dependency analysis.	Limited. Well publicised scenario modelling that makes clear the financial risks of deforestation, could help to raise awareness and promote action. Gap: undertake and promote deforestation scenario modelling to promote understanding of deforestation risks.	Limited. Scenario analysis may be useful in understanding financial risks of deforestation, but unlikely in itself to help provide the data needed for FIs to undertake due diligence. Gap: does not provide relevant standardised data for FIs to undertake due diligence.	Limited. Internal scenario modelling will require technical capacity but undertaking scenario modelling may not in itself create the systems needed to undertake due diligence, but might motivate FIs to invest in those systems. Gap: FIs may not have the capabilities/capacities to undertake scenario analysis at this time.	Moderate/Helpful. Scenario modelling that makes clear the financial risks of deforestation could help motivate FIs to act. Gap: undertake and promote deforestation scenario modelling to understand financial risks of deforestation.	Limited/Moderate. Scenario modelling could have some influence on global FIs, particularly where it highlights particular risks associated with investments/lending.
Propose: Incentives, perhaps linked to a deforestation due diligence requirement, could provide FIs with a reason to assess, act and report on deforestation risks.	Helpful (potentially) Incentives would raise awareness and motivate UK FIs to find appropriate data and develop systems/capabilities to assess, act and report on deforestation risk. However, incentives may need to be applied very widely to have significant impact. Examples of UK incentives: e.g., sustainable import guarantee, or deforestation requirements attached to Govt finance. Examples of global incentives: e.g., support national/regional banks with improved terms for sustainable lending, such as through guarantees and blended finance. Gap: UK incentives and sustainability requirements would need to be developed and applied widely to be impactful.				Helpful. Impact limited by how far the incentives can be applied. Gap: global incentives and sustainability requirements would need to be developed and applied widely to be impactful.

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
EU Green Taxonomy provides a common language, definitions and performance thresholds for sustainable activities and investments. UK taxonomy is in development.	Moderate (potentially). The EU Taxonomy has limited reference to deforestation risk within company supply chains. It could be useful if the UK Taxonomy, which is under development, was to contain relevant deforestation definitions and recommends that "green" companies and investments in the agricultural and forestry sector are those that assess, act and report on deforestation risks. This would raise awareness of deforestation risks and provide motivation for FIs to build capability/systems to undertake deforestation due diligence. The UK Taxonomy may be limited in impact if it only relates to 'green investments' and doesn't influence other investment and lending activity.				Limited. It is unclear whether global FIs will be impacted by the UK/EU taxonomy.
EU Sustainable Finance Disclosure Regulation (SFDR), introduced various disclosure-related requirements for financial market participants and advisors, aiming to provide more transparency and standardisation on sustainability within financial markets.	Limited/Moderate (to the extent it impacts on the UK) The SFDR does not specify how (EU based) FIs should undertake due diligence on deforestation risks. However, the SFDR could prompt FIs to seek new data sources, raise awareness, improve capabilities and provide a motivation to undertake a level of due diligence on deforestation risks. The EU's SFDR is linked to the EU's Green Taxonomy. If this regulation was "onshored" into UK financial regulations it could be impact – it may be useful for the regulation to be clearer on deforestation risks, or for the UK Taxonomy to recognise the impact of assessing, acting and reporting on deforestation risks within the supply chains of companies within lending/investment portfolios.				Limited. As above, it is unclear whether global FIs (e.g. national banks) will be impacted by the SFDR.
Mandatory Due Diligence Obligation (Environment Act 2021) in UK and EU –	Helpful. Due Diligence legislation may raise awareness of deforestation risk with FIs	Helpful. The legislation will require UK (and EU) supply chain companies to disclose evidence of due diligence	Moderate/Helpful. It is possible that the Due Diligence obligation will motivate FIs to begin to develop technical capacity	Limited/Moderate. It is possible that FIs will view the legislation as a first step on road to a mandatory FIS due	Limited/Moderate. It is assumed that a UK/EU due diligence regulation will have a limited influence on global FIs,

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
including supply chain reporting.	that carry out regulatory compliance/due diligence. Gap: does not require FIs to undertake deforestation risk due diligence or to disclose.	in relation to forest risk commodities. If the obligation requires companies to report in a standardised form, this could be very helpful for FIs in interpreting deforestation risks of their UK/EU clients. Gap: Does not help provide data on deforestation risks of non-UK/EU clients/companies.	or internal systems for deforestation due diligence within their existing regulatory compliance teams. Gap: the obligation does not apply to FIs so does not require/motivate them to build capacity or internal systems.	diligence requirement – this policy response risk may provide some motivation for FIs to assess, act and report on deforestation risks. The publication of deforestation risks by clients may increase the reputational risks for FIs. Gap: unclear whether DD provides FIs motivation to act by increasing reputational or policy response risks.	unless they are investing in/lending to UK/EU companies. Could be useful for establishing and standardising methods or data for assessing and reporting on deforestation risk, which global FIs could draw on.
[Mandatory TCFD reporting] The mandatory TCFD regulations will require obligated companies, LLPs and pension funds to assess the climate risks on their business, and report some climate data.	Limited. The TCFD does not require companies and FIs to assess or address scope 3 land use emissions within their supply chains, or to otherwise require companies or FIs to assess or act on deforestation risk. It is unlikely to significantly improve data, awareness, capability or motivation to act on deforestation due diligence. Gap: does not provide requirement or guidance to undertake deforestation due diligence.				Limited. Applies only to UK companies. Voluntary TCFD also unlikely to significantly improve data, awareness, capability or motivation to act on deforestation due diligence.

To what extent does/could the following activity help to…	…**raise awareness and promote** FIs to assess, act and report on deforestation risk?	…**provide data in right form** for FIS to assess, act and report on deforestation risk?	…**build capability, capacity or systems** for FIS to identify, assess, act and disclose?	…provide **motivation** to FIS identify, assess and act on deforestation risk?	…**influence key global FIs** to identify, assess and act on deforestation risk?
Taskforce on Nature-related Financial Disclosures (TNFD) (voluntary).	Helpful TNFD can raise awareness of ecosystem and biodiversity issues (including deforestation) amongst FIs. It may also promote voluntary action and best practice.	Helpful The TNFD is intended to help establish a common framework for undertaking biodiversity due diligence, which should inform FIs on how to approach deforestation risks. It is hoped this will provide new, standardised data for assessing, acting and reporting on these risks.	Helpful. TNFD is likely to help FIs better understand deforestation risk. It is unclear whether it will drive FIs to develop technical capability or internal systems.	Helpful TNFD likely to make the case for action, including financial risk, and may help to increase reputational and policy response risk, which may motivate FIs to assess, act and report on deforestation risks. It is unclear whether the Government would want to put the approach into regulation in the same way it has done for TCFD.	Unclear. At this time, it is unclear to what extent TNFD will have global recognition and use, particularly by those national/regional banks investing in land use sector. Gap: unclear whether significant global investors/lenders to the land use sector are likely to utilise TNFD.
Environmental crime is a predicate crime under Anti Money Laundering regulations. Propose: that illegal deforestation is widely recognised as an environmental predicate crime, so that the AML requires FIs to undertake due diligence.	The extent to which the existing Anti-Money Laundering (AML) regulations could be used to address illegal deforestation as an environmental crime was examined in Finance for Biodiversity Report 'Breaking the Environmental Crimes-Finance Connection' F4B concluded that there were likely to be limitations to the use of the AML regulations currently, principally because of its focus on illicit financial flows rather than the environmental crime itself. In other words, an FI would not currently be captured under AML where they have benefited from the provision of legitimate (legal) finance to a supply chain company where that company was associated with or benefiting from environmental crimes, e.g. purchasing soy that was produced on illegally procured and/or converted land.				