



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Sir Ian Cheshire

24 February 2023

Dear Ian,

DEFORESTATION FINANCE

Thank you for your letter of 20 January on curbing deforestation finance. I am responding as the minister responsible for green finance.

We appreciate the important work of the GRI Taskforce on this area and agree that UK firms being involved in the financing of illegal deforestation is a serious global issue. I witnessed this first hand at CBD COP15 and noted a variety of views on how to tackle this issue.

As the GRI Taskforce's Recommendations Report sets out, due diligence requirements would require financial services firms to check for forest risk commodities in their supply chains. This would likely be complex to implement given firms would need to understand the activities of every business they have financial dealings with and potentially also the supply chains of their customers.

Deforestation is also a global challenge which is facilitated by a lack of information and understanding about the impacts of investments. The UK's focus for financial institutions is therefore on transparency through climate and environmental-risk disclosure frameworks and we have invested significantly in financial sector transparency and disclosures on nature-related financial risk. Deforestation (and afforestation) are being considered as part of these frameworks and the UK:

- a. Has seed-funded and politically supported the Taskforce on Nature Related Financial Disclosures (TNFD) which is developing a framework for reporting

on nature-related dependencies, impacts, and risks for corporates, investors and lenders;

- b. Has been one of the strongest supporters for the global approach to sustainability disclosures through the UK's support for the IFRS' sustainability reporting standard.
- c. Will consider bringing these standards into the UK disclosure framework as they develop and generate global consensus.

We anticipate that the TNFD framework will enable the UK and global financial sector to identify, mitigate and reverse negative impact on nature, including forests.

More broadly, we have committed to raise at least £500 million in private finance for nature's recovery every year starting in 2027, with that figure rising to more than £1 billion a year by 2030. Harnessing private finance is essential to supporting an economy-wide approach to halting biodiversity loss by 2030.

And, as you mention in your letter, we have also already introduced a framework for due diligence requirements for companies in the Environment Act 2021 to oblige them to check for and eliminate illegal deforestation in their supply chains.

I hope I have reassured you that we are taking action on this issue and I would be happy to meet with you to discuss.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Baroness Penn', written in a cursive style.

BARONESS PENN