THE INVESTMENT ASSOCIATION

Cop26

Outcomes for the investment management industry

1. Introduction

1.1 The 26th United Nations Climate Change Conference took place in Glasgow between 31 October and 12 November 2021, with 194 countries represented. The conference, also known as Cop26, acted as the meeting of the Parties to the Paris Agreement.

1.2 In this briefing, we aim to consolidate all relevant developments and announcements for the UK investment management industry and to outline some preliminary next steps for the IA.

1.3 Expectations for Cop26 were high. An early and perhaps unrealistic expectation was also allowed to grow, encouraged by the UK Government and civil society, that Cop26 would be a notable rotation for the conference, even seeking to rival the success of Paris at Cop21. This was boosted by two significant reporting points for commitments that had been made at previous Cops:

- At Cop15, developed nations had committed to providing $100bn a year in climate finance to developing nations by 2020;
- And at Cop21, it was agreed that Cop26 would be the point by which countries were expected to publish their emission reduction targets (also known as Nationally Determined Contributions or NDCs).

Glasgow was the moment where delivery against both commitments could be assessed.

1.4 A study of nations' emission reduction targets was published by the UN ahead of Cop26 in the '*NDC Synthesis Report*', detailing NDCs representing 192 countries responsible for 94% of total global emissions in 2019. Analysis by the UN Environment Programme of these figures in the '*Emissions Gap Report 2021*' found that current NDCs would lead to global temperature rises of 2.4-2.7°C from pre-industrial levels to the end of this century. This would exceed the Paris Agreement target of temperature rises being limited to 1.5-2°C.

1.5 The UK Cop26 presidency also published a '*Climate Finance Delivery Plan*' on when and how developed countries are expected to meet the $100bn climate finance goal. Based on analysis from the OECD, the delivery plan shows that developed countries will make progress towards the $100bn goal in 2022, and forecasts that it will be met in 2023 and that developed countries can mobilise more than $100bn per year thereafter through to 2025. The most recent available data shows that total climate finance provided and mobilised by developed countries for developing countries was $79.6bn in 2019.

1.6 The official Cop26 outcomes, individual agreements signed and published in Glasgow, and the Glasgow Climate Pact itself have set a clear focus on where leaders think action needs to take place. Some of these agreements are detailed in this paper. They demonstrate a focus on limiting use of coal and boosting clean energy sources, stopping and reversing deforestation, finding sustainable approaches to agriculture and supporting the introduction of electric vehicles.

1.7 The Cop26 fortnight also contained some important announcements for finance with direct relevance to the UK-based investment management industry made during the Glasgow conference. These included:

- The Chancellor declared an ambition to make the UK the world's first Net Zero-aligned Financial Centre with a Transition Plan Taskforce beginning work to develop a science-based "gold standard" for transition plans.

- The FCA used the Finance Day to publish an ESG strategy setting out a programme of work to support a market-led transition to a more sustainable economy and a new Discussion Paper on Sustainability Disclosure Requirements and investment labels.

- The formation by the IFRS Foundation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.

- The Glasgow Financial Alliance for Net Zero published its first progress report showing that $130trn (£95trn) of private capital has now been committed to a net zero initiative. A new permanent GFANZ secretariat will also be established.

- IOSCO published a set of recommendations on sustainability-related practices, policies, procedures and disclosures in the investment management industry. The report focuses on the need for consistent, comparable, and decision-useful information and the risk of greenwashing.

1.8 It is noticeable however that these announcements were not mentioned in the official Cop outcome documents but the relevance of our industry to the wider climate change agenda was clear and properly integrated in domestic and international policy initiatives.

1.9 For the IA this has paved the way for clear on-going commitment to climate action, as we seek to support members in their journey to net zero and explore all ways in which our industry can continue to contribute proactively to achieve the goals of the Paris Agreement.

2. World Leaders Summit

2.1 The Glasgow climate conference opened on 1-2 November with the World Leaders Summit, a chance for the heads of state and government in attendance to deliver opening speeches which framed the fortnight's agenda of high-level ambition and action towards securing global net zero and limiting temperature rises to 1.5°C, adaptation, and mobilising finance. While there was much focus on the leaders who were absent (including President Xi, President Putin and Queen Elizabeth II), this was an opportunity for the leaders of smaller nations to influence discussion. Mia Mottley, the Prime Minister of Barbados, received widespread attention for delivering a simple message to her fellow leaders: "Try harder".

The Breakthrough Agenda

2.2 There were also several announcements during these first two days in Glasgow, largely agreed and coordinated in advance of Cop26 but timed to demonstrate early momentum in negotiations. One such announcement was that of the Breakthrough Agenda which commits signatories to work together to make clean technologies and sustainable solutions the most affordable, accessible and attractive option in a group of identified high-emitting sectors by 2030. Leaders committed to review progress annually, starting in 2022, on implementing the 'Glasgow Breakthroughs' – a first set of global goals in high emitting sectors underneath this agenda.

2.3 In the Glasgow conference's second week, it was announced that the UK presidency will shape and establish the Global Checkpoint Process as an annual cycle of tracking and reviewing global progress in the transition, and of implementing further cooperative actions commensurate with the ambition set out by leaders under the Breakthrough Agenda.

2.4 The Breakthrough Agenda, which is endorsed by 41 nations and the European Union, was supported by all G7 members and China, India and South Korea (although some parties did not endorse every Breakthrough). It was noteworthy as an early and public statement of agreement between the largest economies and highest-emitting nations to substantive pathways on power, road transport, steel and hydrogen technologies. The '*Statement on the Breakthrough Agenda*' also makes a prominent assertion on the importance of "public-private collaboration and … mobilising finance at scale, to make the global transition to a clean economy faster, lower cost and easier".

2.5 The Power Breakthrough will assess global progress towards the development of clean energy, including reporting on evidence of annual capacity additions and investment in the research, development and demonstration and deployment of clean power, enabling technology and infrastructure.

2.6 The Road Transport Breakthrough expects that zero emission vehicles will be regarded as "the new normal" and be accessible, affordable, and sustainable in all regions by 2030. It will assess vehicle sales, available recharging infrastructure, and investment in the research, development and demonstration and the deployment of zero emission vehicles and key components (such as batteries).

2.7 The Steel Breakthrough states that near-zero emission steel should be the preferred choice in global markets, with efficient use and near-zero emission steel production established and growing in every region by 2030. It will assess the number of near-zero emission steel plants in operation and under development, and total global near-zero emission steel production capacity, and investments in both the research, development and demonstration and deployment of near-zero emissions steel technologies.

2.8 The Hydrogen Breakthrough seeks the global availability of affordable renewable and low carbon hydrogen by 2030. It will assess the production cost, and cost at point of supply, of renewable and low carbon hydrogen (and affordability and accessibility compared to alternatives) and the volume of renewable and low carbon hydrogen production globally. It will also report on evidence of investments in the research, development and demonstration and deployment, of renewable and low-carbon hydrogen technologies.

US-EU-UK commitment on infrastructure development

2.9 On the sidelines, the United States, European Union and UK announced a commitment to address climate crisis through infrastructure development. Building on the June 2021 commitment of G7 Leaders to launch a values-driven, high-standard, and transparent infrastructure partnership to meet global infrastructure development needs, the three endorsed five key principles on how infrastructure initiatives must simultaneously advance prosperity and combat the climate crisis, in line with the Sustainable Development Goals and the Paris Agreement.

2.9.1 They committed to build resilient, low- and zero-carbon infrastructure systems that are aligned with the pathways towards net-zero emissions by 2050 and to viewing all projects carried out through infrastructure development partnerships through the lens of climate change.

2.9.2 They agreed that there must be strong and inclusive partnerships between host countries, developed country support, and the private sector when developing sustainable infrastructure. The three will consult with stakeholders, including representatives of civil society, governments, NGOs, and the private sector to better understand their priorities and development needs.

2.9.3 They resolved to uphold high standards for infrastructure investments, promoting the implementation of the G20 Principles for Quality Infrastructure Investments as the baseline.

2.9.4 They identified a requirement for “a new paradigm” of climate finance, spanning both public and private sources, to mobilise the trillions needed to meet net zero by 2050. The noted that the majority of capital will be needed in developing and emerging economies and that a collaborative effort was required from governments, the private sector, and development finance institutions, as well as better mechanisms to match finance and technical assistance with country projects, including through country partnerships.

2.9.5 And they agreed that “climate-smart” infrastructure development should play an important role in boosting economic recovery and sustainable job creation. The three argue that collective efforts to combat the climate crisis present the opportunity to build industries of the future through equitable, inclusive, and sustainable economic development worldwide.

2.10 Statements were also made during the World Leaders Summit on nature, forestry, and land use. These are covered below in section 4 (‘Coal, cash, cars and trees’).

3. Finance Day

A Net Zero-aligned Financial Centre

3.1 Wednesday 3 November was billed as the first Finance Day to be held at any Cop and the day, which was opened with a speech by the Chancellor of the Exchequer Rishi Sunak, mixed discussion of the role of both public and private climate-related finance. In his speech, the Chancellor declared an ambition to make the UK the world's first Net Zero-aligned Financial Centre. He announced that a Transition Plan Taskforce composed of industry and academic leaders, regulators, and civil society groups would begin work to develop a science-based "gold standard" for transition plans. The secretariat for the taskforce will be provided by E3G and the Centre for Greening Finance and Investment (CGFI).

3.2 As standards for transition plans emerge, the Government and regulators will take steps to incorporate these into the UK's Sustainability Disclosure Requirements (SDRs) and strengthen requirements to encourage consistency in published plans and increased adoption by 2023. The FCA will also carry out stakeholder engagement in the first half of 2022 with a view to promoting well-designed, well-governed, credible and effective transition plans that consider the Government's net zero commitments. They will consider matters such as the governance of listed companies' and regulated firms' transition plans, as well as their content and how they are communicated.

3.3 The intention to introduce SDRs had previously been announced by the Chancellor in a speech in July and included in an HM Treasury strategy document, '*A New Chapter for Financial Services*'. Greater detail was provided two weeks prior to Cop26 in '*Greening Finance: A Roadmap to Sustainable Investing*', which sets out the measures the UK Government is introducing to ensure that market participants have the climate-related information they need and that common definitions exist, through the UK Green Taxonomy, to bring clarity and consistency to environmentally sustainable economic activity.

3.4 The detail of these documents is primarily for a domestic audience but the timing of their publication ahead of the opening of the summit sought to demonstrate to international and domestic audiences that the UK was introducing substantive measures, making it both a credible host for these negotiations and a leading contender for the top spot on the list of global green financial centres. There continued to be a heavy focus from other speakers during the Finance Day plenary sessions on UK domestic policy, little of which would feature in the official outcome documents of Cop26.

3.5 In his speech the Governor of the Bank of England, Andrew Bailey, highlighted that the Bank would shift in 2022 to a more active approach to ensuring the its expectations on climate are met in firms that the PRA supervises and using its supervisory toolkit to ensure that firms develop effective risk management capabilities for climate-related financial risks. He also outlined how the Bank would use climate scenario analysis developed with the Network for Greening the Financial System (NGFS) to assess risks to the financial system and announced the publication of a new approach to investments by the Corporate Bond Purchase Scheme (CBPS) which will use the Bank's role as an investor for monetary policy purposes to incentivise firms to take meaningful actions in support of climate transition.

3.6 Details of how the Bank would green the CBPS were published two days later. The approach implements the principles set out in a Discussion Paper in May 2021 and is consistent with targeting a 25% reduction in the weighted average carbon intensity (WACI) of the CBPS portfolio by 2025, and full alignment with net zero by 2050. Firms will now also need to satisfy climate-related eligibility criteria for their bonds to be purchased by the CBPS, with purchases of eligible firms' debt being "tilted" towards the stronger climate performers within their sectors.

3.7 The Chief Executive of the FCA, Nikhil Rathi, delivered a speech in which he warned "the financial sector can only support the transition effectively if consumers can trust firms to deliver on their promises" and cited growing scepticism about greenwashing. It is in this context that the FCA used the Finance Day to publish an ESG strategy setting out a programme of work to support a market-led transition to a more sustainable economy and a new Discussion Paper on Sustainability Disclosure Requirements and investment labels.

3.8 The FCA ESG strategy, '*A Strategy for Positive Change*', sets out the regulator's role in supporting the transition to a more sustainable economy, working with industry, listed companies, government and international partners. The strategy seeks to build trust and integrity in the market for ESG products and ensure transparency. The FCA also underscored its commitment to continue to embed ESG considerations across its functions and expand its resources and capabilities in this area and set out how it will build on its existing work to achieve the ESG outcomes in its latest Business Plan. The FCA will monitor progress against their commitments and measure the success of interventions. They will provide interim updates as part of the Business Plan and Annual Report in 2022, with a more detailed stock-take on progress in 2023.

3.9 The FCA Discussion Paper (DP21/4) invites views on potential criteria to classify and label investment products. This is intended to help consumers navigate the sustainability characteristics of products. The FCA is also gathering feedback on supporting entity-level and product-level disclosures. The FCA will leverage existing initiatives in this area to ensure coherence with market practice and other regulation and the input received will guide the FCA's policy design in this area, ahead of consultation on new proposals in spring 2022.

3.10 At the conclusion of Cop26, the UK Government Office for Science launched a new project to inform the Government's long-term net zero strategy with the publication of a report, '*A net zero society - scenarios and pathways*'. The project will provide evidence and tools to help understand how societal norms, practices and behaviours could impact efforts to achieve net zero. The project is due to run until late 2022 and will produce several core outputs, including an expert evidence review, a set of future scenarios exploring different assumptions of future societal and behavioural change, and modelling to quantify implications of each scenario for the energy system and for different groups within society.

3.11 The UK's flagship programme to mobilise large scale investment through publicly listed markets, MOBILIST, received a funding boost during Cop26. £66m additional funding will be used to support new products as they are developed through open competition to support people in developing countries to better access international capital markets to fund the infrastructure, technology and businesses they need to manage climate change and boost growth. Launched in February 2021, the MOBILIST programme invited the private sector to participate in a competition to identify innovative product proposals to mobilise investment in sustainable infrastructure in emerging and developing countries.

International Sustainability Standards Board

3.12 Finance ministers and central bank governors from 40 jurisdictions (including the UK, USA and European Commission) signalled their support for the formation by the IFRS Foundation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs.

3.13 The IFRS Foundation also announced that the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) will consolidate into the new board. The ISSB will have lead offices in Frankfurt and Montreal, with offices in San Francisco and London providing technical support. Further discussions are underway to finalise proposals for offices from Beijing and Tokyo.

3.14 The ISSB is expected to commence work in early 2022, following the appointment of a chair and vice-chair(s). Work will begin with public consultations to inform the ISSB's work plan and on proposals informed by recommendations from the Technical Readiness Working Group (TRWG), a group formed to undertake preparatory work for the ISSB.

3.15 The IFRS published two prototype climate and general disclosure requirements developed by the TRWG, one focused on climate-related disclosures that build on the TCFD's recommendations and includes industry-specific disclosures, and a second that sets out general sustainability disclosures. The ISSB will consider the prototypes as part of its initial work programme.

3.16 Work to develop the ISSB was supported in the communiqué of the meeting of G7 finance ministers and central bank governors issued in London in June and this support was reiterated in the Rome Leaders' Declaration, the communiqué of the G20 summit held in Italy at the end of October.

3.17 The G20 Sustainable Finance Roadmap, also published in October, was produced by the G20 Sustainable Finance Working Group (SFWG) to focus the attention of the G20 members and other international organisations on what they see as the key priorities of the sustainable finance agenda and action that will be necessary in support of those priorities. This includes improving coordination at the regional and international level to facilitate the comparability, interoperability and (where appropriate) consistency of different alignment approaches. The SFWG will publish an annual report summarising the progress of its work, and that of its partners, towards the G20's sustainable finance priorities. It is likely that this report will form a key part of future discussions on sustainable finance in the weeks around future Cops, if not at the event itself.

Glasgow Financial Alliance for Net Zero

3.18 The Glasgow Financial Alliance for Net Zero (GFANZ) published its first progress report to coincide with Finance Day. The report provides analysis which shows that $130trn (£95trn) of private capital has now been committed to a net zero initiative by 450 financial services firms in 45 countries. This commitment marks a 25-fold increase during the UK presidency of Cop26.

3.19 GFANZ provides a practitioner-led forum for financial firms to collaborate on substantive, crosscutting issues that will accelerate the alignment of financing activities with net zero and support efforts by all companies, organisations, and countries to achieve the goals of the Paris Agreement. The progress report provides updates on GFANZ workstreams focusing on mobilising private capital to emerging markets and developing economies, sectoral pathways, real-economy transition plans, financial institution transition plans, and portfolio alignment measurement.

3.20 GFANZ was launched by Mark Carney, the UK Prime Minister's Finance Adviser for Cop26, in April 2021. It is a coalition of financial institutions who have joined one of the initiatives under the UN's Race to Zero. Financial institutions join GFANZ by joining one of the Net Zero Asset Managers initiative, the Net-Zero Asset Owner Alliance, the Paris Aligned Investment Initiative, the Net-Zero Banking Alliance, the Net-Zero Insurance Alliance, the Net Zero Financial Service Providers Alliance, or the Net Zero Investment Consultants Initiative.

3.21 GFANZ has also announced an expansion of its leadership team, with Michael Bloomberg (UN Special Envoy on Climate Ambition and Solutions) and Mary Schapiro (Head of the TCFD secretariat) becoming co-chair and vice-chair alongside Mark Carney (co-chair) and Nigel Topping. A new permanent GFANZ secretariat will also be established with a presence in Europe, the Americas, Africa, and Asia.

3.22 The publication of the GFANZ progress report follows publication of the Net Zero Asset Managers initiative (NZAM) progress report . The NZAM progress report shows that 43 investment managers have shared their first interim targets for the proportion of assets managed in line with achieving net zero by 2050, and set shorter term targets for reducing emissions within their investments. Signatories have disclosed that 35% of their total AUM, totalling $4.2trn out of a possible $11.9trn, is being managed in line with achieving net zero by 2050. 220 investment managers with $57.4trn AUM have now joined NZAM. IA calculations show that investment managers with more than £7trn AUM in the UK have now joined the Net Zero Asset Managers initiative.

3.23 Separately, the UK Government announced that 60 of the UK's FTSE100 companies have signed up to the UN Race to Zero campaign. Pledges have more than quadrupled since November last year, now representing total market capital of over a trillion pounds and combined turnover of £700bn.

IOSCO regulatory and supervisory expectations

3.24 From Madrid, the International Organization of Securities Commissions (IOSCO) published a set of recommendations during Cop26 about sustainability-related practices, policies, procedures and disclosures in the investment management industry.

The report focuses on the need for consistent, comparable, and decision-useful information and the risk of greenwashing.

3.25 The report also recognises a clear need to address the challenges associated with the lack of reliability and comparability of data from corporate issuers and the ESG data and ratings provided by third-party providers to enable the investment management industry to properly evaluate sustainability-related risks and opportunities.

4. Coal, cash, cars and trees

4.1 In August 2021, the Prime Minister summarised the priorities of the UK presidency using the four-word slogan "coal, cash, cars, trees". The slogan distilled the priorities earlier set out by Alok Sharma in a speech at the online Climate Ambition Summit in December 2020.

4.2 For Mr Sharma this meant ambitious 2030 emissions reductions targets (supported by the phase-out of coal and faster electric vehicle roll out), protecting and helping to adapt natural habitats from the destructive effects of climate change, and "making good" on the $100bn annual climate finance goal for support for mitigation and adaptation from developed to developing nations. While this focus was supplemented with a private finance agenda (the outcome of which is largely detailed above), it is noteworthy that the focus on negotiations and official outcomes from Glasgow focused on what Mr Johnson might describe as coal, (public) cash, cars and trees.

Energy

4.3 Disagreements on the speed of reduction of use of high-emitting fossil fuels is well documented. Negotiations on the final decision document of Cop26, the Glasgow Climate Pact, overran as delegates argued over whether it should support "phasedown" or "phase-out" of unabated coal power. Consequently, a number of statements were issued by minority groups of parties in support of the clean energy transition, including commitments to ending new direct public support for the international unabated fossil fuel energy sector by the end of 2022 and accelerating a transition away from unabated coal power generation.

4.4 While the burden of these commitments falls primarily on the governments that have made them (and in some cases on the industries that are ultimately responsible for the emissions or damage that the statements seek to address), some envisage a role for private finance in achieving the ultimate goal. The '*Statement on International Public Support for the Clean Energy Transition*', for example, had the support of 39 Cop parties and recognised that "the accelerated alignment of international public and private sector financial flows is critical to driving energy transitions, energy access and supporting the development of both emerging and existing clean technologies, improving livelihoods and employment prospects worldwide".

4.5 A steering committee has also been formed to create a more inter-connected global grid to trade energy from sun, wind and water. The project, dubbed 'One Sun One World One Grid', will create working groups of interested governments, regulators, financiers, institutions, companies, legislators and researchers to provide a common global framework for the grid and counts among its aims "developing innovative financial instruments, market structures, and facilitat[ing] financial and technical assistance to attract low-cost capital, including climate finance, for global solar grid infrastructure."

4.6 The Energy Transition Council (ETC), which aims to make clean and sustainable power the most affordable and reliable option for countries to meet their power needs efficiently and accelerate their clean energy transition, will continue until at least COP30 in 2025. It counts among its priority areas of engagement utility-scale renewables "which require long-term commitments to the energy transition, adequate regulatory frameworks, bankable contracts, investments in modern grid infrastructure and management capacity, and mobilisation of investment from the private sector." A 2022 strategic priority for the ETC will be deepening its engagement and coordination with like-minded initiatives, including strengthening "private investor dialogue on national priorities through partnership with specialist organisation(s) and the possible formation of an Investment Advisory Group for the ETC." The Investment Advisory Group would "enable the ETC to access more response insight on market trends and the opportunities of, and barriers to, mobilising finance."

4.7 The European Union and the United States announced a Global Methane Pledge, an initiative to reduce global methane emissions. Countries joining the Global Methane Pledge would commit to a collective goal of reducing global methane emissions by at least 30% from 2020 levels by 2030 and moving towards using best available inventory methodologies to quantify methane emissions, with a particular focus on high emission sources. The two parties have been joined by seven other nations, including the UK, in supporting the pledge.

Nature and land use

4.8 11 countries and the EU announced their intention to collectively provide $12bn for forest-related climate finance between 2021-2025. The pledge recognises that forest countries need access to significant, predictable flows of both public and private finance to help tackle the systemic drivers of forest loss. The 12 also pledge to work closely with the private sector, using the $12bn of public climate finance to leverage vital funding from private sources to deliver change at scale.

4.9 The pledge came alongside the Glasgow Leaders' Declaration on Forests and Land Use in which 133 parties, covering over 90% of global forests, committed to strengthening shared efforts to conserve forests and other terrestrial ecosystems and accelerate their restoration. The declaration commits to strengthening efforts to "significantly increase finance and investment from a wide variety of public and private sources, while also improving its effectiveness and accessibility, to enable sustainable agriculture, sustainable forest management, forest conservation and restoration".

4.10 The Policy Dialogue on Accelerating Transition to Sustainable Agriculture was co-convened by the UK as in-coming COP Presidency and by the World Bank with the intent to encourage efforts to deliver the global transformation in agriculture and land use to tackle climate change, to produce nutritious food, to support jobs and economic growth, and to protect the planet. Launched in April 2021, 34 countries participated in the period up to Cop26 at Ministerial and senior technical levels and the chair's report of the dialogue found that investment will be needed in new technologies or practices, and that collaboration and partnerships including public-private partnerships are key to increase investment in innovation at scale and to catalyse private investment.

4.11 Multilateral Development Banks (MDBs) also issued statements on climate and nature outlining how they are increasing climate finance, including the amount of finance available to support adaptation initiatives. MDBs will aim to increase the level of private capital mobilised in support of mitigation and adaptation investments, using platforms, investment vehicles, and blended finance instruments, that are fit for purpose. They have also committed to work together to begin the process to better understand the financial and systemic risk of nature loss and develop tools and methodologies for tracking "nature positive" investments.

Zero emission cars and vans

4.12 The '*Cop26 Declaration on Accelerating the Transition to 100% Zero Emission Cars and Vans*' was published in the second week of Cop26, committing to rapidly accelerating the transition to zero emission vehicles to achieve the goals of the Paris Agreement. Curiously, the declaration included a caveat: "We will make clear this declaration is not legally binding and focused on a global level". Nor was it signed by the four countries with the largest car manufacturing industries or some of the world's largest car manufacturers.

4.13 A limited number of investors with significant shareholdings in automotive manufacturers committed to "support an accelerated transition to zero emission vehicles in line with achieving 100% new car and van sales being zero emission in leading markets by 2035" and provide "proactive engagement and escalation of these issues with investees" while encouraging all their holdings to decarbonise their fleets in line with science-based targets. Two private financial institutions confirmed support for an accelerated transition to zero emission vehicles in line with achieving 100% new car and van sales being zero emission in leading markets by 2035. This will be "supported by making capital and financial products available to enable this transition for consumers, businesses, charging infrastructure and manufacturers."

Just transition

4.14 15 parties also issued a statement supporting the conditions for a just transition internationally and recognising their role in working to ensure that no one is left behind in the transition to a net zero and climate resilient future. The statement says that this should include access to modern technologies, capacity building and finance, as well as policy solutions to manage transitions in a just and inclusive way. The signatories of the statement intend to support developing countries and emerging economies in ensuring sustainable and inclusive economic recovery and growth, and embedding the creation of decent work and economic diversification.

4.15 Ministers of Education adopted a declaration recognising the critical role played by education and learning in the transition towards a climate positive future and the urgency of embedding climate considerations into all levels of education. The declaration includes a commitment to the integration of sustainability and climate change in professional training and to working with and supporting the private sector to develop a workforce attuned to sustainability.

5. International carbon markets

5.1 The completion of the 'Paris Rulebook' was identified as a priority for the Cop26 negotiations. Indeed, this had been a key aim of the Chilean presidency of Cop25 which was ultimately unsuccessful. The 'Paris Rulebook' is a collective name for the detailed guidance on how to implement measures agreed in the 2015 Paris Agreement. The major outstanding areas of disagreement on the rulebook were the rules governing Article 6, covering how countries can reduce their emissions using international carbon markets. The Glasgow Climate Pact welcomed the completion of the Paris Agreement work programme – the 'Rulebook' – during Cop26.

5.2 Article 6 of the Paris Agreement stated that countries may choose to pursue voluntary cooperation to achieve some of their Nationally Determined Contributions by using emission reductions achieved in other countries. The agreement noted the need to ensure the integrity of such markets and that robust accounting reduced risks such as double counting of emission reductions.

5.3 The COP president appointed Ministers from the governments of Singapore and Norway, Grace Fu and Espen Barth Eide, to lead informal consultations on Article 6 ahead of Cop26, focussing on adaptation finance, accounting for units generated outside the scope of NDCs, and the use of pre-2020 units to meet NDCs.

5.4 The successful outcome of negotiations resulted in the publication of three decisions, '*Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement*', '*Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement*', and '*Work programme under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement*'. These decision documents cover voluntary cooperation and how to avoid double counting of emissions reductions, a new carbon crediting mechanism, and developing non-market approaches (such as financial policies and measures).

5.5 A UK Government document which explains the outcome of the Cop26 negotiations on Article 6 states that international cooperation to meet part of NDCs using emission reductions from other countries could include purchasing international carbon credits, or creating links between international carbon trading systems, such as the UK Emissions Trading Scheme and equivalent international schemes. The UK Emission Trading Scheme currently applies to energy intensive industries, the power generation sector and aviation.

5.6 UN regulation of international carbon markets may send a signal to voluntary carbon markets on appropriate standards. The Taskforce on Scaling Voluntary Carbon Markets (TSVCM), a private sector-led initiative launched by Mark Carney in September 2020, is working to scale an effective and efficient voluntary carbon market to help meet the goals of the Paris Agreement. On 29 October, the TSVCM formed the Integrity Council for Voluntary Carbon Markets (IC-VCM) to act as a governance body for determining a global benchmark for carbon credit quality. This follows the publication of a '*Final Report*' by the TSVCM in January 2021.

5.7 In the UK, the Voluntary Carbon Markets Forum was established in April 2021 to operationalise recommendations of the global TSVCM. The Forum is chaired by Dame Clara Furse, with secretariat support provided by the City of London Corporation.

5.8 The Voluntary Carbon Markets Initiative (VCMI) was announced by Alok Sharma and began operation in March 2021. It seeks to develop core requirements to promote and help ensure high-integrity voluntary carbon markets and published a roadmap document in October 2021, '*Roadmap: Ensuring High-Integrity Voluntary Carbon Markets*'.
Steel

5.9 It remains to be seen how the IC-VCM and VCMI will interact. The VCMI stated in its roadmap that it would be a priority to align with the Paris Agreement and Article 6 infrastructure. The IC-VCM stated in its January 2021 report that Article 6 rules "will influence companies' use of carbon credits".

6. Conclusion: Cop27 and the UK presidency

6.1 In his opening remarks to Cop26, Alok Sharma described the conference as "the last, best chance" to set the world on course to limit global temperature rises to 1.5°C. Inevitably, Cop27 now takes on this mantle.

6.2 The Glasgow Climate Pact, which acts as the key decision document from Cop26, noted participants concern that the current provision of climate finance for adaptation remains insufficient and expressed serious concern that the synthesis report of signatories' NDCs demonstrated rising greenhouse gas emission levels, indicating global temperature rises would be well above the Paris Agreement target.

6.3 Both measures will now be firmly on the agenda when Egypt hosts Cop27 in Sharm-el-Sheikh in November 2022, with responsible parties urged to report improved NDCs and more generous climate finance pledges. The United Arab Emirates has offered to host Cop28, and Cop29 is scheduled to take place in eastern Europe.

6.4 In his closing remarks, in which he stated "Cop27 starts now", the UN Secretary General António Guterres listed what, to his disappointment, had not been achieved in Glasgow. He said,

> "I reaffirm my conviction that we must end fossil fuels subsidies. Phase out coal. Put a price on carbon. Build resilience of vulnerable communities against the here and now impacts of climate change. And make good on the $100bn climate finance commitment to support developing countries. We did not achieve these goals at this conference. But we have some building blocks for progress."

6.5 Alok Sharma will remain in post as Cop president until Cop27 opens in November 2022. His performance in the post has been widely praised but the Prime Minister's spokesman was quick to deny rumours that the Prime Minister was considering resurrecting the UK's former Department for Energy and Climate Change with Mr Sharma as Secretary of State. Mr Sharma is, nonetheless, expected to remain in Cabinet for the remainder of his Cop presidency. It remains to be seen what resource and commitment the UK will now dedicate to continuing to pursue the goals of the Paris Agreement in domestic policy but a major programme of work has been started by policymakers in the past year.

6.6 Mr Sharma can be expected to spend the year trying to enhance his legacy and engaging in diplomacy focused on the areas where Glasgow ultimately came up short. He can be expected to lobby opponents of his wish to "phase-out" unabated coal to change their stance, and to apply pressure to nations who are deemed not to be pulling their weight with credible NDCs and sufficient climate finance pledges.

6.7 Much has been made of the decision to stage a first Finance Day at Cop26, and the prominent work of Mark Carney as the Prime Minister's Finance Adviser for Cop26. While this was significant and has led to several initiatives and private sector pledges which should now sustain their own momentum, it is likely that this focus reflected the UK's status as one of the world's leading financial centres. The focus of the Egyptian presidency will be different, with adaptation and resilience likely to feature more prominently.

6.8 The IA will continue to work with the UK Government, UK and international policymakers, and other stakeholders to create the optimum environment in which the UK-based investment management industry can support both the needs of its clients and the goals of the Paris Agreement.

6.9 We will also work with members to identify new ways in which we can align the industry with the aims of the Glasgow Climate Pact and the prevalent issues being discussed in Glasgow. This will include consideration of carbon markets, ever more detailed transition pathways, and opportunities to invest in climate solutions.

9 December 2021