



**THE
GLOBAL
CITY**

Hogan
Lovells

Advancing Net Zero: The EU and UK in International Climate Action Forums



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Executive Summary

The Paris Agreement at the United Nations Climate Change Conference in 2015 marked a significant moment in the global effort to mitigate climate change by reaching agreement to pursue efforts to limit the global temperature increase to 1.5°C above pre-industrial levels.

The finance industry has a crucial role to play in this transition. Achieving a net zero emissions future will require a step-change in finance flows to sustainable investments, and new approaches to assessing and addressing climate risk.

Given the cross-border nature of financial services, this requires significant and robust international cooperation and coordination. Global challenges require global solutions, and this need for global action has strengthened international forums' mandate to promote sustainable development and has given rise to many other international climate action forums (herein after called international forums) which seek to address these challenges.

International forums play pivotal roles in shaping climate policies and sustainable finance strategies. These forums provide the necessary space for nations and organisations to collaborate, set common goals, exchange information and share best practice. Yet as governments and industry have sought to deal with environmental, social and governance (ESG) challenges, the sheer number of initiatives with different objectives and mandates has made developing a strategic approach to engagement difficult. The politicisation of the ESG debate has further compounded this. The result is a perceived misalignment of international bodies and initiatives leading to fragmented markets with multiple – and sometimes duplicative – frameworks.

Given this backdrop, this report seeks to examine how the European Union (EU) and United Kingdom (UK) could collaborate more effectively to ensure these organisations operate to maximum effectiveness. The report observes the interplay between the different actors and distinguishes between three types of forums:

1. **Intergovernmental forums**
2. **International sustainability framework and standard setting bodies**
3. **Market-led forums**

It evaluates the impact of these different forums on advancing climate action and assesses the interaction between the EU and the UK, as two major economies and signatories of the Paris Agreement, within these forums.



International forums play pivotal roles in shaping climate policies and sustainable finance strategies. These forums provide the necessary space for nations and organisations to collaborate, set common goals, exchange information and share best practice.

The findings suggest that these forums have succeeded in advancing the global climate agenda but still require enhanced commitment and coordination. While the International Sustainability Standards Board (**ISSB**), the Global Reporting Initiative (**GRI**) and the European Financial Reporting Advisory Group (**EFRAG**) should be praised for their impact on corporate reporting, it is important that this dialogue is strengthened and that collective guidance is released to minimise the cost and burden for preparers of sustainability reports.

Other networks hold significant potential for impact but have failed to tap into it fully. The International Platform on Sustainable Finance (**IPSF**) for instance would benefit from a renewed and clear mandate as well as more active participation by all members. Given the diversity of membership, the IPSF is an opportunity to follow in the footsteps of the G20 Sustainable Finance Working Group (**G20 SFWG**) to serve as a platform for coordination to enable a blueprint for global transition pathways.

There is equally a huge role for market-led initiatives, such as the Glasgow Financial Alliance for Net Zero (**GFANZ**) and the International Capital Market Association (**ICMA**), to play in achieving net zero. Their work to support intergovernmental bodies by developing and promoting global standards and principles, identifying risks, and encouraging cooperation among their members to deal with cross border regulatory challenges, is crucial.

It is evident that successful “top-down” and “bottom-up” approaches will likely be required if policymakers want to foster investor confidence and therefore channel capital to where it is required. This interaction allows cross border industry groups to utilise the principles formed from intergovernmental groups and

demonstrate the research-driven benefits of maximum alignment, while respecting the different jurisdictional needs.

The signing of the Memorandum of Understanding to establish the new EU-UK Financial Regulatory Forum (**EU-UK Forum**)¹ is a timely opportunity to strengthen EU-UK collaboration to support the journey to net zero. It will be imperative to ensure that the Forum discusses and supports enhanced cooperation and coordination in international bodies and to guarantee the participation of the relevant actors. This will enable both jurisdictions to take a leading role in implementing a coherent international approach to addressing climate issues.

¹ Commission signs Memorandum of Understanding on regulatory cooperation with the United Kingdom (europa.eu), accessed 13 October 2023.

INTERNATIONAL FORUMS

INTERGOVERNMENTAL FORUMS

G20 Sustainable Finance Working Group (SFWG)
G7 Climate Club
International Platform for Sustainable Finance (IPSF)



MARKET-LED FORUMS

Glasgow Financial Alliance for Net Zero (GFANZ)
The International Capital Markets Association (ICMA)
Network for Greening the Finance System (NGFS)



INTERNATIONAL SUSTAINABILITY FRAMEWORK AND STANDARD SETTERS

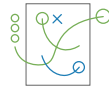
International Sustainability Standards Board (ISSB)
European Financial Reporting Advisory Group (EFRAG)
Global Reporting Initiative (GRI)



Key recommendations:



The UK and the EU should prioritise and facilitate engagement and conversations between standard setters, such as the ISSB and EFRAG, to enhance regulatory coherence around sustainability reporting.



The UK and the EU should identify common priorities and work together to build strong coalitions within the G20 to catalyse action from key members within the group.



The EU and the UK should use the G7 climate club to develop a globally coherent and applicable approach to carbon pricing and develop provisions designed to hold members accountable.

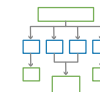


The UK must leverage its experience with the Transition Plan Taskforce (TPT) and share its expertise with the IPSF, to promote a globally consistent approach to transition planning.



UK and EU collaboration should seek to improve the efficacy of the IPSF by:

- narrowing its remit and determining a more focussed workplan which dovetails with the requirements of the Paris Agreement and the workstreams of the G20;
- allocating additional resources and providing expertise and support to increase the capacity of those producing output and to align with other forums, where helpful; and
- generating better connectivity with other forums with more diverse membership and expert groups.



The EU, in collaboration with other IPSF members such as the UK, must provide more clarity on the direction of the IPSF by narrowing its remit to focus on specific issues. The IPSF should be utilised to drive intergovernmental and cross sector collaboration on transition pathways.

Introduction

The international forums formed following the adoption of the Paris Agreement in 2015, vary from United Nations (UN)-convened groups to industry organised alliances but they have one thing in common: they are all trying to advance the Paris Agreement and support the net zero ambitions.

Whilst nation states have an important role in implementing the commitments made in the Paris Agreement, international forums play many key roles. Such organisations marshal national governments, create cross-sector co-ordination, enable communication amongst commonly concerned stakeholders, provide grass roots policy feedback, offer essential technical advice and implement guidance on the agreed path forwards.

International forums can also offer consistency between rules and regulations proposed by different states and different governments. Some of these organisations are newly established with their own infrastructure, others are formed within existing organisational infrastructure, such as the UN, establishing new divisions focused on sustainable finance and net zero transition.

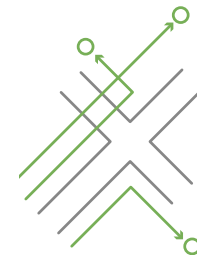
“
However, the transition to net zero is not happening nearly quickly enough”

However, the global transition to net zero is not happening nearly quickly enough in the context of achieving the goals set out in the Paris Agreement. In the Intergovernmental Panel on Climate Change’s (IPCC) latest Synthesis Report², it reported that “global greenhouse gas emissions have continued to increase, with unequal historical and ongoing contributions arising from unsustainable energy use, land use and land-use change, lifestyles and patterns of consumption and production” and observed that “Human-caused climate change is already affecting many weather and climate extremes in every region across the globe”.

In September 2023, the Stockholm Resilience Centre published new research, stating that human activity affects the Earth’s climate and ecosystems more than ever which risks the stability of the entire planet. Their report noted that for the first time ever all nine planetary boundaries have been assessed and six of them have now been transgressed. It isn’t clear how much longer the planet can keep transgressing these boundaries before there is irreversible change and harm.³

“
We are at a crossroads. The decisions we make now can secure a liveable future. We have the tools and know-how required to limit warming,” said IPCC Chair Hoesung Lee. “I am encouraged by climate action being taken in many countries. There are policies, regulations and market instruments that are proving effective. If these are scaled up and applied more widely and equitably, they can support deep emissions reductions and stimulate innovation.”

IPCC⁴



2 IPCC Climate Change 2023 Synthesis Report: summary for Policymakers, accessed 13 October 2023.

3 Richardson, K., Steffen, W., Lucht, W., Bendtsen, J., Cornell, S.E., Donges, J.F., Drüke, M., Fetzer, I., Bala, G., von Bloh, W., Feulner, G., Fiedler, S., Gerten, D., Gleeson, T., Hofmann, M., Huiskamp, W., Kumm, M., Mohan, C., Nogués-Bravo, D., Petri, S., Porkka, M., Rahmstorf, S., Schaphoff, S., Thonicke, K., Tobian, A., Virkki, V., Weber, L. & Rockström, J. 2023. Earth beyond six of nine planetary boundaries. Science Advances 9, 37. See also All planetary boundaries mapped out for the first time, six of nine crossed - Stockholm Resilience Centre, accessed 13 October 2023.

4 IPCC Post, 4 April 2022, accessed 13 October 2023.

The EU and UK are likeminded jurisdictions and remain closely aligned when it comes to net zero ambitions. They have set some of the strongest national targets and have high private sector ambition. Given they are two of the strongest economies and extremely interlinked, it is important that they work together internationally to advance the global climate agenda.

To this end, we seek to explore what makes international forums effective and how the UK/EU relationship can be leveraged to accelerate the change that is needed.

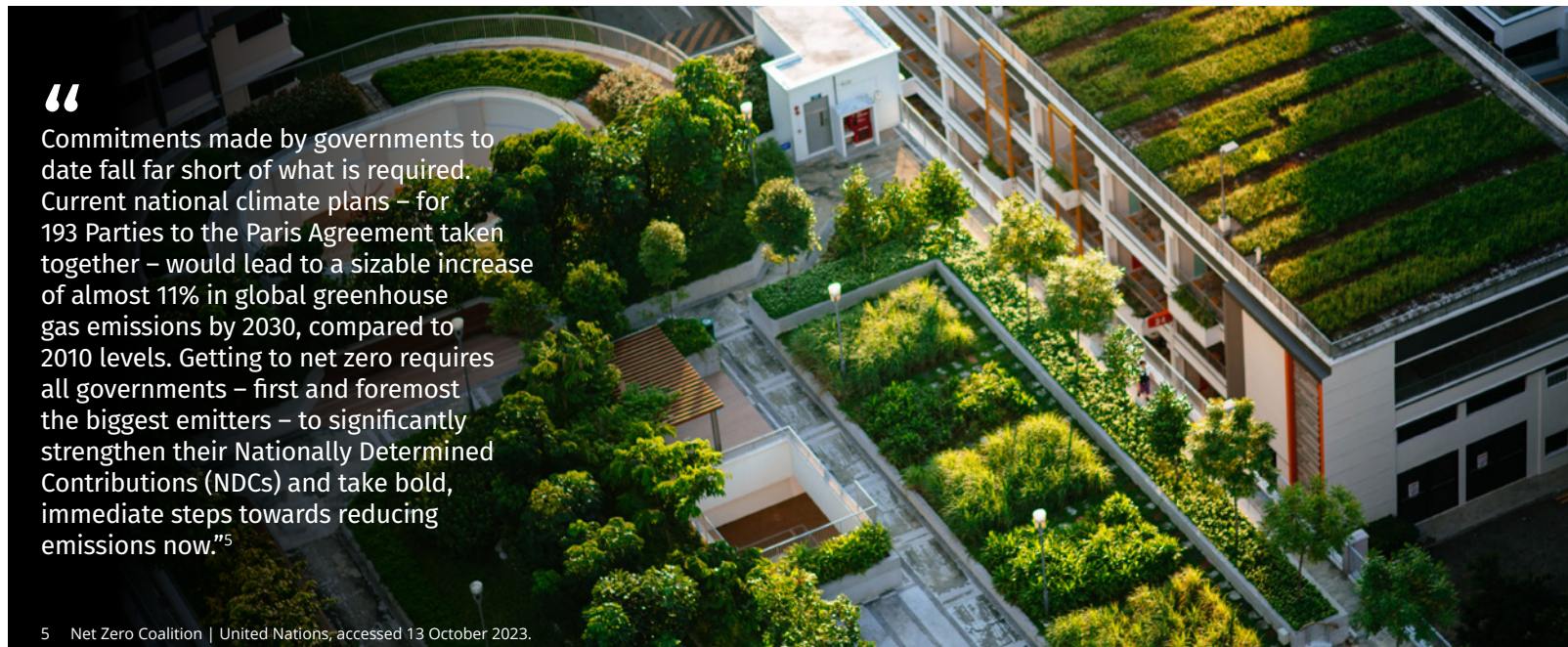
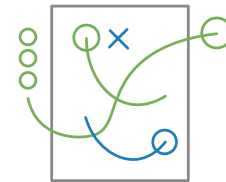
While the just transition does not fall within this paper's scope, it is essential to underscore the paramount importance of achieving the transition in a just and fair way. Reaching net zero should not be at the expense of people or the environment. Decision makers must always keep the Paris Agreement and the 17 Sustainable Development Goals (SDGs) forefront in their minds.

In this paper, we have considered the types of net zero transition challenges that international forums seek to resolve. These include interoperability of sustainability reporting standards, consistency and comparability in transition planning, bringing credibility and trust to sustainable finance product markets, and increasing the capital allocated to climate change mitigation, adaptation and sustainability more broadly.

We look at which organisations have made the most impact and if there is a lack of impact what is impeding their progress.

Finally, from the group of identified international forum organisations, we consider how the EU and the UK can collaborate to improve the effectiveness of these organisations to help progress the journey to net zero.

“Realism explains, at least partially, why such cooperation efforts have largely failed. Because of the “enduring anarchical nature” of the international system, states will only abide by international norms to the extent such norms do not pose a security threat or risk leaving the state in a relative disadvantage vis-à-vis its competitors.”⁶



“Commitments made by governments to date fall far short of what is required. Current national climate plans – for 193 Parties to the Paris Agreement taken together – would lead to a sizable increase of almost 11% in global greenhouse gas emissions by 2030, compared to 2010 levels. Getting to net zero requires all governments – first and foremost the biggest emitters – to significantly strengthen their Nationally Determined Contributions (NDCs) and take bold, immediate steps towards reducing emissions now.”⁵

5 Net Zero Coalition | United Nations, accessed 13 October 2023.

6 Climate Change and International Cooperation — ALI Social Impact Review (harvard.edu), accessed 13 October 2023.

1 International Forums – Determining the recipe for success

What is an international forum?

For the purposes of this paper, we will consider groups which have been set up and funded by governments or their industry or sector members to help with progress towards net zero either broadly, or with a focus on a particular issue. They are generally collaborations between existing organisations and/or businesses drawing on groups of experts to inform their discussions.

Some organisations may reflect a political stance of a particular government that wishes to drive forward an agenda globally. Nonetheless, they are most often an attempt to create global consensus on important issues where harmonisation is needed across states and industry sectors, including on topics such as investment categorisation, reporting and sustainability accounting standards.

How have we chosen the international forums?

We have chosen a sample of (i) international forum organisations involved in transition and sustainable finance or a linked area which we perceive as being highly successful and (ii) those which we do not see as contributing meaningfully towards achieving net zero in order to examine the factors necessary for success.

We have chosen the key organisations which contribute to developing important areas supporting the transition to net zero, such as interoperability of sustainability reporting standards, coordination of transition plans, defining “green” through taxonomies, bringing credibility and trust to sustainable finance product markets and increasing the capital allocated to climate change mitigation, adaptation and sustainability.

Our ultimate goal in examining these international forums is to identify ways that a strong EU/UK collaboration could support international forums to operate better and more efficiently to accelerate the transition to net zero.



Effective mitigation of climate change will require deep international cooperation, which is much more difficult to organize than the shallow coordination observed so far. Assessing the prospects for effective joint action on climate change requires an understanding of both the structure of the climate change problem and national preferences for policy action.”⁷



⁷ Keohane, R., Victor, D. Cooperation and discord in global climate policy. *Nature Clim Change* 6, 570–575 (2016). <https://doi.org/10.1038/nclimate2937>, accessed 29 September 2023.

1.1 Intergovernmental Forums

SNAPSHOT:

Recommendations for EU-UK collaboration in intergovernmental forums:

Consider G20 and G7 endorsement of market standards and solutions and work to ensure their effective implementation.

Identify common priorities and work together to build strong coalitions within the G20 to catalyse action from key members within the group.

Use the G7 climate club to develop a globally coherent and applicable approach to carbon pricing and develop incentives designed to hold members accountable.

Utilise the NGFS to share information and conduct research with the ultimate goal of developing common guidelines and increasing data accessibility.

The EU and UK must work together to provide more clarity on the direction of the IPSF by narrowing its remit to focus on specific issues. The IPSF would be best utilised to drive intergovernmental and cross sector collaboration on transition pathways.

The UK must leverage its expertise with the TPT and share its expertise with the IPSF, to promote a globally consistent approach to transition planning.

Intergovernmental forums have memberships consisting of nation states, for example the UN-convened COP with wide-ranging governmental membership. Some also have memberships consisting of central banks and finance ministries of nation states, such as the G7, G20 and the Network for Greening the Financial System (**NGFS**). They provide a forum for governments to collaborate, share policy and technical information and set common goals, exchange information, experiences and promote best practice to advance the transition to net zero.

These groups are highly influential, and they incorporate and represent the politics and policies of individual nation states. They recognise the importance of collaboration between nation states for the achievement of shared goals. Their large research and organisational structures ensure that all nation participants are well-informed and up to date, ensuring that nations with fewer resources are able to participate effectively.



Assessing effectiveness

THE G20

The G20 has demonstrated its adaptability and agility in forming issue-specific alliances, by quickly convening major economies to reach consensus on a number of occasions. In 2009, G20 leaders quickly convened in London to agree a comprehensive stimulus package and, for the first time, expanded their mandate by expressing commitment to a sustainable and low-carbon economy. After the Paris Agreement, the G20 created the Sustainable Finance Study Group and more recently, the reformed Sustainable Finance Working Group has been instrumental in advancing climate risk disclosure and transition finance and in advancing global standards.

Endorsement from the G20 and G7 is also crucial and demonstrates clear political will. The Taskforce for Nature-Related Financial Disclosures (**TNFD**) and Taskforce for Climate-Related Financial Disclosures (**TCFD**) enjoyed wide backing from their launch with their frameworks being supported by both G20 and G7 Finance Ministers. Such support positively affects the calibre of people involved in designing the frameworks and ensures that adoption is more straightforward as this gives businesses confidence that the framework will form the global baseline in its domain.



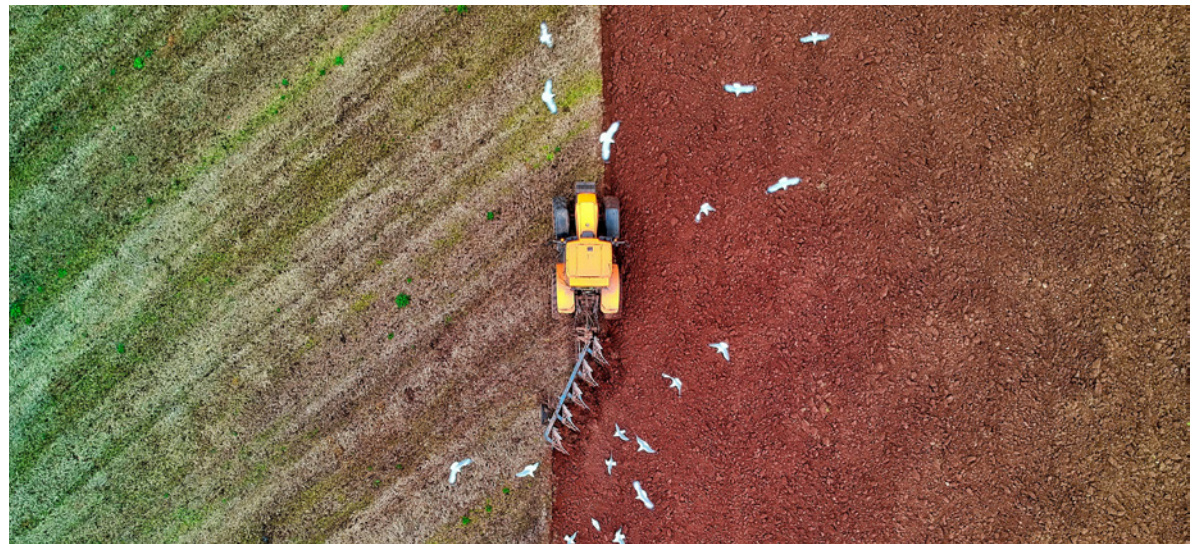
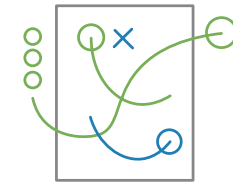
The success of the TCFD's recommendations can be demonstrated by the 19 jurisdictions, accounting for close to 60% of global 2022 GDP, with final or proposed TCFD-aligned disclosure requirements. Additionally, the Task Force has seen over 4,800 organizations indicate their support for the TCFD's recommendations, ranging from companies and civil society to governments. However, more needs to be done.⁸⁷

TCFD 2023 Status Report

Nevertheless, there are shortcomings within the G20. Lack of any enforcement mechanisms means members have to trust each other to implement the agreed commitments. While significant progress has been made by some members on the Paris Agreement commitments, others have struggled to reduce their emissions, exemplified by the insufficient implementation of post-pandemic green stimulus investments.

The most significant way to resolve this is by individual members building strong networks within the G20 on specific issues to reinforce these commitments. Given that they represent two of the largest economic blocks, a strong EU-UK collaboration has the potential to drive change within the G20. These coalitions, or networks, of likeminded countries can facilitate the implementation of commitments such as the Paris Agreement by driving collective action and providing gap-filling functions.

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8 TCFD 2023 Status Report accessed 13 October 2023.

THE G7 CLIMATE CLUB

The G7 has taken a leading role in bridging the gap between advanced economies and emerging markets. Recently, the G7 announced the formation of a climate club, created after COP27 and due to be launched at COP28⁹. The climate club's objective is to "encourage nations with bold climate goals to join forces as a way to speed up the transition towards net-zero...and help address coordination and implementation of measures such as the EU's carbon border adjustment mechanism and the US Inflation Reduction Act".

Though its success cannot yet be assessed, the invitation of developing states to take part in the initiative, and the dual chair system to recognise the contribution of those states, demonstrates its willingness to take an all-encompassing approach. Crucially, it also has the potential to tackle the enforcement issues. The EU and UK can channel their leading positions in carbon markets by working together to build strong coalitions which will facilitate holding "freeriders" to account. This could be done within the G7 Climate Club by agreeing strong incentives to join, and imposing penalties for those not adhering to the conditions. These could include imposing a carbon import levy, flexible to account for the variance in national income and to promise investment to assist emerging economies with their efforts to decarbonise.

THE NGFS

Included in the G20 Sustainable Finance Roadmap¹⁰, the NGFS is as a global network of central banks and financial supervisors which can be used to improve coordination at the regional and international level to facilitate comparability, interoperability, and consistency. The NGFS is well placed to do this given one of its goals is to advance global discussions collaboratively with private and public sector.

It has made important contributions to advancing climate change commitments, mainly by providing climate stress-testing, risk assessments and data sharing with regard to research projects.

The EU and UK can use their global leadership position in sustainable finance to encourage dialogue with the private sector within NGFS workstreams and advocate for the development of consistent sustainability reporting standards aligned with the different jurisdictional needs of NGFS membership. This would go far in allowing the enabling both the accessibility and quality of data points which will in turn assist regulators in assessing climate risks more accurately.

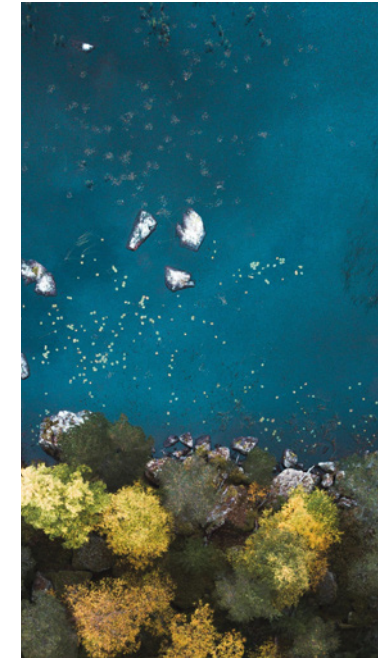


The UK is committed to working closely with our neighbours in Europe, and with other international partners through the Financial Stability Board, Bank of International Settlement and other fora...Whilst some details of our approach may occasionally differ to our friends, what will never falter is our commitment to the highest standards. To be clear, we will never diverge just for the sake of divergence"

Andrew Griffith, economic secretary to HM Treasury¹¹

¹⁰ G20-Sustainable-Finance-Roadmap.pdf (g20sfg.org).

¹¹ UK 'committed to working closely' with the EU as City firms fear post-Brexit red tape (msn.com), accessed 13 October 2023.



THE IPSF

The IPSF is an example of an intergovernmental forum with an extremely wide remit: “to mobilise private sector capital to finance the transition to a low carbon economy”, but seems to have focussed on transition finance, ESG disclosure measures and producing a common taxonomy. It has produced reports on each of these but, despite support from the G20, has lacked direction and coherence in its output.

The EU and UK should work together to narrow the remit of the organisation and to determine relevant workstreams which dovetail with the requirements of the Paris Agreement and the workstreams of the G20. Care should be taken to ensure that output created is unique and involves contribution and active engagement from all members. An organisation like the IPSF could come into its own in the future, if the participants review the scope of its goals and how to harness its work product – the EU and UK are in a good position to drive this.

The IPSF could learn lessons from the NGFS, which reviewed and revised its workstreams in 2022, making them more focussed and relevant, also adding expert groups in relation to certain issues. We believe a sensible approach would be to narrow the focus from transition finance, to transition planning specifically, as well as looking at the interoperability of taxonomies.

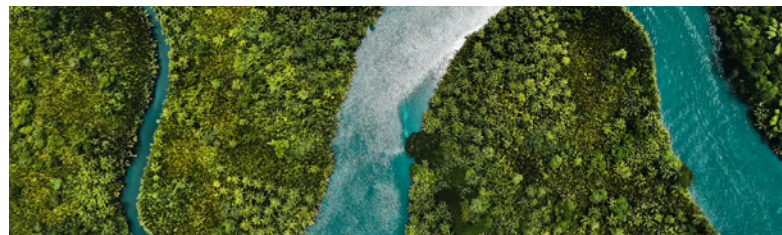
Given that the IPSF is a purely intergovernmental organisation, the addition of expert and market-led groups, or indeed collaboration with already existing groups such as the UK TPT or GFANZ could make the work of IPSF more relevant and efficient.

Although not an international initiative, the TPT serves as a great example of an initiative that involves the collaboration of multiple international forums, with both GFANZ and the IFRS Foundation sitting on the steering group for the TPT.

The TPT has also engaged with financial regulators in other jurisdictions and developed its guidance in collaboration with representatives from companies, financial institutions, regulators, policy makers and civil society in the UK as well as the International Organization of Securities Commissions (**IOSCO**). We would note that transition plans are one of the focusses of GFANZ and are also required under the European Sustainability Reporting Standards (**ESRS**). Their publication is currently voluntary in most jurisdictions but is expected to become mandatory in the near future, given the importance of transition plans in reaching net zero.

Transition plans risk becoming another area with a myriad of different standards and methodologies. To help drive consistency in transition planning, the UK and EU, as first movers in this space, must engage bilaterally to ensure compatibility between the different obligations under the two frameworks. Given the TPT’s objective to build relationships and establish dialogues with organisations overseeing relevant international standards, the UK should share its expertise with the IPSF and work to develop internationally consistent and interoperable transition plan frameworks. The IPSF represents a forum which can be mobilised to deliver this. The EU and UK must therefore allocate more resources to the IPSF in order to increase overall engagement and to maximise alignment in areas such as transition plans. Engaging in such dialogue and sharing expertise would encourage other jurisdictions to follow this lead.

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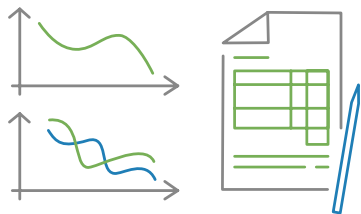
Defining “green”

The EU was a forerunner in designing and implementing its EU Taxonomy Regulation which is relevant in relation to company sustainability reporting under the EU Corporate Sustainability Reporting Directive (**CSRD**) and investment disclosure under the Sustainable Finance Disclosure Regulation. There are other jurisdictions, such as China and Japan, who have also put in place types of taxonomies.

The UK is also due to consult on a UK green taxonomy before the end of 2023. It is proposed that the UK Green Taxonomy technical screening criteria (**TSC**) would use the EU Taxonomy TSC¹² as a starting point.

However, as there are certain activities which form a large proportion of UK company turnover but which are not included in the EU Taxonomy TSC, the UK’s Green Technical Advisory Group (**GTAG**) has proposed that there is value in including such activities in the UK Taxonomy TSC. These differences will also be reflected in other taxonomies in other jurisdictions reflecting the different types of business and activities which take place.

Given the large number of companies, financial institutions and asset managers who operate on a cross-border basis within both the UK and the EU, it will be essential to minimise fragmentation to make reporting as decision useful as possible for investors.



12 Developing a UK taxonomy adapted to the UK’s needs in the short and medium term: Scope, coverage and reporting considerations.

Considering how closely integrated businesses are in both jurisdictions, the EU and UK must engage bilaterally and within the IPSF to explore the application of the EU Taxonomy on third country issuers and hold dialogue over the UK Green Taxonomy to ensure as much interoperability as possible across both jurisdictions and beyond.

It will be crucial to:

- **reflect** on the strengths and weaknesses of the EU Taxonomy, with a view to ensuring that these are resolved in the new UK Taxonomy and amendments to the EU Taxonomy.
- **ensure** that “transition” is reflected in a useful way that mobilises sufficient capital to transition activities.
- **provide** a clear mapping of interoperability not only between the UK and EU taxonomies but also with the other leading taxonomies, such as those developed in China and Japan.



“A green taxonomy is an important building block of a sustainable financial system. It is a tool to help to direct flows of capital to green, sustainable projects. However, enabling the flow of capital into green, sustainable projects around the world requires interoperability.”¹³
IPSF Common Ground Taxonomy – Climate Change Mitigation: Instruction report

13 Common ground taxonomy – Climate change mitigation instruction report (europa.eu), accessed 13 October 2023.

1.2 International Sustainability Framework and Standard Setters

SNAPSHOT:

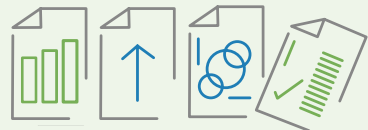
Recommendation for EU-UK collaboration on international standards:

Renewed and enhanced engagement between the ISSB, GRI and EFRAG with regard to future standards, including nature.

Commit to releasing collective guidance and mapping the interoperability between all future standards, in order to facilitate effective implementation and to ease the burden and cost on preparers.

Sign a cooperation agreement, mirroring the understanding between the ISSB and GRI and EFRAG and GRI, to formalise the working relationship.

Consider setting up a new body permanently assigned with the responsibility of setting any future sustainability standards.



Sustainability reporting – a panoply of standards

Historically, there have been a number of international organisations which have developed and maintained sustainability reporting frameworks and reporting standards, such as the Global Reporting Initiative (GRI), the UN Principles for Responsible Investment (UN PRI), the International Integrated Reporting Council (IIRC) and a number of sector specific frameworks. This panoply of sustainability reporting standards has led to a lack of consistency in sustainability reporting, which has proven to be a barrier impeding the effective flow of capital.

As a solution, the ISSB was formed at COP26, tasked with producing a high quality, comprehensive global baseline for sustainability disclosures which focus on the needs of investors and the financial markets. The ISSB standards are consistent with TCFD recommendations and compatible with IFRS standards.



The ISSB was formed at COP26, tasked with producing a high quality, comprehensive global baseline for sustainability disclosures which focus on the needs of investors and the financial markets.

The ISSB sustainability standards, IFRS S1 and S2, have been hailed as a crucial and historic event for the business reporting landscape. The standards are available to all companies reporting under IFRS. They deliver a common language for companies to tell investors their sustainability stories, as well as a set of concepts and definitions that connect sustainability disclosures with the financial statements. Many countries have endorsed and signalled their intention to adopt the ISSB standards which will eventually help to harmonise reporting globally, albeit with differences in implementation. However, the ISSB standards have not yet been widely adopted and it remains to be seen how long it will take for this to happen.¹⁴

In parallel, EFRAG, tasked by the European Commission to create the ESRS, has had its own standards adopted. In contrast to the ISSB standards, which reflect primarily the effect of sustainability risks on a company (financial materiality), the ESRS standards take a double materiality approach, looking at financial materiality as well as impact materiality.

In theory, this is not problematic if both approaches are interoperable when it comes to overlap in the investor-oriented reporting. Both the ISSB and EFRAG have been engaged in discussions to ensure as much alignment as possible, but in practice the standards have yielded differences in both definitions and in range.

Given both standards were created in parallel, it is important to note that the ISSB and EFRAG have made the best out of a difficult situation. However, renewed and enhanced engagement will be paramount to ensure all future standards will be as closely aligned as possible. It is essential for companies striving to meet the requirements of both ESRS and IFRS standards to rely on harmonised sources of information which follows the same definitions. This will also be critical in building the necessary data sets to facilitate better investment decisions. Considering the UK has announced it is set to adopt ISSB standards, the EU and UK need to actively engage both bilaterally and within these standard setting bodies to ensure convergence from the outset.



Considering the UK has announced they are set to adopt ISSB standards, the EU and UK therefore need to actively engage both bilaterally and within these standard setting bodies to ensure convergence from the outset.

¹⁴ One reason for the success of the ISSB has been the prominent backing from the G7, G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), African Finance Ministers and Finance Ministers and Central Bank Governors from more than 40 jurisdictions – ensuring that the standards are likely to be widely adopted following the endorsement from IOSCO of the ISSB sustainability standards on 25 July 2023 (IOSCO endorses the ISSB's Sustainability-related Financial Disclosures Standards, accessed 13 October 2023) as requested by the G20.

The need for alignment

These differences are compounded by the lack of joint interoperability guidance from ISSB and EFRAG which, if available, would help companies and investors to navigate the differences between the standards. EFRAG has confirmed significant alignment with the GRI framework¹⁵, but despite reports of engagement with the ISSB, joint mapping of the ESRS and the ISSB standards is still in progress.¹⁶ Indeed, the ISSB and the GRI have themselves announced that the technical mapping of their two sets of standards is under development and will come with examples of how to use the standards together as well as a digital taxonomy to streamline the exercise of reporting¹⁷. Such guidance plays a crucial role in facilitating the effective implementation of standards and significantly eases the burden and cost on preparers.

It is welcomed that the ISSB and EFRAG have announced they will be publishing a mapping exercise, and recent efforts to increase interoperability have yielded positive outcomes. Both parties must commit to maintain and strengthen this engagement going forward with the development of all future standards.

Signing a cooperation agreement would formalise this engagement and certainly result in the expression of how the two frameworks can be used alongside each other going forward. The EU must also evaluate whether EFRAG's structure facilitates this interaction and consider setting up a body with a permanent mandate to create any European standards going forward.



It is welcomed that the ISSB and EFRAG have announced they will be publishing a mapping exercise, and recent efforts to increase interoperability have yielded positive outcomes.

¹⁵ EFRAG-GRI Joint Statement of Interoperability, 4 September 2023, accessed 13 October 2023.

¹⁶ We note that EFRAG has published an assessment of interoperability of ESRS with the IFRS Sustainability Standards, see EFRAG SRB meeting Paper 04-01 dated 23 August 2023 and Paper 04-02, accessed 13 October 2023.

¹⁷ www.globalreporting.org/news/news-center/progress-towards-a-strengthened-sustainability-reporting-system/, accessed on 13 October 2023.

1.3 Market-led forums

SNAPSHOT:

Recommendations for EU-UK collaboration in market-led forums:

Work with market-led initiatives such as GFANZ to develop common approaches to transition planning.

Engage with market-led forums to plug knowledge gaps and harness them to seek solutions from practitioners on issues surrounding capital allocation and technical guidance.



Market-led forums and initiatives producing technical standards and guidance have seen success on the international stage. This “bottom-up” approach of creating market-driven, research-based technical guidance for sustainability categorisation, data collection, monitoring, reporting and integration of evolving environmental science with market sector realities, allow for a more research-driven, and therefore less politically charged approach.

There are many examples of very successful groups which have created sustainability reporting standards or established a platform for environmental science to be evaluated, peer reviewed and reported to stakeholders around the world. The TCFD and GRI are great examples of such an organisation. International organisations formed to tackle technical problems need to be global in their expertise to ensure that technical advice is applicable to a wide range of markets as maintaining alignment is important.

Consultation with a diverse range of international actors is crucial and allows for the circumvention of political judgment when creating standards. It is vital that governments and industry speak in one voice and utilise the technical expertise and specialisation of market-led initiatives. Crucially, their cross-border nature allows for the formation of narratives that aren’t jurisdictionally restrictive. They also enable the sharing of information and exchange of best practice to a much more diverse range of information.

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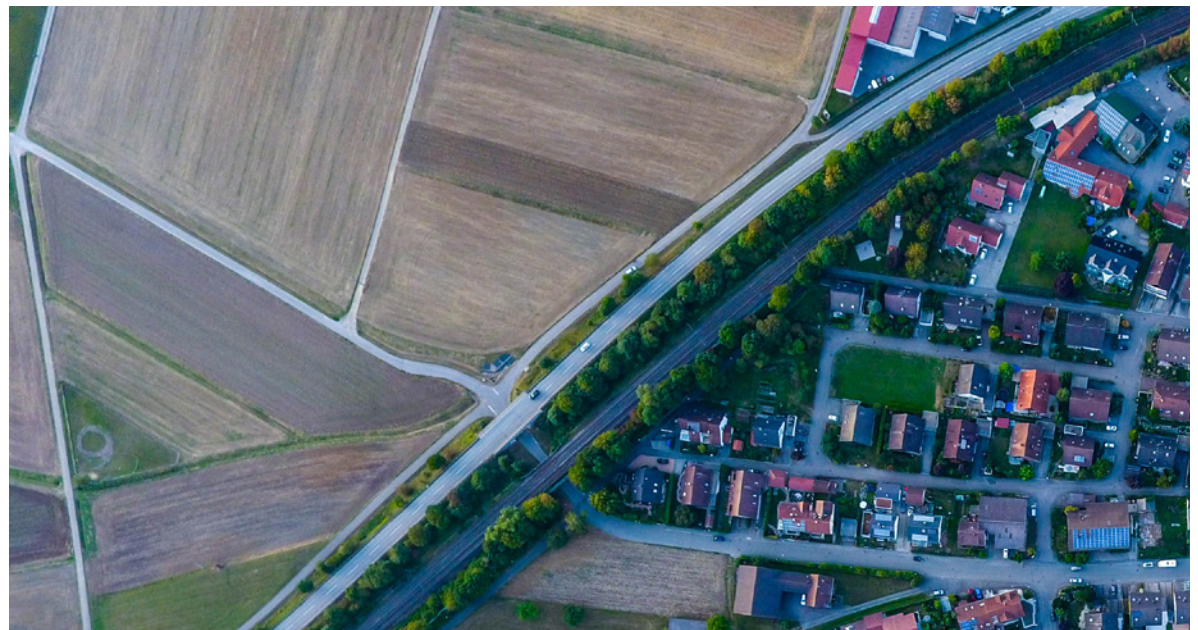
Businesses in the EU and the UK remain closely integrated, underpinned by strong historical connections and shared economic interests. The depth of these business relationships is often more profound than what is observed in other international jurisdictions, providing a solid foundation for increased collaboration. This unique and intertwined business landscape creates substantial opportunities for the EU and the UK to work closely together with industry and drive broader international consistency.

GFANZ serves as a great example of how the business community can mobilise itself to raise voluntary climate ambition through implementing global, group-wide transition plans and committing to align their portfolios with the Paris Agreement's goal of limiting global emissions to under 2°C above pre-industrial levels. The UK has actively engaged with GFANZ through the TPT and used GFANZ's pan sector framework and turned it into a disclosure regime in order to ensure international applicability. This is an example of best practice in working with industry to implement coherent and practical frameworks. The EU and UK must therefore engage with industry initiatives such as GFANZ to promote and align global approaches to transition plans. This would ensure regimes are more operationally resilient and ensure the different regimes do not give rise to duplicative or conflicting requirements.

Other organisations such as ICMA, for example, rely on their financial institution participant members to identify issues which affect them and to provide key input to reviews and consultations relating to the markets and products that members interact with on a daily basis. This has yielded positive results, with the publication of ICMA's green bond principles resulting in guidelines with regard to implementing a transparent framework for green bond issuers which now forms part of a collection of principles.

The EU has implemented these principles and has taken them a step further by requiring issuers to disclose information based on the EU Taxonomy if issuing under the new voluntary EU Green Bond Standard. As different taxonomies develop, it will be crucial for the EU and UK to engage with ICMA in order to provide clarity on how mandating jurisdiction-specific taxonomy reporting will affect the implementation of green bond standards and labels in a capital markets context. Application of taxonomies adds an additional layer which can give rise to significant usability issues, especially with regard to cross-border investment in green products. This also hinders mainstream adoption. The EU and UK must engage with ICMA to ensure consistency and credibility in the green bond market, particularly when new elements such as taxonomy-alignment are added.

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2 Mechanisms for EU-UK collaboration

Recommendations for driving forward collaboration:

Ensure the EU-UK Forum discusses and supports enhanced cooperation and coordination in international bodies.

Consider what additional structures are needed under the EU-UK Forum to improve collaboration on climate issues specifically.



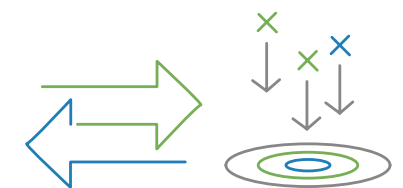
Various opportunities to strengthen EU-UK collaboration within international forums have been demonstrated, but the recent signing of the Memorandum of Understanding leading to the establishment of the new EU-UK Forum represents the appropriate medium to coordinate this action.

It is a welcome development in the relations between the EU and the UK and through the bilateral discussions of the EU and the UK, we hope that the EU-UK Forum will fulfil its aim of cooperation in a multi-lateral context and will enable both jurisdictions to take a leading role in implementing a coherent international approach to addressing climate issues.

In order to drive this successfully, it will be important to settle on an appropriate structure. To that end, it would be helpful to set up informal working groups as a way of ensuring that all relevant issues can be discussed in or alongside the EU-UK Forum. These informal workstreams should be focused on specific thematic areas such as green finance, but also on certain industry sub-sectors (e.g. asset management or insurance). This would allow experts in these fields to openly discuss and exchange different in-depth initiatives and enhance bilateral understanding and alignment.

These workstreams could also be an opportunity to amplify the good ideas coming out of the UK and the EU and therefore support positive exchanges between both sides. The UK and the EU may consider whether additional structures are needed under the EU-UK Forum to improve collaboration on climate issues specifically.

The signing of the Memorandum of Understanding to establish the new EU-UK Financial Regulatory Forum is a timely opportunity to strengthen EU-UK collaboration to support the journey to net zero.



3 Conclusions

Recipe for international forum success

The Paris Agreement's goals and objectives, coupled with the importance of addressing the climate crisis, demand robust international cooperation. The EU and the UK, as major players on the global stage, and as two likeminded jurisdictions with a shared understanding of objectives, have a unique opportunity to drive greater alignment and effectiveness within international forums. This would accelerate the transition to a sustainable, net zero emissions future. By implementing the recommendations outlined in this policy paper, the EU and the UK can lead the way in shaping global climate policies and sustainable finance strategies, ultimately contributing to a more sustainable and resilient world.

The paper has identified different types of international forums and provided specific recommendations for EU-UK collaboration within each category.

To drive this, the newly established EU-UK Forum offers the ideal platform for effective collaboration. Ensuring the forum discusses and supports enhanced cooperation and coordination on climate action in international bodies will be crucial.

INTERGOVERNMENTAL FORUMS

The EU and the UK should leverage their influence in forums like the G20 and G7 to endorse market standards and solutions, build coalitions for collective action, and promote a globally coherent approach to carbon pricing. They should also utilise the NGFS to share information, conduct research, and develop common guidelines.



INTERNATIONAL SUSTAINABILITY FRAMEWORK AND STANDARD SETTERS

The importance of renewed and enhanced engagement between standard setting bodies like the ISSB, GRI, EFRAG in supporting a coherent sustainable finance framework has been highlighted. Collective guidance and interoperability mapping between the different standards must be released to facilitate the effective implementation of global standards. This will enable the flow of capital to where it is needed.

MARKET-LED FORUMS

The paper emphasises the value of market-led initiatives in providing technical guidance and solutions from practitioners on issues related to capital allocation and sustainability. The EU and the UK must work with the business community to develop common approaches to transition planning.



Appendix

Glossary of International Forums

COP The United Nations' Conference of the Parties. The supreme decision-making body of the United Nations Framework Convention on Climate Change. All States that are Parties to the Convention are represented at the COP.

EFRAG European Financial Reporting Advisory Group.

EU-UK FORUM The EU-UK Financial Regulatory Forum is a newly convened, bilateral forum between the EU and the UK to discuss financial regulatory matters, such as preserving financial stability, market integrity, and the protection of investors and consumers.

G7 CLIMATE CLUB The G7 Climate Club is comprised of Canada, France, Germany, Italy, Japan, the EU, the UK and the United States of America as well as developing countries on a voluntary basis.

G20 SFWG G20 Sustainable Finance Working Group. Previously Sustainable Finance Study Group.

GFANZ Glasgow Financial Alliance for Net Zero. Founded under the umbrella of the UN and bringing together independent, sector-specific alliances such as financial institutions, insurers, asset managers, pension funds, export credit agencies, stock exchanges and audit firms.

GRI Global Reporting Initiative. Global impact standards setter.

ICMA The International Capital Markets Association. Market-led initiative promoting the development of the international capital and securities markets.

IOSCO International Organization of Securities Commissions. International body that brings together the world's securities regulators.

IPSF International Platform for Sustainable Finance. Members are public authorities in charge of developing environmentally sustainable finance policies in Argentina, Canada, Chile, China, Hong Kong Special Administrative Region of the People's Republic of China, India, Indonesia, Japan, Kenya, Morocco, New Zealand, Norway, Senegal, Singapore, Switzerland, United Kingdom, and the European Union.

ISSB International Sustainability Standards Board. Formed under the International Financial Reporting Standards (IFRS) Foundation.

For more background information on the international forums considered, please see [here](#)

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City of London Corporation

Kimon Argyropoulos Niarchos
Kimon.argyropoulosniarchos@cityoflondon.gov.uk
+32 490644430

Hogan Lovells

Bryony Widdup
Bryony.widdup@hoganlovells.com
+44 20 7296 7269

Rita Hunter
Rita.hunter@hoganlovells.com
+44 20 7296 2931

Emily Julier
Emily.julier@hoganlovells.com

Celeste Aubee
Celeste.aubee@hoganlovells.com

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