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## COP 27: a summary of Finance Day. A financial services perspective.

November 2022

### Key takeaways and actionable outcomes from Finance Day

COP27 has had a packed agenda so far, and Finance Day took place on day three of the summit. So, what happened?

It's been a couple of years since financial services began waking up to climate change in earnest. Since then, we've seen an explosion in the number of firms committed to climate action. COP26's Finance Day last year saw the launch of the Glasgow Financial Alliance for Net Zero (GFANZ), which now boasts 550 financial institutions around the world with \$150tn in assets under management committed to achieving net-zero emissions by 2050.

Simply delivering that level of ambition within the financial industry - without any regulatory incentives - is a massive achievement. But this is the "Implementation COP", and Finance Day is no longer about targets. It's about taking action to mobilize the funds that have been committed and ensuring financial services firms have the tools to do the job.

This is also being described as the "Africa COP". Increased attention on the mitigation and adaptation needs of developing markets has led to growing discussion of the private sector's role in channeling climate finance to every region, not just developed countries.

## Key announcements from Finance Day

Taking GFANZ from zero members to 550 in 18 months is huge step, but the challenge now is to turn financial institutions' commitments into action. Mark Carney (UN Special Envoy for Climate Action) and Alok Sharma (COP26 President) both spoke about the tangible progress that has been made over the past year.

Notably, GFANZ's focus on regional implementation has led to a series of meetings aimed at helping African and Asia-Pacific financial institutions to accelerate their regions' transition. We've also seen several announcements about equipping financial firms with the tools they need to accelerate capital allocation in line with the Paris goals:

### **Addressing the data problem**

Al Gore (former US Vice President) announced the launch of Climate Trace, a platform designed to revolutionize the never-ending data issue. It aims to use satellite imaging, artificial intelligence (AI) and public data sources to help people estimate underlying emissions data right at the source. This could help to reduce financial institutions' reliance on

exclusively corporate disclosure - of varying quality - on climate change to inform lending and investment decision making. Improved access to data and consistent data gives financial services organizations more power to make informed decisions about how they finance their clients whilst aligning with net-zero goals.

### **Addressing the complexity problem**

The International Sustainability Standards Board (ISSB) has set out its implementation roadmap, including a new global Partnership Framework, comprising of more than 20 partner organizations, including EY. The goal is to accelerate the global adoption of climate-related disclosure standards, making reporting easier to generate and interpret for all stakeholders.

### **Addressing the strategy problem**

Engagement with corporates on their own progress toward net-zero goals continues to be a critical topic. The Transition Plan Taskforce (TPT) launched its "gold standard" for net-zero planning, helping companies to plan for the transition, to execute their transition strategy and to disclose this to stakeholders.

## Making climate action happen

The financial industry now has many of the tools it needs to make its net-zero commitments real. In contrast, the UN negotiations so far have faced procedural delays and logistical challenges. There is an opportunity for the financial industry to build on its existing momentum and take the lead in helping the “Implementation COP”, by actually implementing their previous commitments.

We have already seen some great success stories. Leading up to finance day, the Sustainable Markets Initiative’ (SMI) Terra Carta Action Forum has showcased some valuable examples of climate action since COP26. Including those from leading global financial institutions.

The challenge now is to take implementation to the next level. Mobilizing a meaningful share of the \$150tn in finance that the industry has earmarked for climate action will require finance to be:

- ▶ **Local:** Use the tidal wave of insight about what is needed on the ground from governments, communities and market participants to target finance where it’s needed most.
- ▶ **Scalable:** Move beyond the billions of climate finance promised by governments by bringing the trillions committed by the private sector to the table.
- ▶ **Collaborative:** Use blended finance models to leverage public funds and crowd in private finance - ensuring that capital is flowing in the right directions at a granular level.
- ▶ **Trusted:** Build trust between stakeholder groups. Collective action is key to tackling climate change, so mutual confidence is vital to mobilizing capital in today’s geopolitical context.
- ▶ **Consistent:** The industry must support, and work for, greater alignment in standards. With just eight years to halve global emissions, the industry can’t wait years for harmonization.

## Next steps for the C-suite

As they reflect on Finance Day's announcements and focus on mobilizing finance for net zero, key focus areas for C-suite leaders to take action on are:

- ▶ **CEOs:** Recognize that achieving net zero will require total transformation. Understand what this will mean for the business model over the next 5, 10 and 15 years, develop a fully funded transformation strategy and communicate this to stakeholders.
- ▶ **CROs:** Assess the resilience of the business to a range of physical and transition risk scenarios. Understand how risk appetites need to change and how the organization can build resilience.
- ▶ **CFOs:** Dissect reporting changes and prepare for ISSB, ensuring the firm is ready to report on people and planetary value, not just financial value. Aligning structures and processes around new disclosures will take time and effort - now is the time for action.
- ▶ **CSOs:** Tailored to the firm's capabilities and strategy, continue to drive climate ambition and action. Develop the talent and expertise in climate change to truly align with climate science, while making business sense.

## Looking ahead

The resounding message from Finance Day has been the need to get private sector finance moving where it needs to go. We will be looking to the next two weeks of COP to bridge that gap and deliver action on the ground - read our reflections on Week One which will be released shortly.

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