

Agri-Food Deforestation and Conversion Free (DCF) Sourcing FAQs

Frequently Asked Questions

Final for issuance

NOTE: These Criteria can be used to certify Agri-Food Entities per the [Climate Bonds Standards](#)

Revision	Date	Summary of Changes
Rev. 2	11.03.2024	Final for Issuance
Rev. 1	29.02.2024	Adjusting for feedback from Public Consultation and TWG members
Rev. 0	22.12.2023	Draft for Public Consultation

Table of Contents

Definitions	4
1 Introduction	8
2 Questions on Scope	8
What is the Climate Bonds Initiative?	8
Is certification against the Agri-Food Deforestation and Conversion free Sourcing (Agri-Food DCF Sourcing) Criteria the same as being certified as 1.5° aligned?	8
What do the Agri-Food DCF Sourcing Criteria do?	8
What are the various commodities covered under the Agri-Food DCF Sourcing Criteria?	8
What financial instruments and entities can be certified under the Agri-Food DCF Sourcing Criteria?	9
Can an Entity have both the Agriculture 'transition/aligned entity' label as well as the Agri-Food DCF sourcing label (depending on their economic activities) or will it be one or the other?	9
Do all the agri-food commodities sourced by an entity need to be deforestation free under these Criteria?	10
3 Questions on Criteria Requirement	10
How is the risk categorization of the countries established?	10
How can the deforestation risk category for a country be identified if it is currently not covered under the list provided by Climate Bonds Initiative (Climate Bonds).	10
Do all agri-food commodities, whether originating from high or low-risk countries, need to be traceable to the geolocation of the original production land plot?	10
Are mass balance chains of custody allowed under these Criteria?	10
What are the traceability requirements?	10
4 Questions on Verifications	11
What sampling procedure needs to be followed by the verifier while performing the annual checks?	11
For the entities that have livestock in their supply chain, what additional checks will be carried out to ensure it is deforestation and conversion free?	11
What information must be provided to the Climate Bonds approved verifiers during the verification process?	11
What will be the frequency of the check carried out by the verifiers for Agri-Food DCF Sourcing certification?	11
5 Questions on Certifications	12
What is the basic requirement for existing third-party certification to be used as a proxy to support compliance?	12
What is the process of issuing Agri-Food DCF Sourcing certification?	12
How long will the Agri-Food DCF Sourcing certification remain valid for?	12
What happens if the Certified Entity has undertaken new economic activities?	12
What situation can lead to revocation of Entity Certification?	12

Definitions

Agri-food Entity

Entities with at least 50% of revenue generated from agri-food supply chains.

Agri-food Commodities

Agricultural commodities, including those consumed directly (such as beef or cocoa), those used in processing or embedded in meat, farmed seafood, and dairy products (such as oil palm and soy in livestock feed), and those used in the packaging of food products (such as pulp and paper).

Buyer¹

A company that purchases raw materials, processed materials, or finished products from a supplier.

- Buyers can include processors (e.g., mills or slaughterhouses), traders, manufacturers, and retailers. Traders buy raw or processed materials from farms or processing mills, while retailers buy consumer products from manufacturers.
- A given company can be both a supplier and a buyer.

Certified Entity²

The entity which is certified under the Climate Bonds Standard and Agri-Food Deforestation and Conversion Free Sourcing Criteria.

Climate Bonds Certification

Certification is awarded by Climate Bonds if all the requirements under the Climate Bonds Standard that apply at the time of Certification are met. Certification allows the applicant to use the Climate Bond Certification Mark. Climate Bond Certification is provided once the independent CBSB is satisfied that the Entity conforms with the CBS.

Climate Bonds Initiative (Climate Bonds)

An investor focused not-for-profit UK based organisation, promoting large-scale investments that will deliver a global low-carbon and climate-resilient economy. Climate Bonds seeks to develop mechanisms to better align the interests of investors, industry, and governments to catalyse investments at a speed and scale sufficient to avoid dangerous climate change.

Climate Bonds Standard (CBS)

A robust framework based on international best practice in green finance which defines the processes to be followed and Sector Criteria that must be met to achieve certification under the Climate Bonds Standard. The current version of the Climate Bonds Standard is published on the Climate Bonds website.

Climate Bonds Standard Board (CBSB)

An advisory committee set up to review the Standard, Sector Criteria, applications for certification under the Standard and applications by prospective verifiers and to make recommendations to the Trustees and the executive management of the Climate Bonds Initiative.

Conversion¹

Note: The Criteria follow the definition from Afi (2020), with regards to requirements and verification for ecosystem conversion different from deforestation (i.e. deforestation-free requirements follow EUDR definitions).

Change of a natural ecosystem to another land use or profound change in a natural ecosystem's species composition, structure, or function.

- Deforestation is one form of conversion (*in these Criteria, following the EUDR definitions*).

¹ Afi, 2020 [Accountability Framework: Terms and Definitions](#)

² Climate Bonds Standards v.4, 2023

- Conversion includes severe degradation or the introduction of management practices that result in a substantial and sustained change in the ecosystem's former species composition, structure, or function.
- Change to natural ecosystems that meets this definition is considered to be conversion regardless of whether or not it is legal.

Cut-off date¹

The date after which deforestation or conversion renders a given area or production unit non-compliant with no-deforestation or no-conversion commitments, respectively.

Deforestation³

The conversion of forest to agricultural use, whether human-induced or not.

Note: For the purpose of these Criteria, this includes forest degradation for wood products (ie. pulp and paper), as in EUDR. See definition of 'Forest Degradation'.

Deforestation Free

The relevant products contain, have been fed with or have been made using, relevant commodities that were produced on land that has not been subject to deforestation or the conversion of other natural ecosystems after 31 December 2020.

Due diligence¹

A risk management process implemented by a company to identify, prevent, mitigate, and account for how it addresses environmental and social risks and impacts in its operations, supply chains, and investments.

Note: This definition of due diligence pertains to environmental and social issues in commodity supply chains, consistent with the scope of the Accountability Framework. Other forms of business due diligence — such as financial and legal due diligence — are not included in this definition.

Forest³

Land spanning more than 0.5 hectares with trees higher than 5 metres and a canopy cover of more than 10%, or trees able to reach those thresholds in situ, excluding land that is predominantly under agricultural or urban land use.

Forest Degradation³

Structural changes to forest cover, taking the form of the conversion of: (a) primary forests or naturally regenerating forests⁴ [including secondary forests, coppice, and those with non-native species]* into plantation forests or into other wooded land; or (b) primary forests [including native or natural forests]* into planted forests.⁵

*This definition applies to degradation in wood production (i.e. pulp and paper). For other non-forest ecosystems, the AFi definition of Natural Ecosystem Degradation applies. *Clarifications introduced for the Agri-Food DCF Sourcing Criteria verification procedures. Verifiers are required to annually check the HCV status and area under management in plantation, planted, native, natural forest cover and other natural ecosystems, including peatland subsidence, erosion and compaction.*

Geolocation³

The geographical location of a plot of land described by means of latitude and longitude coordinates corresponding to at least one latitude and one longitude point and using at least six decimal digits; for plots of land of more than four hectares used for the

³ EUDR, 2023: [European Union Deforestation Regulation](#)

⁴ As per EUDR (2023), Article 2: “‘naturally regenerating forest’ means forest predominantly composed of trees established through natural regeneration; it includes any of the following: a) forests for which it is not possible to distinguish whether planted or naturally regenerated; b) forests with a mix of naturally regenerated native tree species and planted or seeded trees, and where the naturally regenerated trees are expected to constitute the major part of the growing stock at stand maturity; c) coppice from trees originally established through natural regeneration; d) naturally regenerated trees of introduced species.”

⁵ As defined in EUDR, 2023, Article 2: ‘planted forest’ means forest predominantly composed of trees established through planting and/or deliberate seeding, provided that the planted or seeded trees are expected to constitute more than 50 % of the growing stock at maturity; it includes coppice from trees that were originally planted or seeded; ‘plantation forest’ means a planted forest that is intensively managed and meets, at planting and stand maturity, all the following criteria: one or two species, even age class, and regular spacing; it includes short rotation plantations for wood, fibre and energy, and excludes forests planted for protection or ecosystem restoration, as well as forests established through planting or seeding, which at stand maturity resemble or will resemble naturally regenerating forests.

production of the relevant commodities other than cattle⁶, this shall be provided using polygons with sufficient latitude and longitude points to describe the perimeter of each plot of land.

Industry Working Group (IWG)

A group of key organisations that are potential applicants, verifiers, investors and other stakeholders convened by Climate Bonds. The IWG provides feedback on the draft Sector Criteria developed by the TWG before they are released for public consultation.

Natural ecosystem¹

An ecosystem that substantially resembles — in terms of species composition, structure, and ecological function — one that is or would be found in a given area in the absence of major human impacts. This includes human-managed ecosystems where much of the natural species' composition, structure, and ecological function are present.

For these Criteria, this definition of natural ecosystems includes:

- Largely 'pristine' natural ecosystems that have not been subject to major human impacts in recent history.
- Regenerated natural ecosystems that were subject to major impacts in the past (for instance by agriculture, livestock raising, tree plantations, or intensive logging) but where the main causes of impact have ceased or greatly diminished and the ecosystem has attained species composition, structure, and ecological function similar to prior or other contemporary natural ecosystems
- Managed natural ecosystems (including many ecosystems that could be referred to as 'semi-natural') where much of the ecosystem's composition, structure, and ecological function are present.
- Native grasslands or rangelands that are, or have historically been, grazed by livestock.
- Natural ecosystems that have been partially degraded by anthropogenic or natural causes (e.g., harvesting, fire, climate change, invasive species, or others) but where the land has not been converted to another use and where much of the ecosystem's composition, structure, and ecological function remain present or are expected to regenerate naturally or by management for ecological restoration.

Natural Ecosystem Degradation¹

Changes within a natural ecosystem that significantly and negatively affect its species composition, structure, and/or function and reduce the ecosystem's capacity to supply products, support biodiversity, and/or deliver ecosystem services.

Degradation may be considered conversion if it:

- is large-scale and progressive or enduring.
- alters ecosystem composition, structure, and function to the extent that regeneration to a previous state is unlikely; or
- leads to a change in land use (e.g., to agriculture or other use that is not a natural forest or other natural ecosystem).

Note: This definition applies to all natural ecosystems, except for forest degradation in pulp and paper production (which follows EUDR).

Parent Company/Group

A company is considered a parent company of another entity (a subsidiary) if it exercises control over the subsidiary. The terms 'control' and 'subsidiary' have the meaning assigned to them under International Financial Reporting Standard 10 (IFRS 10). A Parent Group consists of the Parent Company and all the companies that the Parent Company exercises control over. Where the Applicant does not belong to a group of companies, the term Parent Company in this Standard applies to the Applicant.

Risk assessment¹

⁶ Establishments where cattle are kept can be described with a single point of geolocation coordinate. Operators (or traders that are not SMEs) who place on the market cattle products must geolocate all establishments associated with raising the cattle, encompassing the birthplace, farms where they were fed, grazing lands, and slaughterhouses. [Frequently Asked Questions - Deforestation Regulation - European Commission \(europa.eu\)](#)

A systematic process of evaluating potential risk in a company's current or future operations, supply chains, and investments.

- In this context, this term refers to the assessment of risk of non-compliance with the company commitments or applicable law related to Climate Bonds Standard scope, as well as adverse impacts to internationally recognised human rights. This is different from the use of the term in a general business context, where it refers to the assessment of financial risks and the drivers of such risk (e.g., legal risk, credit risk, reputation risk, and others). The risk of adverse social and environmental impacts, including non-compliance with company commitments, can be an important element of broader business risk.

Supplier¹

A producer or company that supplies raw materials, processed materials, or finished products to a buyer.

- Suppliers can include producers, processors, traders, and manufacturers. For instance, farms or processing mills supply raw or processed materials to traders, while manufacturers supply consumer products to retailers.
- A given company can be both a supplier and a buyer.
- A supplier may either be a direct (tier 1) supplier (selling directly to the buyer) or an indirect (tier 2 or beyond) supplier (selling to an intermediary that is one or more steps removed from the buyer).

Technical Working Group (TWG)

A group of key experts from academia, international agencies, industry, and NGOs convened by Climate Bonds. The TWG develops the Sector Criteria - detailed technical Criteria for the eligibility of projects and assets as well as guidance on the tracking of eligibility status during the term of the bond. Their draft recommendations are refined through engagement with finance and other industry experts in convened Industry Working Groups and through public consultation. Final approval of Sector Criteria is given by the CBSB.

Tier 1 Supplier

Immediate upstream business partner from which products or commodities are purchased directly.

Verification

Assessment and validation of compliance, performance, and/or actions relative to a stated commitment, standard, or target. Verification processes typically utilise monitoring data but may also include other sources of information and analysis. The verification process is overseen by Climate Bonds. And the resulting report is used in awarding the Climate Bonds Certification mark.

1 Introduction

The purpose of this document is to provide answers to a series of questions that are commonly asked by our clients and clarity on topics that are relevant to the 'Agri-Food Deforestation and Conversion Free Sourcing Criteria'. The topics covered in this document are:

- Questions on scope
- Questions on Criteria requirements
- Questions on Verification and Certification

2 Questions on scope

What is the Climate Bonds Initiative?

Climate Bonds Initiative is an international investor-focused and not-for-profit organisation working solely to mobilize the \$100 trillion bond market for climate change solutions. We promote investment in projects and assets necessary for a rapid transition to a low carbon and climate resilient economy. The strategy is to develop a large and liquid Green and Climate Bonds market that will help drive down the cost of capital for climate projects in developed and emerging markets; to grow aggregation mechanisms for fragmented sectors; and to support governments seeking to tap debt capital markets. Our work falls into three workstreams: market intelligence, developing a trusted standard and providing policy models and advice.

Is certification against the Agri-Food Deforestation and Conversion free Sourcing (Agri-Food DCF Sourcing) Criteria the same as being certified as 1.5° aligned?

The Agri-Food DCF sourcing Criteria are focused on deforestation and conversion in agri-food supply chains. Land use change is a critical driver of emissions and must be tackled urgently to address climate change, however land use change in agri-food supply chains may not cover all scopes of emissions for relevant stakeholders and therefore is not labelled as 1.5°C aligned.

What do the Agri-Food DCF Sourcing Criteria do?

The 'Agri-Food DCF Sourcing Criteria' provide a clear rule set for establishing and monitoring agricultural supply chains to source from land that has not been subject to deforestation or conversion of natural ecosystem after 31 December 2020.

The Agri-Food DCF Sourcing Criteria provide clarity and comfort that finance issued against these Criteria do not involve any purchasing, processing, trading, distributing or selling agri-food commodities, products and derived ingredients whose production, after 31 December 2020, has been linked to conversion of any natural ecosystem to another land use. Including, among others (see definitions)

- Deforestation, including forest degradation.
- Peatland drainage, development or peat burning.

What are the various commodities covered under the Agri-Food DCF Sourcing Criteria?

Any agri-food commodity that is produced on land or that is dependent on land-based production are covered under these Criteria. This includes but is not limited to commodities commonly associated with deforestation and conversion risks (such as cattle, cocoa, coffee, palm oil, pulp and paper, and soy), including animal products such as beef, chicken, and farmed seafood whose production includes embedded high-risk commodities such as soy or palm oil and other feed crops along with agri-food commodities that are not usually linked with deforestation.

However, since the focus of these Criteria is agri-food commodities only, non agri-food commodities such as timber, wood and other land-grown commodities in highly processed products that are not related to the agri-food supply chains (e.g. personal care, paints), bioenergy and leather are excluded.

What financial instruments and entities can be certified under the Agri-Food DCF Sourcing Criteria?

Supply chain actors that generate a 50% of their revenue from agri-food commodity supply chains can seek entity certification. Example: traders, processors, manufacturers, distributors and retailers can be certified as “Agri-Food Deforestation and Conversion Free” under these Criteria.

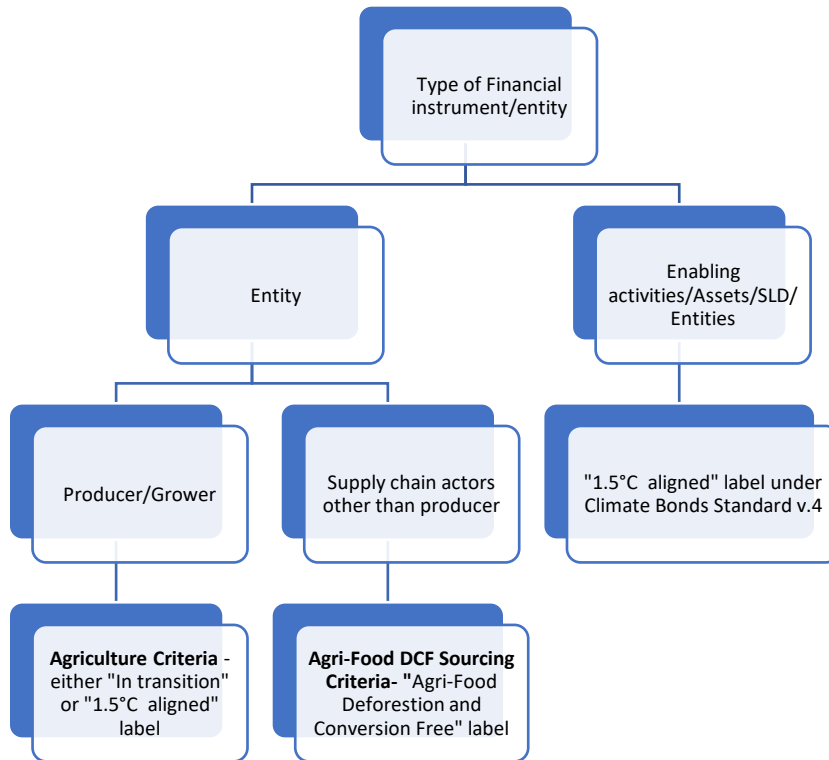


Figure 1: Flowchart indicating eligibility of Final instruments and entities under Agri-Food DCF Sourcing Criteria

Financial instruments including Use of Proceeds and Sustainability-Linked Debt, Assets, and Entities that enable deforestation and natural ecosystem conversion free sourcing (e.g. entities operating in the land-use change monitoring or traceability system space) can be certified under Climate Bonds Standard v.4 as “1.5° Aligned” for eligible activities. (Figure 1)

Can an Entity have both the Agriculture ‘transition/aligned entity’ label as well as the Agri-Food DCF label (depending on their economic activities) or will it be one or the other?

Our current Agriculture Criteria applies to the crop and livestock production, but supply chain is out of its scope (Figure 2). Therefore, the companies that will apply under Agri-Food DCF Sourcing Criteria will not be eligible under our Agriculture Criteria.

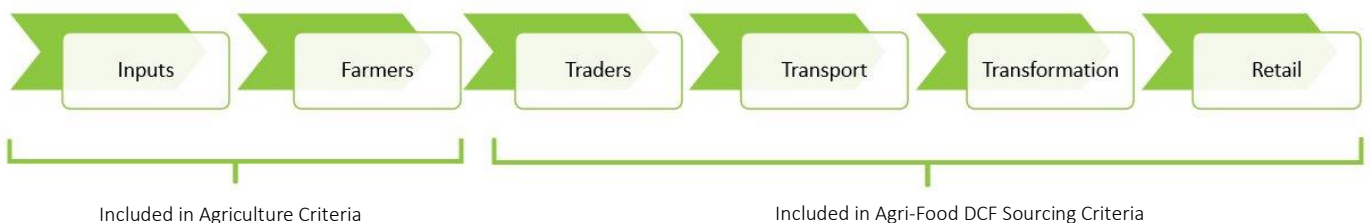


Figure 2: Scope of Agri-Food DCF Sourcing Criteria

Agri-Food DCF Sourcing Criteria is specifically for the entities other than the grower. It covers only one very specific element/requirement i.e., ‘sourcing of deforestation and conversion free’ (covering forest degradation and conversion of natural ecosystem after 31 December 2020) agri-food commodity. To be certified, the entities need to provide sufficient evidence proving

no deforestation and conversion after 31 dec 2020 is associated with the sourced agri-food commodities in their supply chain which will require fulfilling the requirements set under the Criteria.

Do all the agri-food commodities sourced by an entity need to be deforestation and conversion free under these Criteria?

Yes, for certification – if the agri-food commodity (including its derivatives and fractions) accounts for 1% or more of the entity's net procurement spend on agri-food commodities, food products and food product ingredients it needs to be included. In addition, the 'Certification Threshold' where compliant activities represent at least 90% of agri-food net procurement spend of an entity, also applies.

In practice this means that very small (<1% of procurement spend) purchases of agri-food commodities fall outside the scope of these Criteria as long as 90% of the entity's total agri-food net procurement spend is included. The Criteria on materiality also apply to products or ingredients manufactured by third parties that are sold or distributed by certified entities (such as retailers for instance).

3 Questions on Criteria requirement

How is the risk categorization of the countries established?

The methodology used to identify high- and low-risk countries relies on assessments independently provided and data published by Global Forest Watch. For each country, the deforestation risk is assessed based on the ratio of total natural forest land lost for the last 5 years (2018-2022) relative to the total natural forest cover in 2000. If this ratio is higher than 1%, then we consider the risk to be high. The risk is low for values below 1%.

How can the deforestation risk category for a country be identified if it is currently not covered under the list provided by Climate Bonds.

If a country is not covered under the list provided by Climate Bonds, approved verifiers will identify the deforestation risk for that country using the established methodology.

Do all agri-food commodities, whether originating from high or low-risk countries, need to be traceable to the geolocation of the original production land plot?

No, until 2030 agri-food commodities originating from low-risk countries (except for cattle, cocoa, coffee, palm oil, pulp and paper, and soy), are only required to be traced to the country of origin. In many cases this may be the primary processing facility. After 1 January 2030 all commodities need to be traceable to the geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha).

However, all agri-food commodities falling under the scope of these Criteria that originate from high-risk countries and for cattle, cocoa, coffee, palm oil, pulp and paper, and soy, are required to be traceable to the geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha).

Are mass balance chains of custody allowed under these Criteria?

No, mass-balanced supply chain models that allow for the mixing of complaint with non-complaint commodities are not allowed under these Criteria. To be compliant with these Criteria all traceable DCF agri-food commodities need to be segregated from commodities of unknown origin or from non DCF commodities at every step of the supply chain.

What are the traceability requirements?

Following are the traceability requirements:

1. **High-risk origin and for cattle, cocoa, coffee, palm oil, pulp and paper, and soy (of any origin):** Geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha).
2. **Low-risk origin (except cattle, cocoa, coffee, palm oil, pulp and paper, and soy):** Traced to country of origin or primary processing facility. After 1 January, 2030, geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha).

4 Questions on Verifications

What sampling procedure needs to be followed by the Verifier while performing the annual checks?

Climate Bonds Approved Verifiers will check traceability data through randomly selected samples:

At least 10% of the procured volume and at least 10% of the total number of suppliers of the combined agri-food commodities (including for any processed products) will be checked. For entities that have livestock products in their supply chains, at least 25% of the samples selected for such companies are required to consist of livestock supply chains.

For the entities that have livestock in their supply chain, what additional checks will be carried out to ensure it is deforestation and conversion free?

While selecting the sample for verification at least 25% of the samples selected for such companies are required to consist of livestock supply chains. The additional check includes confirmation and verification of risk status associated with both livestock and agri-food commodities used as feed.

For livestock or livestock feed of high-risk origin (Verification of geolocation of production units): For livestock products in the supply chains that are sourced from high-risk countries, both the geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha) of the livestock source and livestock feed are required.

For livestock or livestock feed of low-risk origin (Verification of low-risk country of origin): For livestock products in the supply chains that are sourced from low-risk countries, both the country of origin of the livestock and the livestock feed should be verified as produced in low-risk countries. If any livestock feed includes agri-food commodities from high-risk countries, it has to be verified at geolocation to the original production land plot (polygon for > 4ha or single point for < 4 ha).

What information must be provided to the Climate Bonds approved verifiers during the verification process?

1. Supplier lists and associated purchasing volumes per commodity per country of origin.
2. Due diligence statements from their suppliers consistent with the requirements under the EUDR.
3. Geolocation data for all agri-food commodities and their derivatives as per the requirements set under these Criteria.
4. Calculations and source data for companies claiming that individual agri-food commodities fall below the 1% commodity procurement spend.
5. If a third-party certification proxy is used, access to all communication with the certification body including but not limited to chain of custody certificates as well as evidence that all eligibility Criteria are met.
6. Any deforestation monitoring reports carried out by the entity or provided to the entity by a supplier including any deforestation alerts and actions taken.

What will be the frequency of the check carried out by the Verifiers for Agri-Food DCF Sourcing certification?

The Verification will be carried out on annual basis by the Approved Verifiers.

5 Questions on Certifications

What is the basic requirement for existing third-party Certification to be used as a proxy to support compliance?

Existing schemes certifying no deforestation or conversion of natural ecosystems since 31 December 31 2020 or earlier can be used as 'proxy' to support compliance, in relation to due diligence and risk assessments with the Agri-Food DCF Sourcing Criteria only for fully segregated or identity persevered supply chains and if they meet all other eligibility Criteria in this document, including traceability requirements to the level set under these Criteria.

What is the process of issuing Agri-Food DCF Sourcing Certification?

The flowchart below indicates the basic steps that need to be followed for issuing Agri-Food DCF Sourcing Certification (Figure 3). As the certification for these Criteria is for entities only there is no process for UoP or other instruments.



Figure 3: Flowchart of Basic steps for issuing Agri-Food DCF Sourcing Certificate

How long will the Agri-Food DCF Sourcing Certification remain valid for?

The Agri-Food DCF Sourcing Certification will be valid for 5 years subject to annual compliance checks.

What happens if the Certified Entity has undertaken new economic activities?

If the Certified Entity has undertaken new economic activities in addition to those previously considered when assessing compliance with the 'Certification Threshold', the applicant must re-apply for Certification within 12 months of the start of the new economic activity. This new application must consider the new, expanded economic activities of the Certified Entity. If the new application is not submitted or is not compliant with the Standard, the existing Entity Certification will be revoked.

What situation can lead to revocation of Entity Certification?

Entity Certification will be revoked at any time where:

1. The applicant becomes aware that the Certified Entity and/or the Parent Group no longer conforms with the Climate Bonds Standard and provides a written statement to that effect to the Climate Bonds Standard Secretariat; or
2. A verification engagement commissioned by the Climate Bonds Standard Board, finds that the Certified Entity and/or the Parent Group no longer conforms with the Climate Bonds Standard; or
3. The applicant has breached any contractual obligation towards the Climate Bonds Initiative.