

CLUSTER GOES COP26

# Results of the COP26

The UN Climate Change Conference in Glasgow ended last week with an agreement that focuses on fossil fuels being the main cause of the climate crisis. However, the agreement is very ambitious, and some countries want the message it contains to be weakened. In addition, countries facing acute threats from the climate crisis are still lacking the long-promised financial support from the Global North. The main outcome of COP26 include:

- **Coal, fossil fuels and short-term climate targets:** Countries are urged to progressively reduce their coal consumption. They are encouraged in 2022 to revise and strengthen their 2030 emissions targets, known as Nationally Determined Contributions (NDCs). The successful realization of the Paris Climate Agreement is highly dependent on countries' developing their NDCs even further.
- **Transformation finance:** The Global North is being called upon by representatives of the Global South to take financial responsibility for the climate crisis. In 2022 a UN committee will present a report on the progress in delivering the promised climate finance of 100 billion US dollars per year (as agreed in Copenhagen in 2009), after the Global North countries failed to meet the 2020 deadline for providing the funds.
- **Emissions trading:** A set of rules for emissions trading was agreed at COP26 to ensure the integrity, transparency and environmental performance of international emissions markets. Among other things, climate protection measures such as afforestation may no longer be counted as double emissions. In addition, sanction mechanisms are being planned.

## First visible role of the financial sector at COP

The financial sector plays an important role in the transition to a climate-neutral economic system. In comparison to previous years, this became clearer at the COP26, mainly due to the presence of financial services companies at Finance Day, among other events.

Policy options for the financial sector's contribution to climate protection were discussed. The focus was mainly on the development of reporting and transparency rules regarding climate-relevant information, measures to improve risk management, incentives to mobilise climate-friendly investments, criteria for green bonds as well as the effect of disclosure on climate protection.

In his speech at the COP26 Finance Day, UK Finance Minister Rishi Sunak emphasised the importance of increasing government investments in climate action, mobilising private capital and developing a global financial system that supports the transition to a climate-neutral economy.

## Cluster presence at COP26

Karsten Löffler discussed the role of the financial sector in climate protection on various panels during the COP. At the *Sustainable Finance for Climate Mitigation - The Role of the Financial Sector in Achieving Net-Zero* event organised by the

Potsdam Institute for Climate Impact Research (PIK), the German Institute for Economic Research (DIW Berlin), the Kiel Institute for the World Economy (IfW) and the Federal Ministry of Education and Research (BMBF), he presented the proposals of the Sustainable Finance Advisory Board. In the context of the OECD Roundtable on *Investment and Sustainable Development*, Löffler discussed with other participants how to create an investment climate that promotes decarbonisation and green growth. He stressed that investors must first and foremost understand the risks and opportunities of their investments better; projects must be bankable. Following the Finance Day, the Financial Centres for Sustainability (FC4S) organised the event *Unpacking COP26 Finance Day, global reactions*. Löffler discussed with representatives from the financial sector how the financing targets decided at COP26 will influence the EU's Sustainable Finance Strategy.

In the panel discussion *Translating a climate commitment into tangible actions: what have we learned so far?* Kristina Jeromin represented the Net Zero Banking Alliance Germany. The event, organised by the Dutch government, presented the climate commitments of the Dutch, Spanish and German financial sectors. Jeromin highlighted the need to ensure that sustainability is embedded in the core business of the financial industry and that regulators are responsible for setting the framework for transformation pathways against which financial institutions can measure their impact.

## Mainstreaming transformation finance: The Glasgow Financial Alliance for Net Zero

A new actor in the field of transformation finance also presented itself at the COP26. The *Glasgow Financial Alliance for Net Zero* (GFANZ), chaired by Mark Carney. The UN Special Envoy for Climate Policy and Finance now brings together over 160 companies (with total assets under management of over \$70 trillion) from the financial system's leading net zero greenhouse gas initiatives, to accelerate the transition to climate neutrality by 2050, at the latest. The GFANZ will act as a global accountability mechanism.

Members of the GFANZ include major asset owners, managers and banks. Working together, trillions of dollars can be mobilised for the transition to achieve climate neutrality. The UK Chancellor of the Exchequer welcomes the "historic" climate pledges made by over 450 companies from all sectors of the financial industry in 45 countries as part of the GFANZ. The UK government announced its intention to make the UK the world's first net zero financial centre and unveiled implementation plans to achieve this.