



DUE DILIGENCE ON FOREST RISK COMMODITIES

Issued 5 October 2020

ICAEW welcomes the opportunity to comment on *Due diligence on forest risk commodities* published by Defra in August 2020, a copy of which is available from this [link](#).

We welcome the opportunity to respond to Defra's consultation *Due diligence on forest risk commodities*. Copies of the answers submitted to the online questionnaire are reproduced below. In responding we focussed on questions 4, 6, 7, 8 and 9.

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KEY POINTS

1. We welcome the opportunity to respond to Defra's consultation *Due diligence on forest risk commodities*. Copies of the answers submitted to the online questionnaire are reproduced below. In responding we focussed on questions 4, 6, 7, 8 and 9.

ANSWERS TO SPECIFIC QUESTIONS

Question 4: Should businesses be required to report publicly on their system of due diligence?

2. See comments below.

Question 6: Should the legislation apply to larger businesses, over an employee number and turnover threshold, that use forest risk commodities in production or trade?

3. Other – see further comments below.

Question 7: If you responded 'Other' to Question 6, please expand.

4. We note that on page 8 of the consultation it states that the proposals are being targeted at a relatively small number of larger businesses that use forest risk commodities in production or trade in the UK, and meet an employee number and turnover threshold. This appears to suggest that Defra is considering a sectoral scoping as well as size, although we note that the sectoral element is not being consulted on directly here. It will be helpful for further clarity on this matter when Defra comes to consult at the next stage of this process.
5. Regardless of the sectoral scoping, when determining size we would strongly urge Defra to refer to existing thresholds for large companies in UK company law. We note that several different thresholds for 'large' have emerged in recent years, for example, the recent requirements for different sizes of large company to provide information on corporate governance and stakeholder engagement arrangements within the directors' report. Again, ensuring a streamlined approach when determining scope is important to reduce uncertainty and confusion for both preparers and users.

Questions 8: Large businesses have existing obligations to report on climate and environment issues including in relation to net zero. To what extent are there opportunities to align the proposal set out in this consultation with businesses' reporting under existing international frameworks [e.g. the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD)]?

6. We agree that, where appropriate, consideration should be given to existing requirements and frameworks. This is important to both avoid duplication of information, but also to ensure a more joined up and streamlined reporting process.
7. However, as noted in our response to question 9 below, it is important to understand the purpose of why information is being disclosed/reported. Where the purpose aligns between different frameworks, and the information is aimed at similar/same stakeholders, then greater alignment may be possible. However, where these differ, achieving effective alignment may be more of a challenge.

Question 9: Do you have any further information or comments you would like us to be aware of?

8. Our response to this online survey has primarily focussed on questions 4, 6, 7 and 8. Where we have answered 'Don't Know' then please take this to mean that we have not yet fully formulated our views in all areas being consulted on. That said, we have included below some further details to supplement our response to question 4, as well as some additional brief general comments.

Additional comments in relation to question 4

9. It is not entirely clear from the consultation where Defra anticipates the proposed due diligence information would appear, for example, in the annual report and accounts, on a Government website, or the company's own website. Each of these options brings its own benefits and drawbacks, but ultimately it will depend on what Defra is seeking to achieve from requiring this information, and how it intends to monitor or enforce its publication.
10. Understanding the purpose and intended use of the information should be the starting point for determining where it should be presented. We also strongly recommend that consideration is given to how any reporting requirement interact with existing requirements which may cover similar or related information. Ensuring a streamlined approach is essential both for preparers and users of this information.
11. To avoid adding clutter to the financial statements, and to enable companies to communicate clearly and concisely, we would generally suggest that information is not required in the financial statements unless there is a clear reason/purpose for its inclusion.

Other general matters/points:

12. The due diligence which companies will have to perform on forest commodities must be reasonable and realistic. Government guidance on relevant local laws should be provided, and this guidance must be kept up to date.
13. This legislation will support investors' compliance with the Stewardship Code as Principle 7 covers ESG issues and climate change.