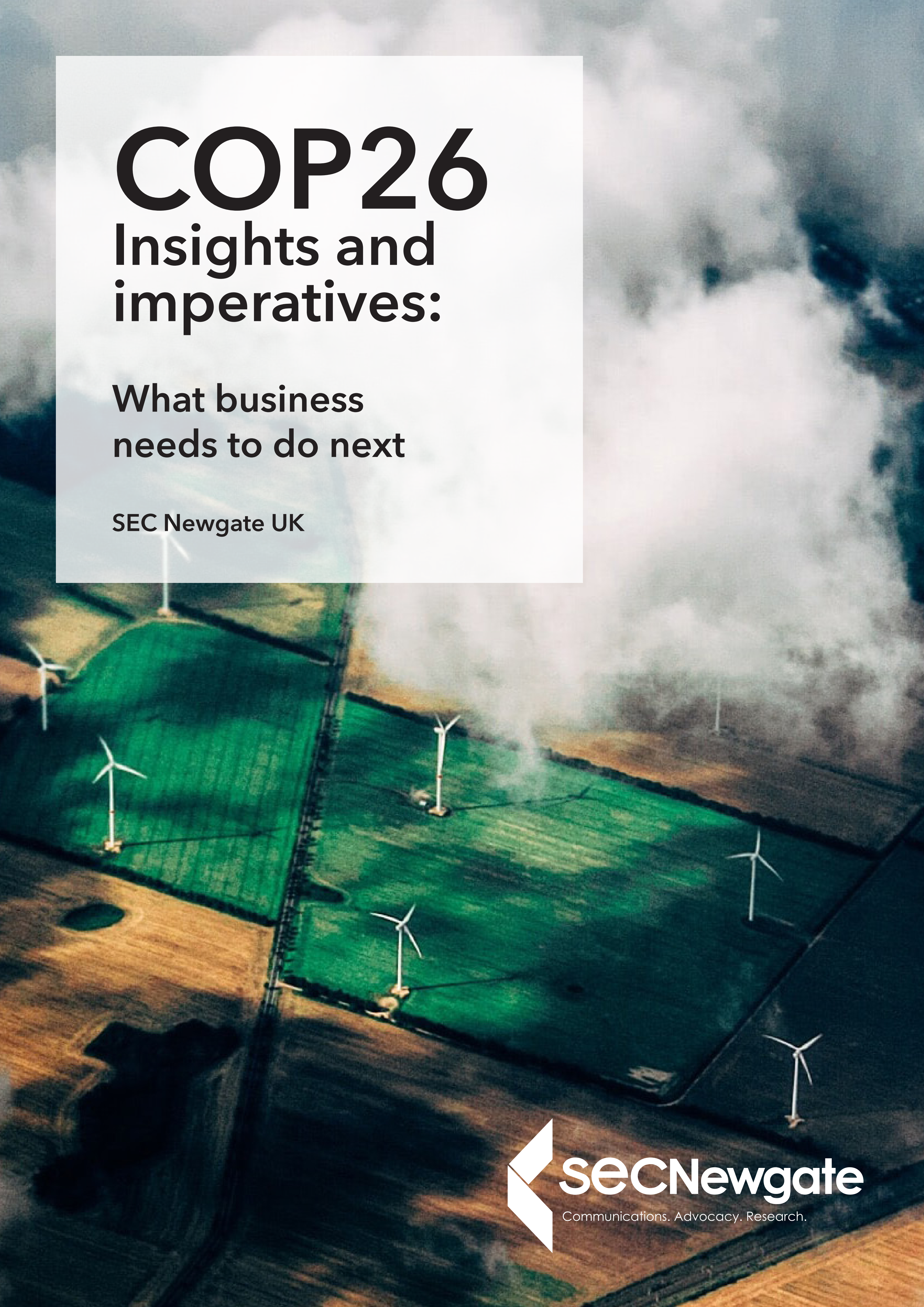

COP26

Insights and imperatives:

What business needs to do next

SEC Newgate UK

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Communications. Advocacy. Research.

COP26 has been hailed as the 'business COP' the moment when the private sector, and private finance, stepped into the spotlight and offered real solutions that will help decarbonise the global economy and get us to net zero.

COP26 was more than that though, it was the moment when there was finally consensus that the science is 'right' and that the global community has to step-up and take control of the climate warming and environmental destruction being wrought by human consumption patterns and industry.

As a result, COP26 has seen significant shifts in the regulatory environment, in expectations for corporate behavior and also in the realisation of the enormous opportunity that moving to a net zero economy brings for business. It has also formally signalled that coal-fired energy is environmentally and reputationally toxic and that organisations need to play a leadership role in winding down fossil fuel usage.

With the closing of negotiations at COP26, and the promise that countries need to come back in 2022 with tighter carbon reduction plans that enable the world to 'keep 1.5 alive' and meet the 1.5C ceiling on global warming, the pressure on business to fund and deliver this decarbonised future is set to continue to grow.

As a result, there are a number of key outcomes for business from COP26 which will shape their strategy and operations in the coming months and years:

Net zero transition plans

Reporting and commuications

Preserving natural habitats

1. **Net zero transition plans:** The UK government announced that by 2023 all FTSE listed UK companies will need to report a net zero transition plan. The blueprint for what is required and how it will be regulated will be drawn up by a new Transition Plan Taskforce and overseen by the Financial Conduct Authority that will set a 'science-based gold standard' for the plans. The plans will need to include targets to reduce greenhouse gas emissions, and the steps that firms intend to take to get to net zero.

The challenge for business is that it appears the plans will not require business to deliver specific targets or be regulated on successful delivery of the plan, which means much will be open to interpretation. The argument from Government is that business will be judged on its successful delivery of the published plans by investors, the public and other stakeholders.

In practice what that means is that business will have the latitude to set plans but won't have the peace of mind of knowing they're doing so against a common standard and level-playing field. Our view is that means business needs to aim for best practice and delivering 'good' outcomes from the plan as the spectre of being accused of greenwashing will be an ever present danger for business moving forward,

> "Deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions."

2. **Reporting:** A new International Sustainability Standards Board has been launched (by the IFRS) which will: "deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions." In practice this is another brick in a wall of regulation and disclosure requirements (which includes TCFD reporting which will be mandatory for all UK businesses by 2025, and the introduction of the UK taxonomy) which will change the way that corporates disclose information to investors and other stakeholders.

There will be greater pressure for transparency and for having a robust plan in place to decarbonise and align not just with net zero targets but also science-based targets (which focus on keeping emissions to a level that meets the 1.5C goal). Investors, activists and NGOs will, in our view, be increasingly critical of corporate reporting standards and accusations of greenwash will be a constant reputational risk for businesses.

3. **Decarbonisation not offsets:** Much criticism was levelled at corporates for off-setting emissions rather than cutting them. While decarbonisation has a place, and Mark Carney has launched the Taskforce on Scaling Voluntary Carbon Markets to provide a robust, global framework for trading carbon offsets, scrutiny continues to grow around how corporates are using off-setting. Business needs to have a credible carbon reduction plan and then use offsetting for hard-to-abate emissions and needs to report with transparency on efforts to decarbonise.

4. **Communications**: The role of communications and trust in corporates was a key theme from COP26. Greenwashing, over-promising and under delivering on impact and plans that lead to a net zero economy, resource use and exploitation were all strong themes emerging from Glasgow. Securing buy-in from all stakeholders (including investors, communities, consumers and activists is key, given that corporates will be expected to reshape their strategy to embrace purpose and profit. That requires a clear, transparent plan and the sharing of progress and metrics which demonstrate that business is moving the dial and delivering positive impact that cuts emissions and boosts sustainable development.

5. **UK as a world leader and the first carbon-neutral financial centre:** Mark Carney's GFANZ (Glasgow Financial Alliance for Net Zero) was a prominent voice at COP26. Michael Bloomberg will join the GFANZ board as Co-Chair (with Mark Carney). GFANZ announced that its membership of 450 financial firms have pledged $130 trillion in private capital to finance projects that deliver the transition to net zero. This substantial 'wall of money' means that investors will be actively looking for projects and businesses to invest in which show a clear path to helping deliver net zero.

The commercial opportunity of net zero was summarized by UK Chancellor of the Exchequer Rishi Sunak who pledged to 're-wire' the UK's financial system and make the UK the world's first net zero financial centre.

6. **Just transition:** Ensuring a 'just transition' i.e. one that gets us to net zero while supporting developing nations, building fairer society and ensuring business plays a socially positive role through its operations was a key theme. The divide between the global north and global south (with the G20 responsible for around 80% of emissions yet least impacted by climate change) was a clear source of anger for developing nations, activists and politicians at the Conference. The role business plays in ensuring equitable development and a fair transition to net zero will be a key judgement made against Boards.

7. **Nature-based solutions:** A point of huge contention has been the establishment of carbon pricing mechanisms that enable developing nations to be rewarded for preserving natural habitats (essentially by putting a value on those habitats as carbon stores and by the most polluting nations paying to preserve these global carbon and natural resources). Agreement has still to be reached on this but pricing nature and preserving nature will be a theme that grows post COP26. Business needs to show that it has a plan to boost biodiversity and preserve the natural habitat. Polluters and those using natural resources in an unsustainable manner can expect significant criticism and reputational damage. Having a clear transparent plan that recognises impact and sets out a route to mitigate that will be key.

8. **Stewardship of capital:** Asset managers will be under even greater pressure, post COP26, to demonstrate that they are being effective and active stewards of capital. Asset owners and asset managers (from pension schemes to investment funds) will face increasing calls to show that they are holding the companies they invest in to account for their plans and impact in delivering a net zero economy.

9. **Divestment:** Divestment is moving up the agenda as a tool for activists and fund managers and owners to exert pressure on companies to do more to transition to net zero. Listed companies can anticipate becoming the target of shareholder campaigns and need to plan for that by having a credible and transparent plan in place to transition to net zero. Equally investor relations will become increasingly important for companies looking to anticipate issues and act before they find shareholders divesting. There was a recognition at COP26 that investing in firms that are transitioning to net zero is important (even if those firms have some residual high-carbon activities). 'Consigning coal to history' was a ubiquitous theme.

10. **Activism:** We live in an age of activism and the huge protests at COP26 (bringing 100,000 people onto the streets of Glasgow with mirror protests around the world) showcased that consumers will not tolerate empty promises from corporates.

Asset managers will be under even greater pressure, post COP26, to demonstrate that they are being effective and active stewards of capital.

Our own SEC Newgate ESG Monitor report has shown that globally, more than half (51%) of those surveyed said ESG performance influences their purchasing decision. In addition, over the last two years 32% of the 10,000 people surveyed (in ten countries) said they had warned others against using a company because of its behaviour and 26% had discussed a company's behaviour online or on social media.

That trend will continue and corporates are being closely watched to ensure they deliver meaningful impact in the transition to a net zero economy.

If you would like to discuss the impact of the post COP26 environment on your business and reputation or discuss how you build trust and promote and protect your reputation with all stakeholders as you transition to a net zero business model, we would be very happy to arrange a call or meeting with you.

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