

Climate change: up to government or down to business?



The better the question.
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COP 26: five actions for business

This November, tens of thousands of government negotiators, climate activists, NGOs, indigenous peoples, businesses, protestors, and other interested parties in Glasgow, as well as online around the world, gathered for **the most important climate change event yet**. While the focus during the two weeks was on the inner sanctum of the Blue Zone - where the core negotiations took place - all other stakeholder groups wanted their voices to be heard on the agenda.

Given the momentum generated by this diverse group of stakeholders, what was the signal for business? At COP26, it became clear that 2022 is going to be the year of action for business. Not only will business need to build a strategy and set targets, but it will also need to deliver against them. It will also need to work with each other—and with governments—to support systemic change. Climate action is about to enter a chapter of increased action, measurement and accountability, and business needs to be ready.

Going into COP26, existing national commitments projected a **temperature rise of between 2.7°C to 2.9°C**.

With commitments agreed under the Glasgow Climate Pact, the latest analysis suggests **we are looking at an increase of 1.8°C to 2.4°C**.

While this is an improvement, it isn't 1.5°C - and the commitments agreed to date will require **detailed plans, measurement and accountability**.

These plans need to become **actions** from the public and private sectors immediately -
the world can't wait
until COP27.



Here are **five main take-aways** from Glasgow for **businesses** to action

- 1 Business must contribute to **keeping 1.5 alive**, by accelerating its efforts
- 2 Business should prepare for the implications of the **changing market and regulatory landscape**
- 3 Businesses should expect and prepare for higher momentum on the convergence of **sustainability standards**
- 4 Business should consider **adaptation** as an important part of their agenda
- 5 **Climate change is everybody's business** and business needs to engage with different voices

1 Business must contribute to keeping **1.5 alive**, by accelerating its efforts

Even before COP26, business was beginning to realise its crucial role in tackling the climate crisis. Many companies have set net-zero targets, and more are being announced every day. In Glasgow, business was highly visible, and multiple world leaders referenced the growing role of the private sector in their speeches. But the bottom line is that businesses need to shift focus away from setting targets that may be many years in the future to reducing their absolute emissions today - and evidencing action each year.

The private sector is taking a big step forward in establishing how it can be part of the solution and this is important, because there is a real need to establish trust in our commitments and accelerate if we are to meet our collective targets. While the formal COP process is long and complex, keeping 1.5 alive relies significantly on the reductions of Nationally Determined Contributions. Businesses can and must contribute - using their ability to act more nimbly, set impactful targets and help close the gap between rhetoric and action.

We need renewed urgency and action before 2030

2030 should be a new milestone year for net-zero and decarbonisation roadmaps for those who can, and action must be demonstrated today. Incoming best practice will be to mirror forward guidance on financials - to commit to yearly emissions reductions and then to deliver it - and be held accountable for it. This needs to happen in a current timeframe, with businesses asking themselves what their reductions are in 2021 and 2022.

2030 will be too late to start. We need meaningful reductions from now to 2030 and then pushing on for net-zero as soon as possible thereafter.

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Those who can go further and faster must do so now.



Carmine Di Sibio, EY Global Chairman and CEO

We need more targets with teeth from measures that matter

Businesses have to develop plans with real, measurable targets and transparent roadmaps to meet them. Businesses must build trust in their commitments and report on their plans every year. Stakeholders are going to hold you to your emissions reduction curve. At the Green Horizons Summit at COP26, Emma Howard Boyd CBE, Interim Chair of The Green Finance Institute highlighted:

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As leaders, we need to be ruthlessly focused on achieving our net-zero goals. Not in the far distant time. But right now, every year throughout this decade.

Emma Howard Boyd CBE, Interim Chair of The Green Finance Institute

2 | Business should prepare for the implications of the **changing market and regulatory landscape**

One of the highlights of the first week of COP26 was the announcement by the Glasgow Financial Alliance for Net Zero (GFANZ), a forum uniting over 450 financial service providers from 45 nations to accelerate the transition to a net-zero global economy by 2050. The alliance is responsible for \$130 trillion¹ of assets, a significant proportion of the global total.

This announcement could signal a big wave of M&A activity as investors look to divest high-carbon assets and acquire green technologies to deploy within their own organisations. We are already witnessing this with the energy sector, as they begin to action their decarbonization strategies. But who's going to be the good custodian of these high emission assets as major listed companies sell them? Businesses must prepare and take stock of the wave of transactions that are to come.

The regulatory landscape for climate commitments is gaining much needed additional rigour

COP26 saw the UK announce that it will become the first 'net-zero financial centre' - requiring all financial institutions and listed companies to publish plans on how they will transition to net-zero from 2023. Businesses should expect other governments to follow London's lead, and anticipate the pressure from asset owners and managers to trickle down the chain. As they look to align their portfolios to be aligned with the Paris Agreement and the Glasgow Climate Pact, they will be looking to the businesses they engage with to ask for their net-zero plans.

Understand your supply chain and exert positive influence

Leaders must delve deep into their supply chains and gain a detailed understanding of where their scope 1, 2 and 3 emissions come from and establish a target reduction plan. To meet market standards, these plans should include a short-term target of 2025 or 2030 and a framework to obtain accreditation by the SBTi (Science Based Targets Initiative) across all three scopes.

Sustainability has gone mainstream, and we must keep up

More broadly, these announcements also reinforce the point that COP26 and sustainability language has gone mainstream - everybody needs to be 'foundationally competent'. This means both current CEOs and boards - all the way through to future employees currently in education. This is a huge signal for businesses to upskill their leaders and workforce to equip themselves to navigate this agenda.

3 | Businesses should expect and prepare for higher momentum on the convergence of **sustainability standards**

The launch of the new International Sustainability Standards Board (ISSB) by the IFRS Foundation in the first week of COP starts a crucial path toward globally consistent sustainability reporting standards. This global baseline for sustainability disclosures will provide clarity and consistency that the market has been calling for. It will underpin everything from the definition of net-zero to the mechanics of carbon offset markets.

¹ Amount of finance committed to achieving 1.5°C now at scale needed to deliver the transition | Glasgow Financial Alliance for Net Zero (gfanzero.com)

3 | Businesses should expect and prepare for higher momentum on the convergence of **sustainability standards**

We need to build trust by embracing both financial and environmental transparency

Businesses should expect the framework for sustainability standards to develop far more quickly when compared to other standards set in the past, given the technical work prior to the ISSB announcement. And will need to meet this speed by aligning internally to prepare for increased demand - and mandates - for sustainability disclosures. The ISSB is focused on disclosures that are comparable globally and compatible with financial statements. Developing these will require the full force and power of the financial reporting, accounting and audit profession to get on board.

As this landscape rapidly evolves, we can also expect to see the regulatory landscape for sustainability disclosures to move from limited to full assurance. In Europe, under the EU Corporate Sustainability Reporting Directive, we will expect limited assurance for a lot of European based companies in 2023 financial year and then a likely move to full assurance mid-decade.

Erkki Liikanen, Chair of the IFRS Foundation Trustees, indicated that:

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Sustainability information [must be] produced with the same rigour, assurance of quality and global comparability as financial information.

Erkki Liikanen, Chair of the IFRS Foundation Trustees

Ensuring data veracity will be crucial to maintain competitive advantage. The convergence of globally consistent sustainability standards has created a new element to guide peer to peer comparisons - leaders must ask themselves

- 1 If they are confident in the data they are using?
- 2 Does it meet market standards?
Do they have the appropriate and necessary systems, taxonomy and reporting capabilities for the path ahead?
- 3
- 4 What do they need to equip themselves to lead in the changing landscape?

4 | Business should consider **adaptation** as an important part of their agenda

Much of the focus of business on climate change has so far been on mitigation - in particular decarbonisation. But the costs of climate change that are already being felt by so many calls on increased efforts for adaptation. COP26 saw calls from the G77 group, which represents more than 130 countries and 85% of the world's population, for the creation of a 'loss and damage' facility.

This would have created a formal body for funding, although it wasn't included in the final agreement, being replaced instead with a proposal for 'technical assistance'. Businesses that operate around the world must consider the investments that are needed to adapt to the effects of climate change, but this cannot come at the expense of mitigation.



4 | Business should consider **adaptation** as an important part of their agenda

Even if 1.5C is achieved, there are going to be unstoppable impacts of climate change that many countries are already experiencing. Nobody is immune from this - from Dhaka and the Bangladesh coastline, and island nations all over the world fighting rising sea levels and coastal erosion caused by stronger and more persistent storm seasons - to flooding in Germany and India, to deep freezes in Texas and raging forest fires in California, Canada, and Australia. Business must realise their role in financing investment that is resilient to these shocks. As John Kerry, Special Presidential Envoy for Climate, U.S. Department of State, said on the side-lines in Glasgow;

As **John Kerry**, Special Presidential Envoy for Climate, U.S. Department of State, said on the side-lines in Glasgow:

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Mother Nature is going to be relentless. And she's more powerful than any of us. So, what is going to happen is you're going to see millions of people moving from places they can't live in anymore.

Many developed economies have already invested in adaptation, although they may not think of it as such. Projects to tackle coastal erosion or investing in flood defences are common across Europe and North America and will continue to increase. The narrative here is less on this investment being because of climate change and more being one of investing in infrastructure and job creation. But for some reason, we haven't always been talking about that as the cost of climate change.

Much of the \$100b annual funding to developing economies isn't about mitigation - it is about adaptation, which is a matter of survival for many.



As **Kate Barton**, EY's Global Vice Chair - Tax, noted in Glasgow:

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The wealthiest developed nations have an obligation to support developing nations in fending off the disastrous impact of climate change.

5 | Climate change **is everybody's business** and business needs to engage with different voices

While thousands of government negotiators formed the core of COP26, this year saw the voices of non-state actors play a larger and more influential role. NGOs, indigenous peoples, gender groups, young people, climate activists, protestors, and businesses engaged with what was happening in Glasgow - either on the ground, online, or around the world.



As we strive for net-zero, dialogue is critical: As businesses learn to navigate its path on sustainability and climate action, they need to resist the urge to exist in a vacuum of positive reinforcement, and they must learn how to engage with the different voices. Because, as the Peoples' Climate March reminds us:

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to change everything, we need everyone.

Activists help by creating energy and momentum for climate action and bringing to light things that businesses didn't understand, but at the same time, activists have to understand that businesses cannot transform their supply chain overnight. By engaging with all stakeholders, we can bring climate activism from the street to the boardroom. We turn passion into strategy, and ultimately deliver climate action. There is an opportunity for courageous leadership from businesses to lead, by building what may have once been considered unlikely alliances to work together towards this common goal. Because climate change is everybody's business.

What's next?

As United Nations Secretary-General Antonio Guterres says, 1.5C may still be alive, but it is “on life support”. **Climate change is everybody's business, and we can't ignore that we all have a part to play.** Businesses big and small, and the people behind them, are going to have to lean in and take action. Business faces an opportunity to further contribute to planet and society, rebuilding the trust deficit triggered by the financial crisis.

COP26 has only reinforced the urgent need for us to work together and move quickly from purpose and promises to plans and proof. Our stakeholders in the planet and society won't wait for **COP27** for answers, and business has an unprecedented opportunity to collaborate and create value from sustainability for people and the planet. It's time to embrace and jump into action - or be pushed.

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