Collective responsibility for climate action

LSEG’s Group Head of Sustainability Jane Goodland speaks to Hywel Ball, EY’s UK Chair and UK&I Managing Partner, to discuss the roadmap towards net zero and the collective responsibility that we all have to play in climate action.

Below is the transcript.

Jane Goodland (00:09):
Hywel, welcome, and thank you for joining us on Net Zero Conversations. Now, you've been at EY for many years, I believe, so can you tell us a bit about your role there?

Hywel Ball (00:18):
Yeah, I have been there at EY for many years. It's coming up to 40 years. I am currently the UK Chair and Managing Partner at EY but over the years I've done many role and actually first got associated with climate back in the early 2000s when I was Head of Energy. So this has been a fascinating topic for me for a long time.

Jane Goodland (00:41):
And looking back to COP26 last year, what have you observed or what are your reflections since then because we are midway between the COPs right now?

Hywel Ball (00:51):
Yeah. I remember being at COP26 last year being incredibly excited by a historic day when three statements were made, the Chancellor making a statement about requiring mandatory transition plans, Mark Carney talking about the GFANZ commitments, and the ISSB making their statements about accelerating standards, and all of those, I felt, were coming together to make a chance for real change.
I'm a bit worried as of late with the global conflict and thinking about what will that do. Will that slow things down or will it indeed accelerate it? And probably over the short term it's going to put more tension into the system but I am very positive about over the medium term, that the change to energy prices means we'll accelerate looking for new solutions of energy. And probably, as far as policy makers are concerned, we'll see that alignment between energy policy, energy security, climate security, and national security and that I think I'm optimistic will help, again, accelerate the transition.

Jane Goodland (01:57):
Okay. Interesting. And you mentioned policy makers there as well as the energy sector and so I'm interested to know who do you think has the biggest role to play in really transitioning to net-zero and getting there on time?

Hywel Ball (02:12):
Unfortunately, I think it's all of us.
Net Zero Conversations: Hywel Ball

Jane Goodland (02:14):
Yeah.

Hywel Ball (02:15):
Which I'm sure is, you know, you're getting consistency because no one part can finish the jigsaw. I think all those pieces have got to come together, whether it's the finance, the regulators, the policy makers, the companies, and the advisors like us. So everyone's got to work together to deliver this transition. We've got to work collaboratively, innovatively, and probably actually in ways that we haven't done recently. I know being a member of the Big Four, this has actually made us work collaboratively together when we've been incredibly strong competitors. And this is the first time in my lifetime of 40-odd years at EY that we have worked so well together on big issues that are defining society at the moment.

Jane Goodland (03:00):
Yeah. I think you're right. I mean, collaboration is absolutely the name of the game. With respect to EY's work on sustainability with clients, can you give us a flavor of the types of things that you are helping clients to do and navigate?

Hywel Ball (03:14):
Let me start by saying that we've got to walk the talk as well so we're focusing on our ambition to get to net-zero by 2025, probably a little bit easier for a professional services firm than a fossil fuel but nevertheless we feel we need to do that.

We then are looking, I think, at three levels. I think we have a role as a convener. We sit at that nexus between industry and government and so we do have a role there to play. We've done work with young people, bringing them together with leaders of industry to create the Climate Business Forum which was well received. We've worked in the North Sea to help create the North Sea Transition Deal. So I think at the highest level there's that role for us to play.

We've obviously got a huge role with companies, helping them advise on their own transition, whether that's through M&A activity or helping them work through their transition plan and understanding their own supply chains and the tax implications of that.

And lastly, but not least, we have a role as auditors and assurance providers of making sure that we're able to deliver trust into, as Mark Carney described this morning, the new financial system that we will need to deliver the sustainability revolution. And that can be in currently thinking about how climate risk is reflected in today's financial statements but also looking forward about how the new disclosures, the new reporting, is going to be required to deliver the information to allow this new financial system to work.

Jane Goodland (04:46):
So you mentioned this kind of the new reporting area. Can you tell me why ISSB is an important development in that context around global disclosure standards?

Hywel Ball (04:59):
Yeah, it is so important that we can have global, consistent, aligned standards because without that you can't get the benchmark and you can't understand progress, you can't compare one country to another or one company to another. So I think why I was so excited about the ISSB was I've been involved for many years on looking at it and we were sitting in a position where we had this alphabet soup of different groups trying to create the metrics and what the ISSB is doing is to bring together the best of that thinking. And, to date, they've evidenced that, they've not been reinventing the wheel, they've been building, for example, on the TCFD. And then they've been doing it very quickly. They've produced their standards, which are short, strong, relevant, in less than six months and normally an accounting standard will take seven to nine years. So six months for a draft standard is pretty good.
What we now need to see, though, is that the standards get adopted by IOSCO and then the countries adopt them. They are talking about three years and I think that's too slow so we need to try and put the pressure on so that we can accelerate the adoption of the ISSB standards and deliver that change for companies.

Jane Goodland (06:17):
And at EY are you working with your clients now to get them ready for those new reporting standards in advance?

Hywel Ball (06:26):
Absolutely. I think this is a huge priority of virtually all the boards that I attend. They're all thinking about their own reporting. They're all thinking about the transition plan. They're all worried about how will climate risk impact on their business model. And we're starting to work with our clients to understand what is the disclosure that they need to do so that their investors, their stakeholders, can understand what their journey is, to understand actually what are quite technical definitions. So when a company says, "We are Paris aligned," what does that mean? And how do they evidence, if they are going to make that statement, that those risks are reflected in the financial statements in a way that investors and other stakeholders can understand?

Jane Goodland (07:09):
And can I just ask, in practical terms, when we talk about helping clients to integrate climate risk what do we actually mean by that? What sort of activities is EY working with its clients on?

Hywel Ball (07:22):
Ultimately, a lot of what we do as professional services is helping clients understand the long-term risk that they're facing. So it is really taking that climate risk as being a long-term risk for the business model and then breaking that down so that the clients can both understand the duration and actually the specificity of the financial impact of those risks and challenging clients then to say, "Well, are they actually adequately reflecting those risks?" both in the narrative of their reporting but also in the numbers of doing it. So I think that's probably the most important role that we've got at the moment.

Jane Goodland (07:56):
I'd like to move on to this term greenwashing that we hear quite often and I'd like to get your thoughts around that and, in connection with that, the role potentially of greater assurance activity from firms such as yourself on sustainability disclosures.

Hywel Ball (08:13):
Auditors... I mean, my firm EY began its life 200 years ago with Arthur McLelland in Glasgow and they started because it was the start of the industrial revolution and it was needed because new sources of capital were coming in. Then if you go a hundred years further on, modern-day company reporting and accounting started to happen in the '20s. And actually that fueled through the limited liability company a huge explosion of further capital which has driven, I think, a massive amount of wealth over the last century.

If you now think we're at a pivot point where we are going to move, and Al Gore said this, that we are going into a position where we have this change to a sustainability revolution which is the size of the industrial revolution but also has within it the speed of the digital revolution. And we're moving, as Mark Carney would describe, to a new financial system.

We know, as being around for 200 years, about how important it is in the old system to get the finance right, to make sure companies reported their finance capital in a way that was readily understandable and to have assurance on that so investors have the confidence and the trust to do it. I think as we now move to this new financial system where we have different metrics which people don't understand, which vary a lot, different ways to control those, that information that's being reported, we have a new responsibility, a new challenge to both provide and help the standards of reporting but also the level of assurance against that reporting. And if we don't
get both of those right I think we'll quickly lose trust in this new financial system. You already got the phrase greenwashing, a lot of that can be applied to marketing, advertising, but actually deep down it’s going to be how a company reports its performance on delivering to this new financial system.

Jane Goodland (10:04):
And, if I may, can I ask, if there was one thing that we need to get right to make COP27 a success, in your view what would that be?

Hywel Ball (10:14):
My personal view was that COP26 was a success because it was the first time that business and the finance community showed up at such an event. I worry that with all the challenges in the world, global conflict, the inflation, potentially heading into recession, that business and finance community's mind will get turned away from COP. So I think the one thing for that is that business and finance needs to show up as strongly and has input to COP27 as they did for COP26.

Jane Goodland (10:46):
Great. Thank you very much.

Hywel Ball (10:47):
Thank you.