

FINANCIAL INSTITUTION GUIDANCE

Key questions for companies in soft
commodity supply chains and CDP's
2020 forests questionnaire

FOREWORD



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Deforestation continues unabated in 2020. Despite the fall in global economic output caused by the COVID-19 health and economic crises, our appetite for land once belonging to nature is as great as ever. The Brazilian Amazon has seen its highest rate of forest loss for the past ten years and is being driven closer to a tipping point. Researchers have warned it could be on the verge of switching from closed canopy rainforest to open savannah¹.

Without reversing the trend, the goals of the Paris Agreement will not be met. Business-as-usual deforestation and land-use change alone could drive 1.5°C of warming by 2100, even with other fossil fuel emissions phased out², and ignoring unpredictable feedback loops such as Amazon desertification.

The forces driving ecosystem destruction, including unsustainable production of timber, palm oil, cattle and soy, are deeply intertwined with our financial system. Deforestation creates risks to the system's stability, and to the soundness of the financial institutions which underpin it. However, opportunities also exist. The low-carbon transition will require massive investment in sustainable agriculture, which only the financial sector can provide.

Managing these risks and opportunities within financing portfolios that span the globe requires reliable and consistent data. CDP's 2020 forests dataset is the most comprehensive ever, including disclosures from over 680 companies, 361 of which disclosed data to investors.

Extensive work has gone into ensuring the data is as decision-relevant as possible. In defining the sample of requested companies, the relationship with deforestation of 200 industrial activities and related supply chains were assessed and rated according to their potential impact upon forests. The companies requested to disclose are those investors most need data on if they are to factor forests into their decision making. For example, fast food companies are requested and expected to disclose on all four key commodities.

Further, the datapoints requested of companies align with expectations investors have on the companies they own, and with the key questions they are raising with the boards of those companies. This document illustrates that alignment and can guide financial institutions in making the best of the CDP forests dataset.

As the world rebuilds from the COVID-19 crises, there is an opportunity to do things differently and achieve a low-carbon no-deforestation economy. Investment provided by the financial services sector will be pivotal in determining how we build back. The better quality ESG data the sector possesses, including tools such as the CDP forests dataset, the more equipped it will be to assist in building back better.

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1. <https://www.theguardian.com/environment/2020/oct/05/amazon-near-tipping-point-of-switching-from-rainforest-to-savannah-study>

2. Mahowald, N. et al (2017) Are the impacts of land use on warming underestimated in climate policy? <https://doi.org/10.1088/1748-9326/aa836d>



We believe ending deforestation is imperative – for investors and society at large. Working towards zero deforestation contributes to many of the UN’s Sustainable Development Goals from climate action (SDG 13) to protection of biodiversity (SDG 15) or eliminating poverty and hunger (SDG 1&2). Corporate disclosure through CDP’s forests questionnaire provides us with data that helps us to better understand forest-related risks in our portfolio and evaluate how companies are progressing towards achieving zero deforestation. Information from the CDP forests dataset is used in our comparative analysis of businesses and the ESG ratings of companies and we will use it to calculate our forest footprint. It also forms the foundation for a productive engagement with investee companies allowing us to maximise impact.

- BNP Paribas Asset Management



Deforestation is a key ESG issue for us as it is a driver of climate change and biodiversity loss. The CDP Forests Questionnaire allows us to understand how companies view this risk and how they intend to manage it; through policies, oversight and strategy, and governance. The granularity of the data at commodity type and location level allows a deep-dive into a company’s operational and supply chain impact. The data fuels our engagements with companies on specific response aspects, as we drive companies to make individual efforts to tackle this global issue. For example, the dataset has helped us to assess exposure to regional forest fires and understand how consumer staples companies are performing against their targets.

- Schroders



As a driver of climate change and biodiversity loss, deforestation is a key ESG issue for us. Disclosure of information and quantitative progress towards commitments to root out deforestation from supply chains, through CDP’s forests questionnaire helps us in assessing the robustness of companies’ climate strategies. We also use the data in our engagement activities; identifying areas for further discussion or improvement within the disclosed data and raising these with the company. In addition, we publicly assess 138 companies in the food and apparel sectors on the comprehensiveness of their disclosures on LGIM’s website.

- Legal & General Investment Management





Deforestation a key ESG issue as protecting and restoring forests and other natural ecosystems is imperative if the 1.5-degree goal of the Paris Climate Agreement is to be achieved and the loss of biodiversity is to be stemmed.



We depend on the disclosure of data through the CDP's Forests Questionnaire in order to establish a comparable and actionable dataset with which to pursue our sustainable investment policies on key soft-commodity risks. Awareness of a company's progress and strategy to reduce deforestation activities throughout its supply chain forms the key foundation for a productive corporate engagement approach that can lead to real reductions to the loss of critical forest ecosystems.



Corporate disclosure through CDP's forests questionnaire provides us with data that allows us to understand the actions companies are taking to measure and manage their impacts on forests. Information from the CDP forests dataset feeds into our ESG ratings of companies and is also used in our engagement with investee companies.

- Storebrand



Deforestation is a key ESG issue for us as it is a key driver of climate change and biodiversity loss. Disclosure of information and quantitative progress towards commitments through CDP's forests questionnaire helps us determine a company's management of this critical risk. We also use the data in our engagement activities by identifying areas for further discussion or improvement within the disclosed data which we then raise with the company.

- Boston Common Asset Management



ABOUT THIS GUIDE

To ensure robust and resilient business strategies, and to encourage a smooth transition to a no-deforestation low carbon economy, in 2017 CDP and Global Canopy set out expectations and guiding questions for financial institutions to raise in their discussions with boards and management teams of companies in soft commodity supply chains (see **Soft Commodity Financial Institution Guidance³).**

In 2020, CDP has updated these expectations and questions to reflect developments in the field. This document illustrates how these expectations align with CDP's 2020 forests questionnaire. Financial Institutions can use this guide to find answers to these questions in CDP's 2020 forests dataset of corporate disclosures.



3. <https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/002/913/original/GC-Financial-Institution-Guidance-web.pdf?1513331499>



GOVERNANCE



Board oversight

Expectation of companies

Clearly define board and management governance processes to ensure oversight of risks and opportunities associated with deforestation and the transition to sustainable soft commodity value chains.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> What procedures does the board employ to ensure that it fully comprehends the implications of deforestation for the mitigation of climate change as well as the impact on local water and food securities? Does the corporate board have a committee that is formally focused on sustainability issues, and if so, does the committee charter reference deforestation or deforestation related risks? Does the company link executive compensation to sustainability issues including deforestation? 	F4.1	Is there board-level oversight of forests-related issues within your organization?
	F4.1a	Identify the position(s) of the individual(s) (do not include any names) on the board with responsibility for forests-related issues.
	F4.1b	Provide further details on the board's oversight of forests-related issues.
	F4.1c	Why is there no board-level oversight of forests-related issues and what are your plans to change this in the future?
	F4.2	Provide the highest management-level position(s) or committee(s) with responsibility for forests-related issues (do not include the names of individuals).
	F4.3	Do you provide incentives to C-suite employees or board members for the management of forests-related issues?
	F4.3a	What incentives are provided to C-Suite employees or board members for the management of forests-related issues (do not include the names of individuals)?



Company policies and strength of mitigation strategy

Expectation of companies

Develop publicly available policies to eliminate deforestation arising from business practices. Commitments should be timebound, specify a cutoff date and prevent the loss natural forests, other globally important carbon-rich ecosystems, provide restoration and/or compensation where deforestation has occurred and protect the rights and livelihoods of local communities. It is essential that policies are in place for all produced or procured commodities and apply to all business operations, the entire supply chain and all sourcing or production regions.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> Does the company have a policy or commodity specific policies for all forest risk commodities that it is exposed to? Are these policies available publicly, and easily accessible, to enable independent verification? Does the company have a timebound commitment for eradicating deforestation from their production/procurement of soft commodities? Are there interim milestones that enable progress to be monitored and reported against? Does the company have a commitment to protect natural forests and globally important carbon-rich ecosystems i.e. a no-deforestation or no-conversion policy? Does the corporate commitment specify a cutoff date, after which land associated with deforestation and the commodities produced on that land are deemed non-compliant? Does the company have a commitment to provide restoration and/or compensation where the company has caused or contributed to deforestation? Does the company have a policy that commits it to eliminate deforestation in High Conservation Value (HCV) areas or High Carbon Stock (HCS) forests? What processes are in place to enable the identification and protection of these forest types? Does the company have a policy in place to minimise emissions associated with the production and procurement of forest risk commodities? Does the company have policies in place that ensure the rights and livelihoods of local communities are protected, including comprehensive stakeholder engagement to achieve Free Prior Informed Consent and detailed policies on workers' rights (e.g. child labour, forced labour, freedom of association and other principles in ILO core conventions and the Universal Declaration of Human Rights)? Does the corporate policy apply to all business units and the entire supply chain? 	F4.5a	Select the options to describe the scope and content of your policy.
	F4.5b	Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.
	F4.6	Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?
	F4.6a	Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?
	F4.6b	Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.



STRATEGY



Management of risk and opportunity

Expectation of companies

Integrate the management of deforestation risks and opportunities into the corporate strategy and ensure business models are resilient in the face of changing reputational, operational, and legislative risks associated with deforestation.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> Does the company have an overarching strategy for addressing its direct and indirect impacts on forests? What processes does the board have in place to ensure that deforestation risks and opportunities are managed through the corporate strategy? How does the board ensure that the corporate strategy is flexible to account for changing risks and opportunities? Has the company experienced any detrimental impacts associated with deforestation? What types of risks from deforestation is the company exposed to because of the commodities it produces or uses? What actions is the company taking to mitigate them? Does the company report active social conflicts or complaints registered against them, including land, labour, and human rights disputes? What opportunities could the company benefit from by addressing deforestation and how is the company working to achieve them? 	F5.1	Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?
	F1.6	Has your organization experienced any detrimental forests-related impacts?
	F1.6a	Describe the forests-related detrimental impacts experienced by your organization, your response, and the total financial impact.
	F3.1	Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?
	F3.1a	How does your organization define substantive financial or strategic impact on your business?
	F3.1b	For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.
	F3.1c	Why does your organization not consider itself to be exposed to forests-related risks with the potential to have a substantive financial or strategic impact?
	F3.2	Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?
	F3.2a	For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.
	F3.2b	Why does your organization not consider itself to have forests-related opportunities?



RISK MANAGEMENT



Management of risk and opportunity

Expectation of companies

It is essential that adequate processes are in place to identify both direct and indirect risks associated with deforestation.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> What mechanisms does the board have in place to ensure that direct and indirect deforestation risks and opportunities are identified and fully understood? Specifically, how are opportunities and risks assessed at both the company, asset and supply chain level? How does the company prioritise the risks and opportunities identified? 	F2.1	Does your organization undertake a forests-related risk assessment?
	F2.1a	Select the options that best describe your procedures for identifying and assessing forests-related risks.
	F2.1b	Which of the following issues are considered in your organization's forests-related risk assessment(s)?
	F2.1c	Which of the following stakeholders are considered in your organization's forests-related risk assessments?
	F2.1d	Why does your organization not undertake a forests-related risk assessment?



METRICS AND TARGETS



Transparency and disclosure

Expectation of companies

Have a reporting framework in place that robustly measures quantified progress towards achieving policies and enables public reporting on an annual basis at a minimum. This disclosure can be through a corporate annual report and website or through platforms that help to standardise the information being reported.

Questions for financial institutions to ask the board	Disclosure to CDP/ Public disclosure to CDP	
<ul style="list-style-type: none"> Is there a clear framework in place that enables quantifiable tracking of progress on eliminating deforestation? If so, how often is this disclosed against and is this report made publicly available? Does the company disclose quantified progress on the traceability of commodities and on suppliers and commodities in compliance with their no-deforestation policies? Does the company commit to increasing the proportion of their produced/procured commodities that are 'physically' certified rather than using credits to offset unsustainable practices? Does the company transparently report changing goals and milestones regarding their progress to reducing deforestation-related impacts? Does the company disclose all the subsidiaries that it owns or partially owns that produce or consume forest risk commodities? 	F6.1	Did you have any timebound and quantifiable targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?
	F6.1a	Provide details of your timebound and quantifiable target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.
	F6.1b	Why do you not have target(s) for increasing sustainable production and/or consumption of your disclosed commodity(ies) and what are your plans to develop these in the future?
	F4.4	Did your organization include information about its response to forests-related risks in its most recent mainstream financial report?
	F0.4	Select the forest risk commodity(ies) that you are disclosing on and identify the stages of the supply chain which best represents your organization's area of operation
	F0.5	Are there any parts of your direct operations or supply chain that are not included in your disclosure?
	F0.5a	Identify the parts of your direct operations not included in your disclosure
	F1.1	How does your organization produce, use, or sell your disclosed commodity(ies)?
	F1.2	Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.
	F1.3	Provide details on the land area you control and/or manage that is used for the production of your disclosed commodity(ies)?
	F1.4	Provide details on the land you control and/or manage that was not used for the production of your disclosed commodity(ies) in the reporting year?
	F1.5a	Disclose your production and/or consumption data.
	F1.5b	For your disclosed commodity(ies), indicate the percentage of the production/consumption volume sourced by national and/or sub-national jurisdiction of origin.



Strategy implementation

Expectation of companies

Establish a clear method for supplier engagement and verification of supplier compliance with company policies and commitments. The approach should include processes for regular monitoring, protocols for supplier non-compliance and time-bound plans for a return to compliance. The assurance approach (e.g. certification vs improved traceability or extra due diligence) should be tailored to the commodity and region of business operation and sourcing.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<p>▼ Does the company use third party certification as a way to make their business practices more sustainable? Is the company increasing the proportion of their produced/procured commodities that are 'physically' certified rather than using credits to offset unsustainable practices?</p>	F6.3	Have you adopted any third-party certification scheme(s) for your disclosed commodity(ies)? Indicate the volume and percentage of your certified production and/or consumption.
<p>▼ Does the company have a strategy for tracing commodities back to their origin?</p>	F6.2a	Provide details on the level of traceability your organization has for its disclosed commodity(ies).
	F6.2b	Why do you not have system(s) in place to track and monitor the origin of your disclosed commodity(ies) and what are your plans to develop these in the future?



METRICS AND TARGETS

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> What processes are in place to monitor supplier compliance with the company policy? How frequently is compliance monitored and verified? What is the protocol for non-compliant suppliers? Does the company use third party verification and/or undertake internal audits to ensure policy compliance? Are deforestation risks accounted for during the supplier selection process? Does the company help suppliers improve their capacity to comply with forests-related policies and transition away from deforestation by providing them with financial, technical, or other support? 	F6.4a	Provide details on the system, the approaches used to monitor compliance, the quantitative progress, and the non-compliance protocols, to implement your no conversion and/or deforestation commitment(s).
	F6.5a	For your disclosed commodity(ies), indicate which Key Performance Indicators (KPIs) you use to measure your own compliance with the Brazilian Forest Code and your performance against these indicator(s).
	F6.5b	For your disclosed commodity(ies), indicate which Key Performance Indicators (KPIs) you use to measure the compliance of your suppliers with the Brazilian Forest Code and their performance against these indicator(s).
	F6.6a	For your disclosed commodity(ies), indicate how you ensure legal compliance with forest regulations and/or mandatory standards.
	F6.7	Are you working with smallholders to support good agricultural practices and reduce deforestation and/or conversion of natural ecosystems?
	F6.8	Are you working with your direct suppliers to support and improve their capacity to comply with your forests-related policies, commitments, and other requirements?
	F6.9	Are you working beyond your first-tier supplier(s) to manage and mitigate deforestation risks?
	F6.10	Do you participate in external activities and/or initiatives to promote the implementation of your forests-related policies and commitments?

Expectation of companies

Engage in projects focused on ecosystem restoration and protection.

Implement restoration or conservation activities to remedy the environmental harms caused by deforestation or conversion. Demonstrate commitment and be proactive towards forests stewardship. Restoration or compensation may not be used to justify or offset new deforestation or conversion.

Questions for financial institutions to ask the board	2020 CDP forests data point and question text	
<ul style="list-style-type: none"> Is the company supporting, implementing, or planning to implement ecosystem restoration or protection projects such as reforesting land or increasing the area of a protected habitat? If so, is the company engaging in such projects due to regulatory requirements, as part of remedial action or for other reasons? Where, what kind of land and how much land does the project aim to protect/restore and for how long? How will this project and its outcomes be monitored to ensure success? 	F6.11	Is your organization supporting or implementing project(s) focused on ecosystem restoration and protection?
	F6.11a	Provide details on your project(s), including the extent, duration, and monitoring frequency. Please specify any measured outcome(s).

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To read company responses in full, please go to
<https://www.cdp.net/en/responses>

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