In the race toward urgent climate action

Reflections on COP27

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Foreword

The 27th Annual Conference of the Parties (COP27) of the **United Nations Framework Convention on Climate Change (UNFCCC)** took place in Sharm El-Sheikh, Egypt in November 2022. This COP was intended to focus on implementing the various goals and pledges coming out of COP26.

The conference concluded with nearly 200 countries and territories agreeing on the Sharm el-Sheikh Implementation Plan.[1] This report summarizes some of the key COP27 developments and shares KPMG specialists' perspectives on how these developments may impact organizations, including KPMG firms' clients. Overall, progress has been made in some important areas but there is still much to be done.

Mike Hayes
Global Climate Change and Decarbonization Leader and Global Head of Renewable Energy for KPMG International

The 1.5°C goal

The critical question is, where are we on keeping the global temperature increase within 1.5°C?

The 2015 Paris Agreement contains two temperature goals: keep the rise "well below 2°C" from pre-industrial levels, and "pursuing efforts" to keep the increase to 1.5°C. Because of the growing consensus that 1.5°C should be the target, at COP26 in Glasgow countries agreed to focus on a 1.5°C limit.

The COP27 implementation plan recognizes that rapid, deep and sustained emissions cuts, and a significant increase in climate finance, is required to achieve 1.5°C. However, the plan does not address the additional actions, solutions and pathways required to get there. The matter of phasing down oil and gas production was not addressed in the final agreement. The concept of keeping temperature rises to 1.5°C was kept alive — but only just — and there are certainly some doubts as to whether this goal can be achieved.

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While COP27 resulted in progress in several important areas, it fell short in addressing some of the key measures needed to keep the 1.5°C scenario alive.

Already the focus is turning to COP28, where there will be even greater pressure to deal with this crucial issue. The developments on the Loss & Damage and adaptation and resilience fronts are welcome. That said, a key issue now is how to mobilize private capital to support limited public sector funding.

Events such as COP27 help add much-needed momentum to the climate change agenda. We welcome the sense of urgency that was evident on the ground at COP27 and hope it does not go away. It seems the climate agenda has crossed an important hurdle. The era of big commitment announcements is over, and the challenge now is to demonstrate tangible actions on the ground. We need to see tangible actions in the lead-up to and at COP28 for the 1.5°C goal to have a chance of survival.

Other highlights from COP27 include:

1 The establishment of a Loss & Damage fund to deal with the impacts of climate change in some of the world's most vulnerable countries and territories.

2 Announcements on transition plans for corporations, as well as the publication of a report on greenwashing from the UN High-Level Expert Group.

3 Recognition of the need to scale up climate finance and various new initiatives to help accelerate this, including in the carbon markets area. Many parties expressed concern over failure to meet the US$100 billion climate finance funding target.

4 The focus on climate adaptation through the Sharm-El-Sheikh Adaptation Agenda, launched in partnership with the High-Level Champions and the Marrakech Partnership for Global Climate Action.[2]

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Issues and key developments

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Carbon markets

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Issues and key developments

At COP26 in Glasgow, a key outcome was the approval of Article 6 of the Paris Agreement. Article 6 allows countries to voluntarily cooperate to achieve emission reduction targets and establish international carbon markets where countries can trade carbon credits. Given the previous year's advancement in this area, expectations for further significant progress were low in the lead-up to COP27.

During the COP27 negotiations, two critical negotiation topics emerged as points of contention:

Domestic authorization of emission reductions

For emission reductions to be tradeable as internationally transferred mitigation outcomes (ITMO), countries need to authorize their issuance and use. Some argued they should be able to revoke this authorization at any point in the ITMO lifecycle, while others said this would cause uncertainty for private sector participation. Consultation is scheduled for March 2023.[3]

Corresponding adjustments

These relate to the bookkeeping process, whereby host country governments need to adjust their reported emissions upwards for any equivalent volume of authorized and first transferred ITMOs. The key point of contention is whether they should apply to credits purchased by voluntary buyers, typically private companies.

An important decision was reached on Article 6.4[4] clarifying available carbon crediting mechanisms:

- A6.4ERs (UN-recognized carbon credits) can go towards achieving a Nationally Determined Contribution (NDC, plans countries submit to work toward their climate goals) or for other international mitigation purposes.
- A6.4ERs may also be used for mitigation contribution for results-based climate finance, domestic mitigation pricing schemes or domestic price-based measures.

However, adoption of the global carbon removal criteria was delayed until COP28 due to criticism of some of the proposed Article 6.4 text, including lack of mention of Indigenous and human rights.

Amidst the conflicting viewpoints, some important carbon markets announcements came out of COP27:

- The governments of Singapore and Peru signed a memorandum of understanding (MOU) to collaborate on carbon markets.[5]
- Switzerland announced the first ITMO transaction with Ghana.
- The US announced the Energy Transition Accelerator to allow companies to fund clean energy projects in developing countries and gain carbon credits they can use to meet their own climate goals.
- The International Organization of Securities Commissions launched a consultation on the role of financial regulators in voluntary carbon markets.
- The World Bank presented its new SCALE initiative (Scaling Climate Action by Lowering Emissions), a fund that will help countries access carbon markets by providing results-based grant payments.[6]
- The African Carbon Markets Initiative was launched to position Africa as a significant hub for the future supply of high-quality carbon credits.[7]

Next steps

Voluntary and mandatory carbon markets are experiencing renewed interest as a key mechanism to help countries, territories and organizations meet their carbon reduction and removal targets. They are increasingly viewed as a critical mechanism in the massive scale-up of global investment and financial flows required to achieve the Paris target of 1.5°C.

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Regulations on the supply- and demand-side are becoming stricter, and calls for carbon credit environmental integrity, transparency and standardization have taken center stage. The various ways carbon credits may be applied in the context of Article 6 and voluntary carbon markets — compliance, compensation, neutralization, or contribution — will likely need to start coexisting.

ITMOs could be of interest to corporations willing to contribute to mitigating global climate change rather than compensating for emissions in a net zero transition. They might also be of interest to the aviation sector for Carbon Offsetting and Reduction Scheme for International Aviation compliance reasons (as well as a potential future equivalent for the maritime shipping sector).

For companies, voluntary and compliant carbon markets can be a vital tool to meet corporate net zero carbon reduction targets, comply with emissions reduction and trade regulations, and implement low-carbon, nature-positive transition plans.

Organizations should consider how carbon markets can fit into their net zero strategies by:

- Assessing the need for credits to address emissions beyond those that can be managed through operational reduction measures.
- Quantifying projected carbon prices and trading volumes (forward supply and price curves).
- Implementing robust emissions measurement, reporting and verification processes to ensure generated credits are high-integrity and transparent.

“Despite criticism on the use-side of credits, carbon markets could be leveraged for channeling further results-based finance to those countries that are most affected by climate change. The development of the new mitigation contribution unit is particularly exciting.”

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Children and youth

Avery Johnstone, Associate, Climate Risk & Strategy, KPMG in the UK

Issues and key developments

The United Nations Framework Convention on Climate Change (UNFCCC) has been working with NGOs, civil society and governments to ensure that children and youth are represented at all climate change negotiations and decision-making levels. At COP27, they made a special effort to include more children and youth than ever before.

For the first time, the UNFCCC appointed a Youth Envoy to represent the interests of children and youth at COP. The envoy worked to ensure that children's and youth's views and needs were considered in all climate change discussions, decisions and actions.

In another first, the conference hosted a children and youth pavilion, an official place for young people to learn about the impacts of climate change, participate in workshops, connect with other young people from around the world and share their ideas on addressing these challenges.

The pavilion also hosted side events geared toward children and youth, including the Sharm el-Sheikh Youth Climate Dialogue co-hosted with the COP27 presidency. The 17th UN Climate Change Conference of Youth (COY17) brought together thousands of young people from more than 149 countries to discuss capacity-building, cultural exchange, skill-building and climate policy.

The COP conference marked another milestone for young climate activists as they became official climate policy stakeholders under the Action for Climate Empowerment (ACE) plan.[8] The Sharm el-Sheikh Implementation Plan specifically mentions children and youth in articles 83, 87, 88 and 89.[9]

A key outcome was a Global Youth Statement, a comprehensive text providing youth input to world leaders on the steps they believe should be taken to advance climate action.[10] It comprises critical policy demands across 15 themes, ranging from climate finance and energy to loss and damage and climate justice.

Next steps

Young people worldwide play critical roles in achieving sustainable development goals and objectives. They also represent the generation that will experience the most significant impacts of climate change.

Article 87 is one of the most important articles for children and youth from the Sharm el-Sheikh Implementation Plan, as it encourages parties to include youth in climate change decisions and ensure their voices are heard.

Integrating children and youth considerations and voices into public policy, business strategy and decision-making is a matter of climate justice and a just transition. As the next generation continues to advocate, litigate and seek to hold organizations accountable for climate action, the integration of child and youth considerations may also become a matter of legal and reputational risk management.

Business has a critical role to play in climate action, and KPMG firms can facilitate dialogue amongst young people across borders, which helps to inform conversations and objectives that can have a global impact. Incorporating their views and perspectives will be critical to a sustainable strategy for the long term.

> **“It's important to acknowledge that COP27 was a landmark event that has given young people across the globe an equitable voice on climate change.”**

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Cities

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Issues and key developments

Cities make up only three percent of the Earth's landmass,[11] but by 2050 they will host two-thirds of the world's population.[12] Responsible for about 75 percent of energy, 60 percent of natural resources consumption[13] and 75 percent of global emissions,[14] cities are where the effects of climate change become visible early on. They serve both as early warning beacons for climate tipping points and an entry point for an integrated portfolio approach that can simultaneously address multiple sectors and different actors.

Supported by United Nations Human Settlement Programme and ICLEI — Local Governments for Sustainability, the COP27 presidency launched the Sustainable Urban Resilience for the Next Generation initiative (SURGe initiative) to accelerate local climate action.

Building blocks of the initiative are multi-level climate governance, multi-stakeholder engagement and implementation delivery via key impact sectors (buildings and housing, urban energy, urban waste and consumption, urban mobility and urban water). These sectors are also the focus of KPMG's Net Zero Urban Program. During COP27, SURGe encouraged the relevant parties to include multi-level climate action and formalize inclusion of cities and regions into the UNFCCC COP process moving forward.

Following the Paris Agreement's mention of the importance of local government action, compared to previous COPS, COP27 had more representation from cities in negotiations than ever. With many cities already leading the way on decarbonizing the built environment and mobility systems, a better understanding of what's currently being done is essential to help scale and accelerate decarbonization efforts.

For countries that fail to commit to 1.5°C targets and thus contribute to future loss and damage costs, leadership from cities and other non-state actors is crucial to accelerate implementation and innovation.

Next steps

Cities play a crucial role in fostering resilience to climate change and in the net zero transition. They represent the largest portfolio of assets and investments. In addition to creating jobs and wealth, cities drive climate breakthroughs as they are hotbeds for innovation and creativity.

Public-private partnerships and co-financing can help drive large-scale innovation and, in turn, shape future markets in regulatory sandboxes.

Investing in cities involves embracing complexity.[15] With better data and tools, it is possible to further understand implementation scenarios, investment priorities and collaboration models between public actors, the private sector and the finance sector. An example of a recent evolution is the use of smart, efficient and climate-adaptive buildings at the intersection of energy, water and biodiversity in net positive energy districts.

KPMG firms can act as interpreters and matchmakers for the establishment of scale-up initiatives, relieve organizations of the burden of translating regulatory requirements into compliance and assist in developing new market and policy opportunities through the design of policy, finance, tax, and legal models.

> **"Cities are where challenges and solutions meet, and we need them to achieve the Nationally Determined Contribution. As hubs of creativity, innovation and capital, they are accelerators of implementation and can help shape blended finance solutions that in turn will drive large-scale urban change."**

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Climate adaptation

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Issues and key developments

According to the Climate Vulnerable Economies Loss report, combined climate-linked losses over the last two decades totaled approximately US$525 billion for 55 vulnerable countries, or about 20 percent of their collective GDP.[16] As global heating intensifies, it will become increasingly important to adapt to climate change.

COP27 was billed as the Adaptation COP, with high expectations coming into the meeting for significant progress on the topic. Not all issues were resolved but climate adaptation featured prominently in discussions, with some important developments and a historic agreement:

- The Sharm-El-Sheikh Adaptation Agenda establishes a comprehensive plan aimed at mobilizing US$140 to $300 billion per year from private and public investors to help the world's poorest adapt to climate change, and targeting 30 adaptation outcomes to be reached by 2030, aimed at building resilience for 4 billion people living in climate-vulnerable communities.
- An agreement to establish a new Loss & Damage Fund will provide financial assistance to countries most vulnerable to and impacted by climate change. Details about how much funding and who pays will be worked out in the leadup to COP28.
- The Vulnerable 20 Group of Finance Ministers (V20) and the Group of Seven (G7) launched the Global Shield against Climate Risks.[17] This initiative establishes pre-arranged financial support that can quickly be deployed during climate disasters. Germany contributed approximately US$180 million and other countries gave more than US$40 million.
- The World Bank announced the Blue Economy for Resilient Africa Program, which will bring financing and provide an operational response to development challenges in coastal-marine areas of the continent.[18]
- For the first time the COP27 final cover text includes reference to 'nature/ecosystem-based solutions,' thereby establishing a bridge between climate and nature as intersecting challenges.

Next steps

A global goal on adaptation is expected to be formalized at COP28 as a parallel to the Paris Agreement's limiting global warming target. Investments in adaptation and resilience need to accelerate to prevent further loss and damage and offset growth in the economic losses and damage that are increasingly likely to occur due to global heating. Compensation and innovations in financial risk transfer mechanisms may help but cannot avoid the most significant negative impacts.

Adaptation is an inevitable societal response that governments, investors, companies, cities and individuals will need to address. It's crucial to:

- Gain understanding of how climate hazards (extreme and gradual) can affect assets, operations, supply chains and people now and in the future.
- Based on what is at risk determine its sensitivity and ability to adapt to climate hazards.
- Assess current and future risk profiles, including financial and economic impacts.
- Identify and appraise measures for preventing or reducing climate risks, in terms of their costs, effectiveness and timing. These could include technical, financial or nature-based solutions for disaster prevention and resilience.

> **"The world needs to speed up implementing climate change mitigation goals, while at the same time developing resources to address the effects of loss and damage on communities impacted by the worst of climate change."**

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Climate finance

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Issues and key developments

At COP15 in 2009, developed nations committed to providing US$100 billion annually in climate finance for developing countries by 2020.[19] It is now estimated that at least US$4 to $6 trillion per year in low-carbon and climate-resilient measures are needed to meet Paris Agreement objectives.[20]

Public sector and donor climate funding have fallen far short of these amounts. The financial sector commitments to net zero and climate financing are yet to translate into substantial increases in funding for climate mitigation or adaptation, notwithstanding notable progress in select markets such as the US and China.

Addressing the climate finance gap was a key theme of negotiations and related events at COP27. Governments further committed to increasing the climate finance goal above US$100 billion annually before 2025 and to address the financing gap by establishing a new needs-based climate finance goal by COP28.[21]

Key COP27 climate finance themes included:

- Policy, legislative and fiscal action to establish clear incentives and economy and sector transition pathways and guardrails within which investments can be planned and deployed.
- Reforms to financial systems to support climate-aligned transitions, including increased pressure on multilateral development banks/development financial institutions to scale up climate finance and reform how they invest in developing countries for more significant climate impact.
- Innovations in and extending the range of financial solutions and risk transfer instruments to lower the cost of capital and scale up climate finance mobilization to the Global South for lowering emissions, reducing disaster risk and building resilience.
- Strategically allocating public capital, including outcomes-based finance.

Next steps

Climate funding needs to catch up to the amounts required to meet Paris Agreement objectives. Public and private financial institutions will need to significantly increase their climate finance through innovative financial instruments and voluntary carbon markets to meet climate targets and adapt to changing climate conditions, especially in developing countries. Targets for climate finance mobilization and transparent reporting on funding amounts and outcomes are needed to drive and monitor progress.

Connecting capital with fundable project pipelines will be a crucial challenge in international climate finance, with additional support needed to develop fully bankable projects and efficiently link those projects with a broader range of investors. The real and perceived risks of investing in new markets will need to be addressed through national policy reform and innovative de-risking instruments.

Renewable energy remains the largest destination for climate finance.[22] However, investors should also prioritize low-carbon transport, waste management, agriculture, forestry, and water and wastewater management as part of their investment portfolio.

KPMG firms can offer a deep understanding of climate finance and innovation. KPMG professionals are helping organizations of all sizes and from a wide range of industries to access financing, and KPMG firms have advised on several landmark climate finance deals.

> “Mobilizing capital and enhancing access to finance and insurance solutions is essential to taking meaningful climate action at scale.”

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Innovation

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Issues and key developments

Technology innovation and breakthroughs were ever present at COP27, but finance innovation took center stage in Egypt.

Climate negotiations did not deliver an agreement on rapidly stopping burning fossil fuels, but COP was still a partial success, with a deal struck to create a loss and damage fund.[23] Much attention has been given to the role of multilateral development banks and their financial instruments alongside private capital mobilization to ensure higher financial efficiency and new financial models. Blended finance and the role of risk capital vehicles were highlighted to help drive innovation, achieve scaling and accelerate impact.

The COP presidency reconfirmed the need for transformational change to achieve the goals of the Paris Agreement, with a focus on stakeholder cooperation and implementation, building on — among others — technology needs assessments, action plans and road maps, as set forth by the Glasgow Climate Pact following COP26. Better implementation and scaling of existing technology is required, as well as the development of new or emerging technologies.

Accelerated wind and solar energy implementation is core to mitigation strategies and can help leverage market forces. This will need to be complemented by innovative climate technologies to achieve net zero, climate-resilient development pathways and context-specific dimensions that, in turn, also require complementary types of innovation, such as policy, data, fiscal and business model innovation.

Next steps

To reach net zero by 2050, new technologies and business innovations will need to be introduced at extraordinary levels. Although the amount of capital available has never been higher, it has not been accompanied by suitable financial models and pathways. These models and pathways should allow climate innovation potential to be realized.

Over the past few years, a global ecosystem of climate innovators has emerged, with many operating outside of large corporations. Several new green technologies are at various stages of development.

Financiers can help fund these climate innovations by investing in technologies that can reduce greenhouse gas emissions. By bringing different actors together, KPMG professionals can help determine which innovation has the appropriate technology and implementation readiness level. In addition, they can help clients assess which regions are most open to introducing these technologies to provide multinational organizations and start-up communities with a reasonable return on investment.

To achieve a successful global climate strategy, organizations should support and enable the green innovation ecosystem.

> **“To keep the 1.5°C pathway alive, innovation will be key in delivering the speed and scale of change the world needs. We must better connect and implement what is already available, link capital to solutions, and use technology, policy innovation, and finance and data innovation to address what's missing from achieving the 1.5°C goal.”**

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The just energy transition

Apurba Mitra, Associate Partner, ESG, Climate Change and Energy, KPMG in India

Issues and key developments

A just energy transition was a major topic of discussion at COP27, tied in closely with how it can enable secure energy access for all — one of the UN Sustainable Development Goals. A just energy transition should be equitable and inclusive and aim for reliable and accessible renewable energy resources to ensure energy security, alleviate energy poverty and promote economic growth.

Nations including the US and Japan committed to providing Indonesia with US$20 billion in public and private financing to support Southeast Asia's largest economy in rapidly shifting away from its coal-dominated power grid.[24] The European Investment Bank also pledged to expand its range of financing tools for global projects to support the just transition to a climate-neutral economy.[25]

The International Renewable Energy Agency and the World Meteorological Organization agreed to work toward a just transition in line with the UN's Sustainable Development Goals and the Paris Agreement, signing a MoU to promote energy access and climate sustainability.[26]

The Green Jobs for Youth Pact, also launched at COP27, aims to create one million green jobs and support the greening of another million existing jobs.[27]

Next steps

To achieve a just transition for the most vulnerable and affected (both within developed and developing countries), it is necessary to develop policies that mobilize adequate financing, enable technology transfer, build skills and capacity, and facilitate the flow of climate investments from developed to developing countries and territories.

Everyone has a significant role to play in enabling a just energy transition. Working together with government, private sector, grassroots organizations and society at large is crucial to achieving this objective.

Organizations should systematically consider how they can integrate people-centered just energy transition principles into their decarbonization and resilience strategies, operations and across their value chains. The challenge is complex and may involve conflicts and tradeoffs that in turn may lead to business risks and opportunities.

For example, the transition from fossil-fuel energy generation may lead to displacement of skilled workers. But, if planned properly, they could find new opportunities in the renewable energy industry.

Or in the case of manufacturing solar panels and batteries, where the materials needed for them — lithium, cobalt and copper — are only available in a few places, it may be important to consider how sourcing these materials impact local communities, workers and the environment.

> **“No one person can make the just transition happen on their own. Everyone must work together while ensuring the needs of stakeholders, including workers and communities, are effectively captured through constructive social dialogue.”**

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Nature and climate

Juanita Lopez, Managing Director, Climate Change & Sustainability, KPMG in Colombia

Issues and key developments

Biodiversity, agriculture and the food system are directly connected to our ability to achieve net zero by 2050 and be resilient to the impacts of a changing climate.

The food system is one of the most impactful variables in emissions generation and environmental degradation, and food security will depend on the ability to move towards a nature-positive economy.

Protecting and restoring land and water ecosystems can help prevent GHG emissions. The Intergovernmental Panel on Climate Change (IPCC) found that boosting the area of forests, woodlands, and woody savannahs could store 25 percent of the carbon necessary to limit global warming to 1.5°C.[28]

At COP27, leaders were called on to better integrate nature into the global response to the climate crisis, including by delivering an ambitious agreement at the COP15 biodiversity conference. There, 196 countries sealed a landmark deal to halt and reverse biodiversity loss by 2030. The countries pledged to protect at least 30 percent of the planet's terrestrial and marine areas, while also recognizing Indigenous and traditional territories.

Key nature-related developments centered around nature-based solutions (e.g. afforestation, wetlands restoration and green infrastructure), public-private collaborations and unlocking the required trillions of dollars in nature and climate finance:

- The COP presidency launched ENACT — Enhancing Nature-Based Solutions for Climate Transformation — to drive collective action across climate, biodiversity and desertification.[29]
- Release of the High-Quality Blue Carbon Principles and Guidance, which provide a consistent approach to blue carbon projects and credits.[30]
- The Science Based Targets Initiative presented the SBTi Forest, Land and Agriculture Guidance, which gives companies the resources they need to set science-based targets.[31]
- The Network for Greening the Financial System proposed an approach to nature-related scenario analysis in collaboration with the Taskforce on Nature-related Financial Disclosures.[32]
- The Big Nature Impact Fund, a new public-private fund in the UK, is meant to unlock finance for developing environmental markets around carbon-rich biodiverse habitats by investing in projects that can generate revenue from ecosystem services.[33]

Next steps

Business leaders should be seeking to become more aware of — and act on — the risks of nature and biodiversity loss. A broad-ranging approach for businesses to link climate and nature includes:

- Understanding how their business models impact ecosystems.
- Accurately valuing nature and integrating environmental costs and benefits into accounting frameworks.
- Developing science-based targets for both climate and nature.
- Developing climate transition and adaptation plans that link climate and nature/biodiversity outcomes.
- Considering the impacts on climate, nature and vital ecosystem services and making this central to how they run their business.
- Tracking nature and climate key performance indicators that relate to strategic business goals and enable effective risk and opportunity management.
- Communicating and disclosing on nature-related performance and challenges to internal and external stakeholders.

> "It's crucial to activate climate and nature solutions and mobilize action on the ground. Companies have a big role to play by understanding and managing their impacts on nature through their value chain and linking net zero efforts to action around nature."

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Net zero and the 1.5°C agreement

Anne-Cecile Moreno, Global Climate Change and Decarbonization Center, KPMG International and Director, KPMG in the Netherlands

Issues and key developments

The Paris Agreement came to be at COP21 in 2015 — an agreement between nations that the world aim to limit temperature increases between 1900 and 2100 to less than 2°C, and if possible, to 1.5°C. This translates into becoming carbon neutral by 2050.

IPCC scientists say temperatures have risen by at least 1°C since 1900.[34] They warn that in about 25 years, it may not be possible to stay below the 2°C threshold.[35] This could become less than 10 years when talking about the 1.5°C threshold.

Ten years is an unrealistic timeframe for success in the climate domain, but hope remains. With transformational action and investment, it may be possible to avoid each additional 0.1°C. However, there was little progress made at COP27 in addressing policy gaps and no meaningful movement on phasing fossil fuels down or out.

Next steps

Many companies already find it challenging to navigate the climate agenda. As staying under a 1.5°C increase may no longer be realistic, they should reconsider their climate strategies.

Impact on companies' decarbonization strategies

Worldwide, it is broadly accepted that the Science Based Targets Initiative is the optimal way to keep the world as close to the 1.5°C target as possible.[36] It is better to keep the bar high (1.5°C) and fall short (1.8°C) than to readjust the bar (1.8°C) and fall even shorter (2.5°C or more).

What happens to companies that committed to a target in line with a 1.5°C trajectory when it was known to be unachievable? Could they still be held accountable for failing to reach their target?

Impact on companies' climate risks assessment

Scenario analysis, as brought to light by the TCFD in its 2017 recommendations, is a helpful tool to assess climate risks. Many companies have started working with the TCFD to use this tool to assess their climate risks.

However, as the 1.5°C threshold is no longer considered realistic, it raises questions about the effectiveness of assessing a company's strategy in this context.

Scenario analysis is useful for companies to stress test strategies in different potential future states of the world. Therefore, running a below-2°C scenario in addition to a business-as-usual scenario (3-4°C) can be a useful exercise.

> “A challenging target can be a good one.Companies should pursue efforts to achieve their net-zero strategies in line with a 1.5°C world, even though scientists say this goal is compromised.”

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Transition planning and greenwashing

Bridget Beals, Co-head of Climate Risk and Decarbonization Strategy, and Partner, KPMG in the UK

Issues and key developments

Transition plans inform investors of the credibility of a company's underlying transition strategy, help scale up climate finance and safeguard against the risk of greenwashing.

Several transition plan announcements were made at COP27, notably the publication of the UK Transition Plan Taskforce's (TPT) framework for consultation.[37] The TPT has built on the work of the Glasgow Financial Alliance for Net Zero to create a pre-regulatory transition plan framework aimed at encouraging companies to develop credible and robust plans that will help meet their net zero commitments.

The TPT's work builds on the global climate reporting baselines of the Task Force on Climate-Related Financial Disclosures (TCFD) and the International Sustainability Standards Board (ISSB). It also complements UN High-Level Expert Group report on the Net-Zero Emissions Commitments of Non-State Entities.[38] One of their recommendations is that entities take accountability for their net-zero strategies and put a stop to greenwashing by moving away from participating in voluntary initiatives towards regulated net zero requirements — and report publicly on their progress.

Jurisdictions beyond the UK are looking at adopting transition plan reporting, including Germany's Bundesbank. Other jurisdictions will likely announce disclosures on transition plans soon.

Next steps

This latest development will affect many UK businesses. The TPT's work will likely be integrated into climate disclosure listing rules, enabling investors and other stakeholders to hold companies to account to ensure real climate action is taking place.

Those not directly affected by the new rules can expect to see real-world impacts through supply chain interconnectivity and the choices their customers and suppliers make to deliver on the expectations.

Businesses considering — either for mandatory compliance or voluntary purposes — developing and implementing a climate transition plan should ensure they include:

- High-level targets the organization is using to mitigate climate risk, including greenhouse gas reduction targets (e.g. a net zero commitment).
- Interim milestones, with short- and long-term goals.
- Actionable steps to meet those targets.
- Transition governance, including linkage of performance to remuneration.

> **"A key challenge for businesses is to figure out 'how' to reach their net zero goals — with a clear implementation plan that stacks up."**

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From COP27 to COP15

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From COP27 to COP15

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A new deal for nature

After multiple delays due to COVID-19, 196 countries sealed a landmark deal to halt and reverse biodiversity loss by 2030 at the 15th Conference of the Parties (COP15) to the United Nations Convention on Biological Diversity (CBD), chaired by China and hosted by Canada from 7–9 December 2022.

The Kunming-Montreal Global Biodiversity Framework (GBF) has four long-term goals for 2050 related to the CBD's vision to living in harmony with nature and 23 action-oriented targets, which come after 2 weeks of intense negotiations in Montreal, Canada. This agreement replaces the Aichi Biodiversity Targets set in 2010.

Among the 2030 targets, countries pledged to protect at least 30 percent of the planet's terrestrial and marine areas, while also recognizing Indigenous and traditional territories.

A strong economy relies on healthy nature

The private sector presence and energy at COP15 was impressive. For the first time, business and financial institutions were really inside the 'nature tent'.

We expect that business has and will continue to move with agility on nature-positive ambition, action and accountability. Catalyzed by the Finance for Biodiversity initiative, 150 financial institutions representing US$24 trillion called on world leaders to adopt an ambitious GBF — and the strong advocacy by business and financial institutions has certainly contributed to giving government the political room to land this GBF deal. Meanwhile, Business for Nature convened a coalition of 330 business and finance institutions from 52 countries, calling for the assessment and disclosure of impacts and dependencies on nature by 2030.

The crucial role of Indigenous People and Local Communities

The GBF acknowledges the important role and contribution of Indigenous People and Local Communities (IPLCs) as rights and knowledge holders requiring full and effective participation in decision-making. IPLCs make up just 6 percent of the global population[39] yet are stewards of 80 percent of its land.[40] Stewardship of and connection with nature has been ingrained in their culture for hundreds — often thousands — of years.

Delegates repeatedly emphasized the value of respecting these citizens' rights and knowledge, which are likely to be crucial in the fight to protect biodiversity. Having been consistently subjected to mistreatment and land grabs, the world is waking up to the fact that their narrative is aligned with that of nature and a just transition.

Mobilizing the world's financial and corporate resources

Financing biodiversity was another important discussion point given the massive funding gap, estimated at as much as US$800 billion per year up to 2030.[41] Part of the solution involves redirecting financial flows toward sustainable investments and away from those that harm the environment.

It's estimated that every year at least US$1.8 trillion is spent by governments around the world subsidizing activities that harm nature and wildlife and contribute to global warming. One of the agreements was to reform US$500 billion of these subsidies.[42, 43]

And there has been a call for more financing from all sources, including domestic, international, public and private — particularly to help developing countries implement their commitments.

The private sector was heavily represented at Montreal and has made some active commitments. The Finance for Biodiversity initiative launched a new guide to help financial institutions integrate biodiversity. Meanwhile, a global investor engagement initiative called Nature Action 100 was launched, focused on driving greater corporate ambition and action to reduce nature and biodiversity loss.

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Towards mandatory nature reporting

Target 15 of the agreement aims to ensure that large and transnational companies and financial institutions monitor, assess and disclose their nature-related risks, dependencies and impacts in their operations, but also in supply and value chains and portfolios by 2030. The International Sustainability Standards Board (ISSB) has confirmed that they'll incorporate risk into the IFRS S2 Climate-related Disclosures standard and will consider the Taskforce on Nature-related Financial Disclosures (TNFD) framework, currently in development, as part of their incremental enhancements to the standards.

The TNFD enables companies and financial institutions to assess, manage and act on their nature-related impact and dependencies by integrating nature into governance, strategy, risk management and metrics, and target settings. Globally, there are already over 140 TNFD pilots underway.

The next evolution is getting nature on the balance sheet — something that many companies are only starting to think about. Natural capital accounting can help reveal how nature supports business activities and delivers tangible environmental and social benefits. These accounts can provide stakeholders with vital information to make better operational decisions, improve business resilience and allocate resources more effectively.

From good intentions to action

A recurring message from COP15 is that disclosure is not the end game in itself; it provides a foundation for making nature-related strategic, governance, operational and capital allocation decisions.

With this in mind, market participants are asking what "nature positive" means in practice, acknowledging that the transition will look different across industries and sectors. Several initiatives such as the World Economic Forum, the World Business Council for Sustainable Development, the Impact Mitigation and Ecological Compensation (IMEC) thematic group of the International Union for Conservation of Nature (IUCN) and the EU Business and Biodiversity Platform are working to develop principles that organizations can follow on this journey.

Nature and biodiversity "credits" will likely have a role to play in the road to nature positive and hold significant potential to increase the flow of finance to nature restoration and conservation projects. This was a hot topic at COP15, with discussions centering on how to establish and extend nature markets, ensuring measurability, trust and integrity and learning lessons from the carbon markets.

Next steps

It was hard not to feel the ambition of the COP15 attendees from government, corporations, financial institutions, and non-governmental organizations (NGOs). But to help ensure progress, we believe the global goals will need to be translated by national governments into national level goals and targets. In our view, implementation at the national level will ultimately bend the curve on biodiversity loss.

From a business perspective, energy should be converted into formal strategic action — such as the TNFD pilots and incorporating nature into climate transition pathways, including setting of science-based targets (SBTs) for nature.

KPMG professionals left the conference with the hope of seeing a significant change in business, lending, underwriting and investment practices. According to the UN, about half of global GDP is dependent on the healthy functioning of the natural world.[44] With the GBF now in place, and the right resources, we believe the 2030 biodiversity targets are poised to shift from a vision to a reality.

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KPMG initiatives

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Alliance for a Just Energy Transformation

Mike Hayes, Global Climate Change and Decarbonization Leader and Global Head of Renewable Energy for KPMG International

Initiative

The Alliance for a Just Energy Transition (AJET) is a voluntary initiative of the United Nations Development Programme (UNDP) and World Wildlife Fund (WWF) that aims to accelerate the implementation of just transition policies around the world. Several organizations joined the initiative at COP27, including KPMG, REN21, the Environmental Defense Fund, the International Trade Union Congress and Gridworks Investment Company.

AJET's objective is to mobilize stakeholders to support the successful implementation of global policy initiatives related to the just energy transition. During this transition to renewable energy, it is essential to understand the needs of those in the fossil fuel industry. As part of AJET, member organizations can work alongside one another on just energy transformations and help achieve the 1.5°C goal.

Watch this video to see the COP27 alliance launch event.

KPMG's role

As some of the alliance's founding members, KPMG firms can facilitate conversations that can lead to the implementation of just energy policies in developed and developing countries and territories. This can be done through the creation of detailed reports containing metrics that can be used to identify, measure and track the progress of the just energy transition. Toolkits and guidelines can be developed with the aim of ensuring sustainable economic activities, energy planning at the regional and national levels, and workforce development plans.

If your organization is interested in taking a more active role in helping to deliver the action plan and becoming a signatory to the founding principles, please connect with your local KPMG firm.

> "The Alliance for Just Energy Transformation can help accelerate global net zero goals while prioritizing a wider social agenda that recognizes the imperatives of climate justice, equity and just transition."

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The Carbon Call

Building carbon accounting interoperability

Mike Hayes, Global Climate Change and Decarbonization Leader and Global Head of Renewable Energy for KPMG International

Initiative

Without strong, cohesive data and measurement tools, understanding where greenhouse gases (GHG) come from — and their volume — is a tall order.

The Carbon Call initiative, announced last year at COP26, aims to build on and speed up improving reporting and measuring of GHG emissions and removal, mainly for corporations.

Spearheaded by Microsoft, Carbon Call is a working collective of technology, data and systems owners and operators. Its goal is to strengthen existing carbon accounting systems and get them all working together, not replace the systems or build a centralized one. It also aims to help improve measurement and reporting reliability in four areas: the land sector, indirect emissions, removals and methane.

At COP27 the Carbon Call launched a roadmap, believed to be the first of its kind that features these three components:[45]

- a digital smart dictionary, to promote consistency
- discoverable data, with the potential to increase emissions estimates interoperability
- metadata, to help increase GHG accounting transparency and auditability

KPMG's role

KPMG was one of the first Carbon Call signatories, along with many other organizations including the rest of the Big 4.

KPMG professionals participated in a COP27 panel discussion with executives from other organizations involved in Carbon Call. The discussion centered around achieving a quicker path to interoperability and helping enable the private and public sectors to drive a similar set of approaches in recording emissions use. Panelists also discussed the general lack of progress since COP26 and the role of regulators with the wider adoption of the Corporate Sustainability Reporting Directive.

Working together to improve GHG interoperability can help to reduce reliance on fossil fuels. Carbon Call could be another step in the right direction to the 1.5°C target.

> “The onus is on KPMG firms to get clients involved, as well as help drive momentum between now and COP28. We've got to do more in the next 12 months, so this doesn't become an initiative that falls by the wayside.”

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Net Zero Urban Program

Jorn Verbeeck, Net Zero Urban Program & Decarbonization Innovation Exchange Lead, Global Decarbonization Center, KPMG International and Senior Manager, KPMG in Belgium

Initiative

KPMG's Global Climate Change & Decarbonization Center launched the Net Zero Urban Program (NZUP) at COP27. A goal of the program is to be an enabler for bringing people together so that 10,000 cities are reached, 100 prototype solutions are scaled up and US$25 billion in investment is raised by 2030.

By 2050 two-thirds of the world's population will live in cities.[46] In addition to being the beating heart of capital and creativity, cities also stimulate innovation and offer a wide variety of assets and investments to investors.[47] However, they are responsible for roughly 75 percent of global carbon dioxide emissions, 60 percent of natural resources consumption and 75 percent of energy consumption.[48]

Considering the impact cities can have, NZUP seeks to accelerate the pace and scale at which they can achieve net zero. With innovation and technology serving as enablers and collaboration serving as the key accelerator, the goal is to link investable solutions to capital.

KPMG's role

NZUP will be involved in sectors including the built environment, mobility, energy, waste and water. Using the expertise, knowledge, data, tools and implementation capability available across KPMG firms, the program intends to facilitate the development of an ecosystem with clients, capital owners, innovators and the public sector.

At COP27, KPMG released the Net Zero Readiness Spotlight: Cities, which provides an indicator and assessment framework developed in collaboration with the UN. Insights from this report are used to feed a digital twin that is used by KPMG professionals to visualize challenges and prioritize investment scenarios. Using these scenarios, a soon-to-be-developed KPMG Decarbonization Innovate Exchange aims to introduce leading innovations to large companies and investors and lead to testing, scaling and implementation. This investment scenario seeks to assist in reducing future risks by predicting impactful technology solutions based on data.

Collaboration among KPMG firms' professionals, alliances and clients is essential to creating an innovative and resilient network. Watch this video to learn more about the NZUP COP program.

To prepare for COP28, KPMG professionals can collaborate with others to create an ecosystem, design implementation pathways and work toward long-term transformation.

“The Net Zero Urban Program addresses the missing middle between high-level ambitions and promising small-scale initiatives by bringing together public and private actors, innovators and investors to deliver impactful solutions linked to key sectors including the built environment, mobility, energy and industry infrastructure, water, and waste.”

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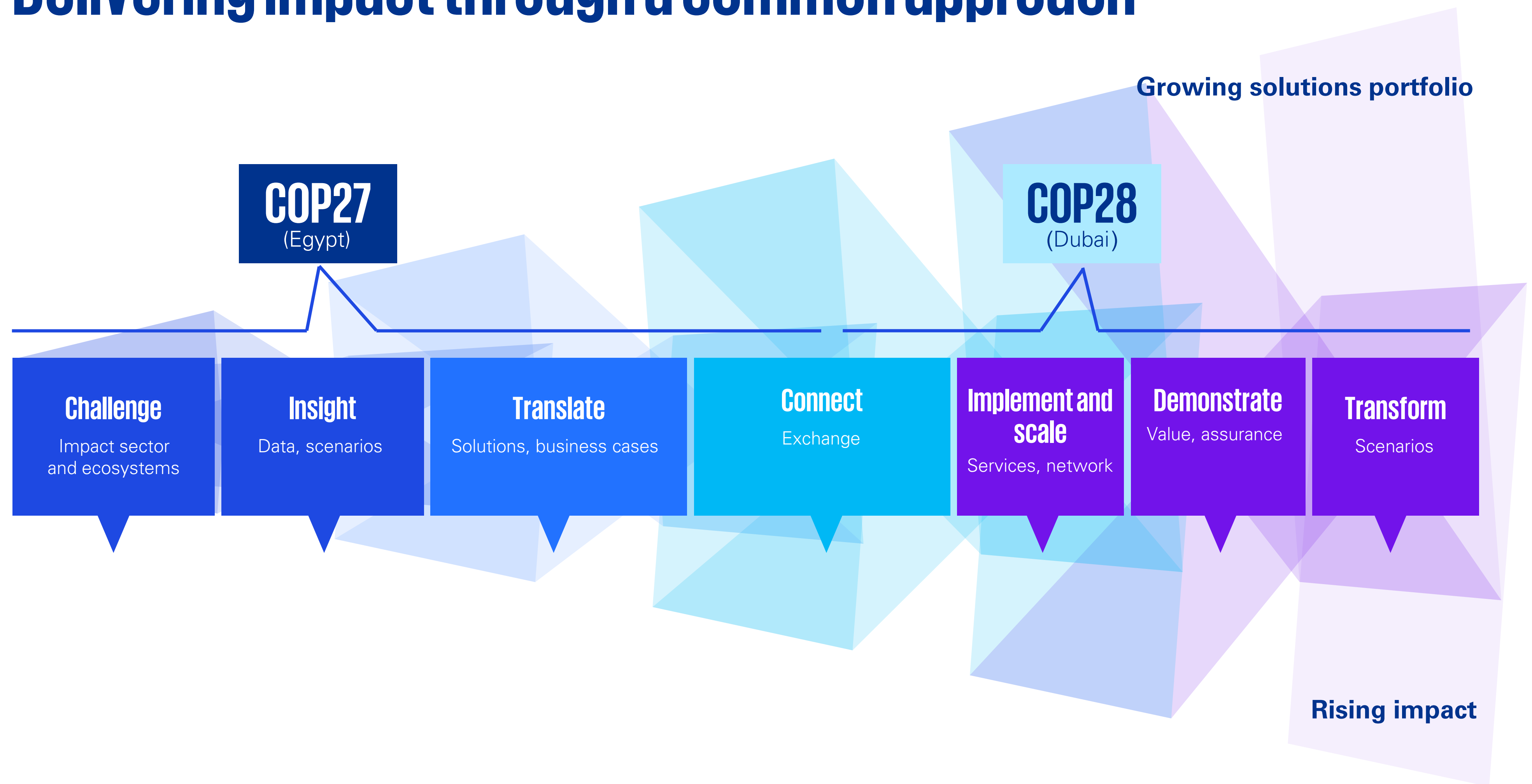
Delivering impact through a common approach



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Acknowledgements and contacts

A total of 27 KPMG professionals from 16 member firms attended COP27. Over the course of the two weeks of the conference, they participated in 55 events, including interviews, panel discussions, and roundtables. These insights would not have been possible without these individuals' participation and contributions to the conference. To find out how KPMG ESG professionals can add value to you and your organization or if you have any questions about how COP27 may impact your organization, please speak with your local KPMG member firm contact by visiting kpmg.com/esgcontacts or by reaching out to one of the contacts below.

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