

COP28: Key takeaways for financial services

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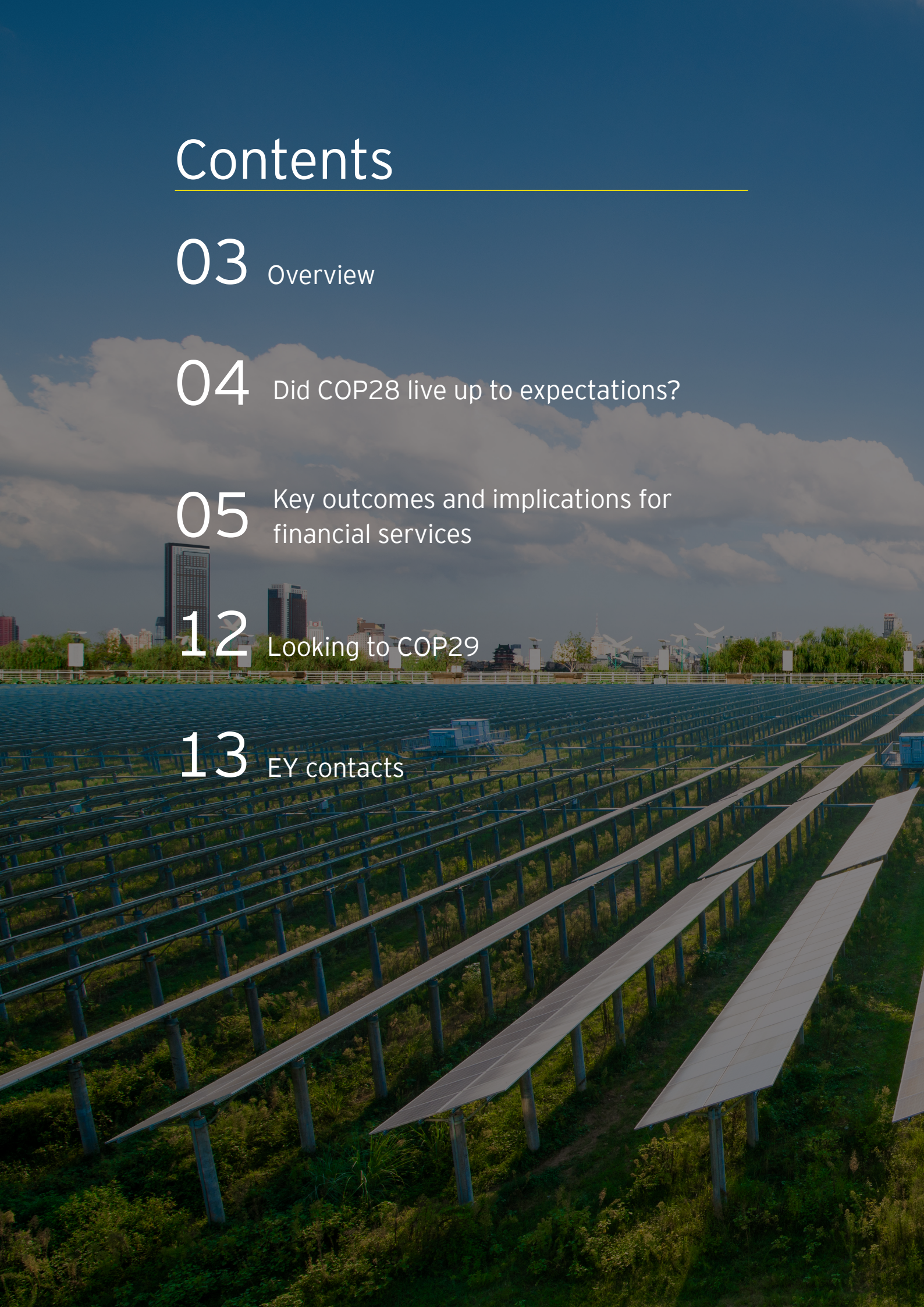
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Overview

COP28 has concluded after a last-minute scramble to reach a cover decision which, although it has attracted both praise and criticism, was supported by all parties.

The negotiators at COP28 faced a challenging agenda and high expectations, dominated by the first Global Stocktake (GST) – an assessment of the world's progress toward keeping global warming below 1.5°C. The importance of this was underscored by the United Nations Environmental Programme (UNEP) whose Emissions Gap Report 2023 showed that current plans will lead to temperature rises of 2.5°C to 2.9°C.

COP28 was also unprecedented in its scale, with over 65,000 delegates attending. Most were not involved in the core negotiations, but their attendance reflects the private sector's increasing appetite for engagement. Hopefully that is a sign of things to come, since greater collaboration between the public and private sectors will be critical to achieving net zero.

This report builds on our previous review following Finance Day and Week One to provide insights for financial institutions (FIs) following the agreement at COP28.

Did COP28 live up to expectations?

The conference made headlines as soon as it opened – with the creation of the Loss and Damage Fund, a significant milestone for developing nations most vulnerable to the adverse effects of climate change. The headlines continued during week one with 11 major declarations and the mobilization of more than US\$83b. No previous COP has come close to this level of activity in finance.

In the second week, attention turned to the technical negotiations, the GST in particular. As discussions entered COP28's final scheduled day, disagreement threatened to derail a deal. Parties such as the EU, US and UK viewed the draft text as containing too many loopholes and excessively weak language. Samoa's Cedric Schuster summed up the views of the Alliance of Small Island States by saying, "We will not sign our death certificate."

A compromise was eventually reached. Some described the final agreement as "historic" for its reference to transitioning away from fossil fuels; others were disappointed at the scaling back of ambition and the omission of implementation details. Although not legally binding, the deal calls on countries to make a much greater transformation than anything agreed at previous COPs. It keeps alive the possibility of achieving the Paris Agreement goals – but only if governments and the private sector can build on it collectively.

Key outcomes and implications for financial services

Fossil fuels:

The biggest battle at COP28 was over the role of fossil fuels. In the end, the agreement calls on Parties to “contribute to... transitioning away from fossil fuels” and it also calls for the phase out of inefficient fossil fuel subsidies. After nearly 30 years this is the first time a COP decision explicitly calls out fossil fuels, though it falls short of the “phase out” that many say is needed.

- **Implications for financial services:** The final agreement leaves room for varied national interpretations around the pace of transition away from fossil fuels. FIs, therefore, will need to engage with governments and policy makers on their transition plans (or nationally determined contributions (NDCs)) and navigate the evolving policy landscape and differing timelines. Still, the direction of travel is irreversible. The agreement signals the direction for fossil fuels, which will be reflected in upcoming NDCs.

This marks the clearest sign yet that FIs will need to provide transition finance to fossil fuel companies. FIs will need to ramp up their efforts in this field but will be assisted by the growing presence of corporate transition plans, increasing transparency and guiding engagement.

Clean energy growth:

The final text calls for the tripling of renewable energy and the doubling of energy efficiency by 2030. Achieving these goals has the potential to drastically slash emissions. The International Energy Agency (IEA) identifies the tripling of global renewable capacity as the “single largest driver” for emissions reductions that would maintain a pathway to 1.5°C. To achieve this scale of growth, governments will need to act fast with policy tools such as tax incentives and subsidies to mobilize the necessary expansion in clean energy generation.





- **Implications for financial services:** Transforming the energy system at this pace demands significant investment. FIs will play a crucial role in facilitating this transformation, potentially influenced by fiscal incentives like the US Inflation Reduction Act.

The financial needs in the Global South are especially great. FIs should consider how they can support the necessary investments, including through blended finance. COP28 saw key developments on blended finance with multinational development banks (MDBs) and others committing unprecedented sums toward lowering the cost of capital and mobilizing climate finance in developing countries.

Scaling finance:

Despite many pledges, financial commitments or targets are notably absent from COP28's final text. Private and public sector finance will both be vital to delivering the agreements made in Dubai, but questions remain over how the required transition will be paid for. However, 2024 is shaping up to be a critical year for finance with Parties agreeing to establish a post-2025 finance target ahead of COP29, building on the previous target of US\$100b by 2020.

Another important outcome from COP28 was the emphasis on supporting adaptation efforts alongside mitigation. The final text calls for a doubling in adaptation finance, along with plans for future monitoring of adaptation needs. However, these efforts fall short of those already vulnerable to the effects of climate change with the UNEP estimating that developing countries' adaptation finance needs could be 18 times greater than current flows of public finance from developed nations.

- **Implications for financial services:** Although the final agreement lacked specific financial commitments, the private sector can play a crucial role in ensuring finance does not prevent the agreement's goals from being achieved. A significant upscale in funding, especially in emerging markets, is essential for the global transition and adaptation efforts.

COP28 saw a staggering US\$85b committed toward climate action with a large proportion of this new finance designed to scale up private finance even further. FIs should seek to work with governments and development finance institutions (DFIs) to create innovative, new climate instruments and scale private finance to close the finance gap.

Integration of other sustainability issues:

COP28 saw a heightened focus on integrating climate action with broader sustainability issues. The importance of a holistic approach to climate action that protects nature and makes the transition equitable was widely discussed.

The United Arab Emirates (UAE) Presidency highlighted closer integration of these issues as a key objective for COP28, and thematic days on Health, Just Transition and Nature delivered a range of announcements. Prioritizing these vital topics sets a strong precedent for future COPs to follow.

The final agreement emphasizes the need to conserve, protect and restore nature and ecosystems in line with the Kunming-Montreal Global Biodiversity Framework. The dual climate and biodiversity COPs next year should enhance understanding of the interrelationship between these two critical issues.

- **Implications for financial services:** Many FIs have already started to consider how multiple sustainability issues are interlinked. However, more work will be required to understand how different issues can impact strategy, business models and decision-making. Firms will need to build on existing work and harness a wide range of frameworks and approaches to integrate considerations for nature, the just transition and locality-specific issues into their business activities.

Collaborations:

COP28 saw a steep increase in collaborations across governments, policymakers, FIs and corporates to support a faster, safer transition. Initiatives, such as the Industrial Transition Accelerator (ITA), aim to catalyze real-world decarbonization across key sectors, including energy, industry and transportation.

Collaborations will also support areas where negotiations failed to reach consensus such as global carbon markets. Fortunately, there were developments to increase integrity of the voluntary carbon markets (VCMs) with six different carbon credit verification providers agreeing to harmonize standards and several initiatives. These include the Voluntary Carbon Markets Integrity Initiative (VCMI) and Integrity Council for the Voluntary Carbon Market (ICVCM), announcing plans to deliver an end-to-end integrity framework covering the whole VCM value chain.

- **Implications for financial services:** FIs should cooperate with new initiatives launched at COP28 to further accelerate their decarbonization efforts. Particularly in hard-to-abate sectors, an effective ecosystem across multiple stakeholders is required for a just transition toward net zero.

Financial services should also continue collaborating with each other. Initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ) (now comprising over 675 FIs), or the new Global Climate Finance Centre in Abu Dhabi, will help to identify and overcome the key barriers to investment in transition and low-carbon projects.



Standards, frameworks and data:

Alignment on consistent methodologies and transparency through data continue to be some of the key barriers for decarbonizing FIs. COP28 marked a key milestone for climate standards with confirmation that the Taskforce on Climate-related Financial Disclosures (TCFD) has been disbanded and is passing the baton over to the International Sustainability Standards Board (ISSB). The consolidation of reporting standards will reduce the burden on corporates and FIs, and it has already received wide-spread support with organizations and associations, representing over 10,000 companies committing to adopt the ISSB at COP28.

- **Implications for financial services:** With increasing access to improved and consistent data, financial services firms will have greater control in aligning decision-making with their net-zero goals. Therefore, the launch of the Net-Zero Data Public Utility (NZDPU) at COP28 provides a key resource to support FIs understand their clients' and their own transition trajectory. FIs should continue to support the development and alignment of standards, frameworks and data to accelerate their decarbonization efforts through greater awareness of their clients and, also, to increase transparency of their progress to wider stakeholders.

Looking to COP29

As attention moves away from COP28, the focus will now be on implementing the agreements from Dubai and addressing pending issues such as the New Collective Quantified Goal (NCQG) on climate finance.

And as focus turns to COP29 in Baku next year, we can also anticipate future COPs becoming increasingly important to the private sector. While technically separate from inter-governmental negotiations, the critical role of private capital in achieving net zero means that greater public-private engagement is essential. Hopefully COP29 will build on current momentum and enhance the private sector's contribution to the global transition.

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Useful EY team resources:

COP28 week one: A summary for financial services

COP28: A summary for financial services following Finance Day

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