Finance Sector Deforestation Action (FSDA) **Progress Report**

06/2024

Acknowledgements

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The Finance & Deforestation Advisory Group (Climate Champions Team, Conservation International, Global Optimism, Global Canopy, Nature4Climate, Make My Money Matter, WEF - Tropical Forest Alliance) has also provided general support to the initiative.

Special thanks to Generation Investment Management for their in-kind contribution to report design.

HE Razan Al Mubarak

UN Climate Change High-Level Champion for COP28, IUCN President and TNFD Co-Chair.

COP28's Global Stocktake highlighted nature's crucial role in combating climate change, with every country in the world coming together to call for an end to deforestation and forest degradation by 2030.

By leaning into the challenge of eliminating agricultural commodity-driven deforestation from portfolios, financial institutions working together as the Finance Sector Deforestation Action (FSDA) Initiative are to be recognized for elevating the investor voice alongside other stakeholders who together have built a strong foundation for the global efforts that are needed to halt and reverse deforestation in this decade. I call on the private finance sector globally to follow the leadership of the FSDA initiative, recognizing the pivotal role finance plays in our shared journey towards a thriving, net zero, and nature-positive future.

Lord Zac Goldsmith

Former UK Minister for Climate and Environment

Stopping deforestation has to be at the heart of our response to the climate crisis because without the world's great forests we have no hope of turning the tide.

Action is needed at every level – from governments to commodity traders and the finance sector. So it is very encouraging to see the progress being made by this small group of leading financial institutions who stepped up at COP26 in 2021 to work together to remove deforestation from their portfolios. These efforts now need to be taken right across the finance sector and beyond.

Section 1

To achieve the Paris Agreement's objectives and protect long-term economic value, deforestation must be halted and reversed.

Tackling Deforestation Is Imperative for Advancing Toward Net Zero, Reducing Risk, and Boosting Resilience

Climate change and deforestation are integrally linked. 11% of annual global greenhouse gas emissions are attributable to deforestation driven by land-use change and agriculture, according to the Intergovernmental Panel on Climate Change (IPCC). 60% of total deforestation is caused by agricultural commodities production, which predominantly occurs in the operations and supply chains of major forestry, land use, and agriculture (FLAG) companies. In order to keep 1.5°C (with low overshoot) within reach, the majority of commodity-driven deforestation needs to be halted by 2025 and land "conversion" eliminated by 2030.

The economic value at risk from unchecked deforestation is vast. Forests are currently estimated to provide between $50 and 150 trillion in economic value globally. Moreover, safeguarding forests is also a matter of human rights, as deforestation often leads to displacement, land use conflicts and threats against forest and land defenders. In addition, reversing deforestation is expected to have considerable co-benefits with regard to conserving the biodiversity on which the world and the global economy depend.[1]

To keep net zero emissions within reach while tapping biodiversity co-benefits and avoiding human rights abuses, it is clear that new approaches are needed—ones that prioritise the sustainable and equitable production of commodities alongside conservation of forests.

The Drumbeat of Increasing Policy and Standards Demands Action to Tackle Deforestation

Amidst strengthening policy signals and regulatory changes like the 2022 adoption of the Kunming-Montreal Global Biodiversity Framework (GBF) and the 2023 adoption of the EUDR, a notable shift in the relevant regulatory environment is underway. Finance sector leaders, including the Co-Chairs and Vice-Chair of the Glasgow Financial Alliance for Net Zero (GFANZ), have underscored the urgency for the finance sector to address deforestation as a key part of mitigating financial risk and meeting their net-zero commitments. Furthermore, a robust and proliferating set of guidance, tools, and frameworks is aimed at expediting and enabling finance sector action at the intersection of climate and nature, including with regard to measuring and addressing deforestation risks.[2]

There Is a Strong and Ever-More-Robust Business Case for Action to Reverse Deforestation

As the world confronts the challenges of climate change and biodiversity loss, deforestation is more likely to impact companies through several channels, including regulatory pressure, litigation, reputational and systemic risk and social licence to operate. Continued deforestation could lead to macroeconomic financial instability[3] as the world loses irreplaceable biodiversity, climate regulation systems, and ecosystem services that directly support 1.5 billion people.[4] Investors have a fiduciary duty to consider risk and return in the financial interests of their clients and beneficiaries. Such risks include:

Regulatory risk: The regulatory landscape with regard to halting deforestation is evolving rapidly. The European Union Deforestation Regulation (EUDR) that was adopted in 2023 will prohibit import of goods that are linked to deforestation, with the potential to drive significant changes across global supply chains. Several tropical countries are tightening regulatory standards in order to limit or prevent financing to companies involved in illegal deforestation, including Brazil, Indonesia, Malaysia, and Colombia. Further action is also anticipated in the wake of the adoption of the Global Stocktake in 2023 whereby every country agreed that enhanced efforts are needed to halt deforestation and forest degradation by 2030.

Reputational risk: As the world grows more conscious of the impacts of deforestation, many consumer goods companies may be vulnerable to deterioration in brand value if their brands become associated with the problem. Such reputational events can drive a company's value down by 30%.

Litigation risk: Climate-related litigation is on the rise, including with regards to deforestation. For example, Brazilian authorities have initiated legal action against slaughterhouses and farmers whose activities caused deforestation, seeking millions of dollars in fines for damages.

Value at risk and opportunity of the land use transition: In 2022, 60% of all companies disclosing data on climate and nature-related risks and impacts through CDP reported some level of forest-related risk. The potential negative financial impact of these risks averages $330 million per disclosing company, even as the projected cost of mitigating these risks averages just $17 million per company. Meanwhile, a $4.5 trillion pool of opportunities is expected to accompany the coming land use transition, benefiting companies who align with the transition early.

1. Halting deforestation and other nature loss by 2030 is a critical objective of the Kunming-Montreal Global Biodiversity Framework that was agreed in 2022.
2. For instance, the Investor Climate Action Plans (ICAPs) Framework now includes deforestation actions as part of a framework that will guide investors' climate actions and enhance their ability to implement their climate-related commitments.
3. Statement on Nature-Related Financial Risks, Network for Greening the Financial System. (2022).
4. Pillay, R. et al. (2021). Frontiers in Ecology and the Environment. Tropical forests are home to over half the world's vertebrate species.

Section 2

Finance Sector Deforestation Action (FSDA) Initiative

About Finance Sector Deforestation Action Initiative (FSDA)

The Finance Sector Deforestation Action initiative (FSDA) brings together 34 financial institutions[5] with more than (US) $8 trillion in assets under management who are (subject to individual strategies, jurisdictional requirements and client mandates) working toward eliminating agricultural commodity-driven deforestation risks (from cattle, soy, palm oil, pulp and paper) in their investment and lending portfolios by 2025. These financial institutions all signed a commitment letter that was launched at COP26.

FSDA's proactive engagement in working to eliminate agricultural commodity-driven deforestation has been designed in the context of a multi-stakeholder effort for tackling deforestation, and is crucial for reasons including:

- FSDA elevates much needed investors' voices in a dynamic landscape of actors seeking to advance progress toward halting deforestation.
- By developing, adopting and implementing their own individual investor policies aimed at addressing exposure to agricultural commodity-driven deforestation, these financial institutions help lay the groundwork for systematically assessing and mitigating the associated risks.
- FSDA members play a pivotal role engaging investee companies. This proactive stance enables the promotion of sustainable production practices and nature-based solutions.
- FSDA's approach recognizes that investors can send a much stronger signal by working together within legal and regulatory requirements. This collaborative effort is essential for supporting the broader transition of the agriculture sector towards sustainable production that avoids deforestation.

Amplyfing the Investor Voice as Part of a Multi-stakeholder Effort to Tackle Deforestation

FSDA members have made individual commitments to using their best efforts, via key milestones, to eliminate agricultural commodity-driven deforestation associated with the companies in their investment portfolios and financing activities. They meet on a quarterly basis to identify and address common challenges, share best practices, promote connectivity with other relevant initiatives, and advance implementation of their commitment. Monthly meetings among a core group of members guide strategy for the initiative.

5. The overwhelming majority of financial institutions that signed the commitment letter released at COP26 in late 2021 comprise the FSDA participants and have been working together on implementation, though a small minority of signatories have chosen not to participate in FSDA. Some additional financial institutions signed the commitment letter and joined FSDA later in time. For financial institutions that adopted the commitment to tackle deforestation subsequent to COP26, flexible timelines apply for the interim milestones on adoption of deforestation policies and reporting/disclosure.

FSDA Progress

Below is an overview of the collaborative action and progress made so far against the milestones.

Policies and disclosure: Most FSDA members did not have deforestation policies in place prior to joining FSDA and did not report on their efforts on this issue. By meeting these initial milestones, the signatories are sending a strong signal regarding the importance of deforestation and their individual commitment to achieve and track progress year by year.

100%

of FSDA members now have a deforestation policy in place. In contrast, only 25% of financial institutions globally with net zero or other climate commitments have any deforestation policy, according to the Deforestation Action Tracker.

97%

of FSDA members who joined the commitment in connection with COP26 have achieved both FSDA milestones 1 (policy adoption) and 2 (disclosure).

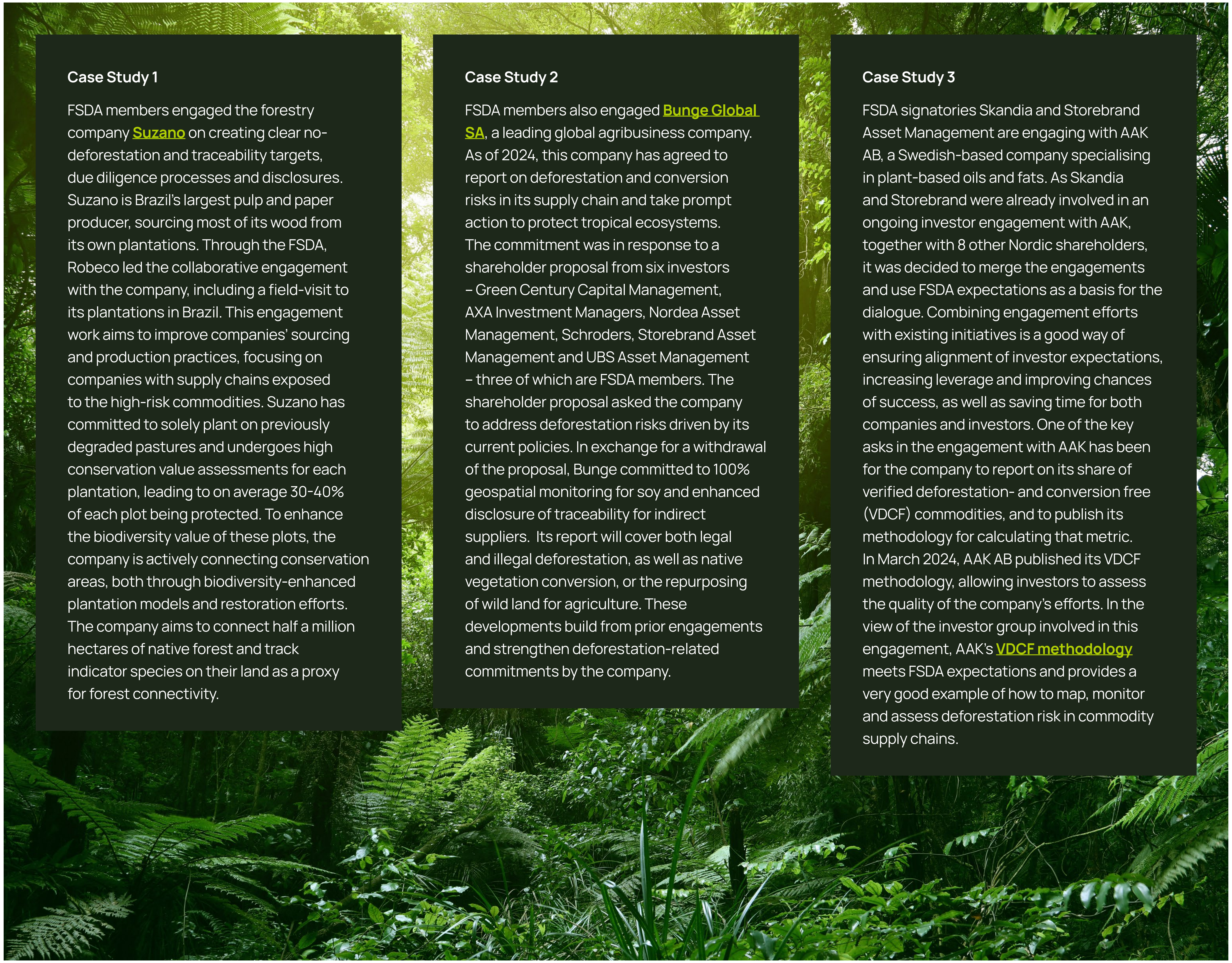
Company engagement: It is critical for FSDA members to engage companies in dialogue to help inspire action, and encourage change across the real economy. While it is challenging to directly attribute change in the real economy to any one factor, these engagements support progress as reflected in the high-level case study below, and beyond.

FSDA members developed investor expectations to support company engagements aligned with efforts of the Accountability Framework Initiative and the Finance Sector Roadmap. These expectations are grounded in the commitment made by each individual FSDA member and informed by relevant science and best practices.

FSDA members are also developing investor expectations for commercial and investment banks, which are expected to be released shortly.

Thus far, **84** company engagement meetings have been conducted by FSDA members in connection with the FSDA initiative. These engagements have focused on companies identified in Forest500 as having significant exposure to forest-risk commodities, or influence over the systemic impacts of commodity supply chains crucial for addressing deforestation. As reflected in their reports and disclosures, FSDA members also are involved in additional company engagements to advance their commitments, either directly with companies or through other initiatives focused on deforestation.

Company engagement (continued)



Case Study 1

FSDA members engaged the forestry company Suzano on creating clear no-deforestation and traceability targets, due diligence processes and disclosures. Suzano is Brazil's largest pulp and paper producer, sourcing most of its wood from its own plantations. Through the FSDA, Robeco led the collaborative engagement with the company, including a field-visit to its plantations in Brazil. This engagement work aims to improve companies' sourcing and production practices, focusing on companies with supply chains exposed to the high-risk commodities. Suzano has committed to solely plant on previously degraded pastures and undergoes high conservation value assessments for each plantation, leading to on average 30-40% of each plot being protected. To enhance the biodiversity value of these plots, the company is actively connecting conservation areas, both through biodiversity-enhanced plantation models and restoration efforts. The company aims to connect half a million hectares of native forest and track indicator species on their land as a proxy for forest connectivity.

Case Study 2

FSDA members also engaged Bunge Global SA, a leading global agribusiness company. As of 2024, this company has agreed to report on deforestation and conversion risks in its supply chain and take prompt action to protect tropical ecosystems. The commitment was in response to a shareholder proposal from six investors – Green Century Capital Management, AXA Investment Managers, Nordea Asset Management, Schroders, Storebrand Asset Management and UBS Asset Management – three of which are FSDA members. The shareholder proposal asked the company to address deforestation risks driven by its current policies. In exchange for a withdrawal of the proposal, Bunge committed to 100% geospatial monitoring for soy and enhanced disclosure of traceability for indirect suppliers. Its report will cover both legal and illegal deforestation, as well as native vegetation conversion, or the repurposing of wild land for agriculture. These developments build from prior engagements and strengthen deforestation-related commitments by the company.

Case Study 3

FSDA signatories Skandia and Storebrand Asset Management are engaging with AAK AB, a Swedish-based company specialising in plant-based oils and fats. As Skandia and Storebrand were already involved in an ongoing investor engagement with AAK, together with 8 other Nordic shareholders, it was decided to merge the engagements and use FSDA expectations as a basis for the dialogue. Combining engagement efforts with existing initiatives is a good way of ensuring alignment of investor expectations, increasing leverage and improving chances of success, as well as saving time for both companies and investors. One of the key asks in the engagement with AAK has been for the company to report on its share of verified deforestation- and conversion free (VDCF) commodities, and to publish its methodology for calculating that metric. In March 2024, AAK AB published its VDCF methodology, allowing investors to assess the quality of the company's efforts. In the view of the investor group involved in this engagement, AAK's VDCF methodology meets FSDA expectations and provides a very good example of how to map, monitor and assess deforestation risk in commodity supply chains.

Multi-stakeholder collaboration: FSDA aims to build on existing efforts and share high-level learnings across the ecosystem of deforestation action by the finance sector. A couple examples of this work include:

FSDA members engaged with major data providers to call for expanded issuer-level data on deforestation risk exposure and management.

Many financial institutions that are part of FSDA are also actively involved in the Investor Policy Dialogue on Deforestation (IPDD) and have been engaging with public agencies and industry associations in producer countries, such as Brazil and Indonesia to promote constructive dialogue and support domestic efforts to reduce deforestation. IPDD also focuses on the demand-side of the equation by engaging with governments in consumer countries such as the EU, UK and the US. The aim is to build on the producer country workstreams' objectives and encourage consumer countries to adopt and implement regulatory frameworks that ensure protection of forests and human rights.

For further details on progress, please see Appendix.

The Road Ahead

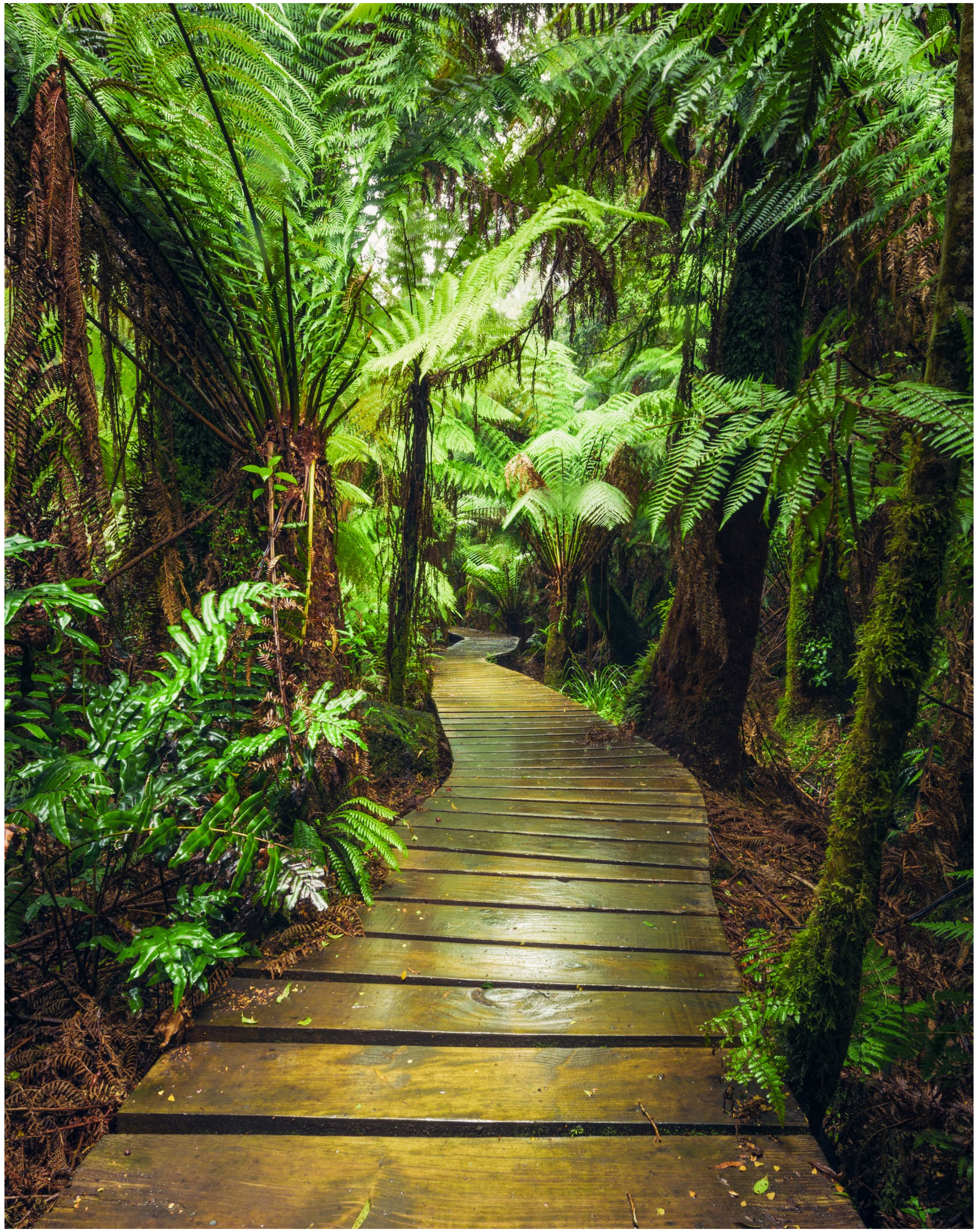
Halting deforestation is central to tackling the climate crisis and protecting long-term economic value. We need to see more financial institutions follow the leadership of FSDA, such that focused action on deforestation becomes the norm across the finance sector. The need for widespread action is urgent.

Experiences in globally significant forest basins in Brazil and Indonesia have demonstrated the potential for progress toward halting deforestation. For example, in the Brazilian Amazon, deforestation dropped by nearly 50% year-on-year in 2023 under the leadership of Brazil President Lula da Silva.[6] However, reduced land clearing in the Amazon is believed to have played a role driving a 44% increase in land conversion in the adjacent Cerrado (with corresponding increases in GHG emissions and losses of ecosystem services).[7] And after a decade of progress toward palm oil production that avoids deforestation in Indonesia, recent years have seen a partial reversal of this trend.[8] These experiences demonstrate that although progress toward halting deforestation demonstrably is achievable, it must be pursued holistically across geographies and be sustained over time.

While there has been a very high degree of follow-through by FSDA members on their individual commitments, and the work continues apace, much more is needed to deliver results on the ground and in the real economy. To drive the transformative and systemic change that is needed, congruent actions must be taken by many other financial institutions, companies and policymakers alongside the ongoing work of the FSDA initiative. The urgent challenge of deforestation is global in scale and must be met with actions of comparable scope, scale, and speed.

The FSDA was designed to catalyze as much action as possible in the defined period until 2025, and it is clear that sustained efforts will be required well beyond that date. FSDA will remain focused on encouraging the most impactful actions in the remaining period to 2025, with discussions well underway about the future of the initiative beyond that. FSDA has appointed the Institutional Investors Group on Climate Change (IIGCC) as Secretariat.

With just a handful of years remaining to meet the target of halting and reversing all deforestation by 2030, as recognised by all nations in 2023's **Global Stocktake**, all financial institutions should take action to address deforestation in what is a critical decade for humanity. Building on decades of work by other organisations, the FSDA initiative has demonstrated that there is a strong foundation for taking crucial first steps, including measuring risk exposures, adopting deforestation policies, reporting and disclosing progress toward deforestation commitments, and pursuing robust stewardship activities, including engagement with companies, policymakers and data providers.



6. https://www.reuters.com/world/americas/deforestation-brazils-amazon-down-by-50-five-year-low-2023-2024-01-12/

7. https://www.wwf.org.br/?87782/Deter-says-deforestation-migrates-from-the-Amazon-to-the-Cerrado-in-2023. The displacement of land conversion impacts from the Amazon to the Cerrado helps demonstrate why it is essential to focus on deforestation and conversion-free (DCF) production of commodities.

8. https://news.mongabay.com/2024/02/palm-oil-deforestation-makes-comeback-in-indonesia-after-decade-long-slump/

Appendix

Details of FSDA progress.

Milestone	Task	Progress
1	Establish investment/lending policies addressing exposure to agricultural commodity-driven deforestation.	**100%** of financial institutions participating in the FSDA initiative have individual deforestation policies in place. *This figure includes three financial institutions that signed the commitment subsequent to COP26.
	Deepen, or where necessary begin, engagement on deforestation in their supply chains, operations, and/or financing.	FSDA signatories created a focus company list informed by Forest500, based on companies and financial institutions exposed to deforestation risk in their supply chains and investments and where FSDA members have influence via their portfolios. Focus company selection is intended to reflect a diversity of sectors, sub-sectors and geographies as well as to span a range of company experience addressing deforestation – from those with no policy for addressing deforestation to those that have been visibly working for many years to tackle deforestation across their supply chains. FSDA members worked to initiate engagement with focus companies by sending letters to introduce the FSDA investor expectations. They then proceeded with subsequent engagements including via 84 meetings to date, with a number of additional meetings scheduled for 2024.
	Engage on policy to support an enabling environment for businesses to avoid deforestation risks and impacts.	Many financial institutions that are part of FSDA are also actively involved in the Investor Policy Dialogue on Deforestation (IPDD) and have been engaging with public agencies and industry associations in producer countries, such as Brazil and Indonesia to promote constructive dialogue and support domestic efforts to reduce deforestation. IPDD also focuses on the demand-side of the equation by engaging with the governments in Consumer Countries such as the EU, UK and the US. The aim is to build on the producer country workstreams' objectives and encourage consumer countries to adopt and implement regulatory frameworks that ensure protection of forests and human rights. Additional information on IPDD's engagement efforts can be found in their initiative report. FSDA participants also engaged with major data providers to call for expanded issuer-level data on deforestation risk exposure and management.
2	Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement	**97%** of FSDA members who joined the commitment in connection with its launch at COP26 have made disclosures on deforestation risk and mitigation activities *4 FSDA members have yet to meet this milestone: 1 signatory is currently in the process of developing its disclosures, while three who joined subsequent to COP26 are anticipated to release their reports and disclosures within the year.

* Data is up to date as of May 2024.

FSDA Members

As of the time of this writing, the following institutions are part of FSDA: AP2; Australian Ethical Investment; Aviva plc; AXA Group; Banco Estado de Chile; Boston Common Asset Management; Capital + SAFI S.A.; Cardano Asset Management; Church Commissioners for England; Church of England Pensions Board; Comgest; Domini Impact Investments LLC; East Capital Group; Fidelity International; GAM Investments; Generation Investment Management; Impax Asset Management PLC; Federated Hermes Limited; JGP Asset Management; Legal and General Investment Management (LGIM); LGPS Central Limited; Lombard Odier; London CIV; Menhaden PLC; NEI Investments; Robeco; Schroders; SCOR SE; Skandia; SouthBridge Group; Sparebank 1 Forsikring; Storebrand Asset Management; Sumitomo Mitsui Trust Asset Management; TCI Fund Management Ltd.

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