COP27 HAS A CHALLENGING AGENDA THAT BANKS MUST FOLLOW CAREFULLY

NOVEMBER SEES THE 27TH 'CONFERENCE OF THE PARTIES' (COP27) CONVENED IN SHARM EL-SHEIKH, EGYPT. ONE YEAR AFTER GLASGOW HOSTED THE 26TH EDITION, IT IS VITAL THAT BANKS NOTE ANY (RE)PRIORITIZATION AND THE DIRECTION OF TRAVEL REGARDING GLOBAL CLIMATE AMBITION.

Climate Risk Perspectives

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Each COP has a specific vision...

COP27 has laid out its vision of success, which is to substantiate progress made at Glasgow, by moving from stronger commitments to 'specific, measurable, impactful initiatives'. The five main pillars of this vision are:

- Equitable balance between developed and developing countries in funding the global challenge of loss from mitigation and adaptation to climate change
- Basing all planned work on the Intergovernmental Panel on Climate Change (IPCC), or equally credible groups, scientific analysis of the problem
- Creating a 'no country left behind' mentality for all collaborative action
- Commitment to common rules and principles in tackling climate change
- Determined movement from negotiation to action

In keeping with this vision statement, specific targets of the Summit are centered heavily on the transition to action.

- Agreed work streams to implement pledges on time and at scale
- A new, science-based, adaptation agenda to protect basic and sustainable needs of vulnerable countries
- Action to support vulnerable countries where loss and damage have already occurred
- Mobilize financial flows based on needs and existing Nationally Determined Contributions (NDCs)
- Create a framework for a just transition, avoiding backsliding on commitments and pledges

This COP is clearly focused on one of the major gaps in the achievements of COP26, which was to make substantive progress in climate responsibilities between developed and developing countries.

The current position is largely tracked from the Paris Accord of COP 21...

The Paris-based COP was a milestone in climate politics. At that Summit, the global community agreed on key objectives, including:

- Hold global warming to 2 degrees above pre-industrial levels
- Make 'best efforts' to hold global warming to 1.5 degrees above pre-industrial levels
- Create NDCs, which act as pledges from specific countries, with targets to be set and increased regularly

This established twin ambitions - with the NDCs being local and independent, there is no strict obligation for those commitments to combine to reach the wider group ambition. It was conceived as a solution to the political impasse that had developed between the richer and weaker economies.

As a result of this agreement, progress to a sustainable global economy was regionalized, with an overriding ambition loosely guiding that progress. Such tracking is, therefore, performed against multiple targets.

- Current policies vs NDCs measuring the implementation of specific pledges by each country
- NDCs vs. 2-degree limit measuring the gap between pledges and what is generally seen as that countries' 'fair share' of global ambition

Tracking the first of these is most important for those creating financial scenarios, because NDCs are benchmarks against which governments have agreed to be measured.

Direction of travel is determined by more than NDCS, though...

In addition to NDCs, there are two more elements to consider.

- Long-term low greenhouse gas emissions development strategies (LTS) - Plans, typically out to 2050, to convert regional power generation to being sustainable (preferably net zero).

- Sustainable Development Goals (SDGs) - 17 high-level goals covering ambitions of the UN for a more sustainable world. While a number of these are linked to climate change, the full set is wider in scope. The relationship between climate and SDGs is covered here

The interconnected web of complementary, and occasionally conflicting pledges and plans must be viewed in the context of building an overall pathway. NDCs may not be dependent upon LTSs and SDGs, but harmonization may delay NDC implementation. The closer aligned these plans are, when they exist at all, the more likely the NDCs are to become a reality in a timely manner.

Data is available to track progress and linkages...

Navigating these relationships can be daunting, but organizations such as Climate Watch provide details as to who has provided NDCs, updated NDCs and LTSs and how these relate to the UN's SDGs. These datasets and analyses can then be used to modify NDCs' costings in order to build scenarios in a more 'real world' context.

Analysis of the most recent submissions and data indicate to scenario builders, within bank risk management departments, the manner in which each country treats the transition. As an example, we can look at the highest emitters in terms of NDC and LTS submission.

Country	Share global	NDC	Updated First NDC	2nd NDC	LTS	Climate Framework ...	Sectoral Laws or Policies
China	24.23%	✓	✓	✗	✓	✓	✓
United States	11.60%	✓	✓	✗	✓	✓	✓
India	6.76%	✓	✓	✗	✗	✗	✓
European Union (27)	6.33%	✓	✓	✗	✓	✗	✗
Indonesia	3.94%	✓	✓	✗	✓	✗	✓
Russia	3.87%	✓	✗	✗	✗	✗	✓
Brazil	2.92%	✓	✓	✗	✗	✓	✓
Japan	2.28%	✓	✓	✗	✓	✓	✓

Above are the countries whose contribution to global emissions is greater than 2% of the total, and their status in terms of submission of NDCs and LTSs.

Source: Explore NDC-SDG Linkages | Climate Watch (climatewatchdata.org)

Above is a heatmap indicating the level of linkage between regional climate NDCs and the specific UN SDG exclusively covering climate change (number 13/17).

Data such as this shows that there is work to be done to meet various promises and commitments from the preceding decade. Most notably:

- Key emitters need to update their NDCs
- NDCs need to be harmonized with LTSs
- NDCs need to be harmonized with SDGs

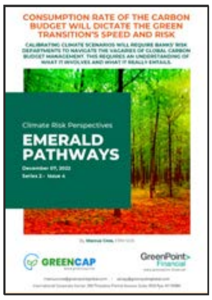
One way of looking at these problems is that the 'cone of uncertainty', which spans the different outcomes from 'current policies' to the '2-degree limit' has to be reduced by adjusting and implementing more ambitious NDCs. Not only will this put much-needed energy into the fight against climate change, but it will also be the natural next phase of this journey that started in Paris at COP15.

Egypt's COP can be viewed as the most political since Paris...

The 27th COP takes place against a dramatic global backdrop. The war in Ukraine has put a strain on worldwide food and energy security. The interconnectedness of the global supply chain highlights not just the need for a unified approach, but also the growing disparity between rich and developing economies in terms of how they deal with these core security issues.

Coupled with the fact that developing nations are also on the front line of physical climate change, COP27 is aiming to finally achieve agreement on the long-discussed 'fair transition'. In broad terms, this means directly supporting countries facing direct climate damage in terms of adaptation, and wealthier countries providing more funding to countries as they 'catch up' in the most sustainable way.

If Paris provided a neat route past a unified approach, and Glasgow acted as the five-year checkpoint, Egypt must see political convergence. The ever-shrinking carbon budget is the ticking stop clock that looms large over negotiations, and it is imperative that discussion becomes action before 2025 if 2030 goals are to have any chance of being met.



Banks' risk departments must take careful note of the details...

Transitional policy changes on the scale that are being discussed will have massive impacts on economies across the world. These impacts will fundamentally change the credit risk landscape within those countries. And if banks are unprepared, then they will find themselves on the wrong side of the transitional balance sheet, with rising economic risk costs tying up capital in brown assets rather than funding the journey to a greener future.

GreenCap can help...

GreenCap is a turnkey 'Risk as a Service' solution that allows banks to model economic climate pathways, including current policies, NDCs, and 2-degree limits. With the financial risks of each being calculated from the banks' perspective, climate change risks can be included within the wider scope of risk management. CROs and lending officers will then be in a position to manage balance sheet strategy in a way that is entirely in keeping with its sustainability ambitions

Visit GreenCap.live for further news, insights, and resources curated for banks to bring climate change into their risk management, as well as details about the GreenCap climate risk system.

GREENCAP

ABOUT GREENCAP

- GREENCAP is a turnkey 'Risk as a Service' (RaaS) solution, designed for banks to include climate change as a category in their risk management frameworks.
- The solution allows banks to replicate climate pathways within their scenarios for economic impact and risk analysis.
- Using GreenCap, banks can modify pathways and scenarios to include the timing effects of delayed sustainability transition measures.
- Loans and credit facilities are measured and monitored against risks arising from both ‘physical’ and ‘transition’ impacts.
- GreenCap provides support for risk reporting and governance in the areas of ‘Responsible Banking’ and climate change.
- With GreenCap, banks can ensure that their climate strategies are financially grounded, and loan pricing is optimized throughout the transition to a green global economy.

GreenPoint> Financial

ABOUT GREENPOINT FINANCIAL

- GreenPoint Financial is a division of GreenPoint Global, which provides software-enabled services, content, process and technology services, to financial institutions and related industry segments.
- GreenPoint is partnering with Finastra across multiple technology and services platforms.
- Founded in 2006, GreenPoint has grown to over 500 employees with a global footprint. Our production and management teams are in the US, India, and Israel with access to subject matter experts.
- GreenPoint has a stable client base that ranges from small and medium-sized organizations to Fortune 1000 companies worldwide. We serve our clients through our deep resource pool of subject matter experts and process specialists across several domains.
- As an ISO certified by TÜV Nord, GreenPoint rigorously complies with ISO 9001:2015, ISO 27001:2013, and ISO 27701:2019 standards.

Marcus Cree

MANAGING DIRECTOR AND
HEAD OF FINANCIAL TECHNOLOGY AND SERVICES

Marcus has spent 25 years in financial risk management, working on both the buy and sell side of the industry. He has also worked on risk management projects in over 50 countries, gaining a unique perspective on the nuances and differences across regulatory regimes around the world.

As Managing Director, Marcus heads GreenPoint Financial Technology and Services and has been central in the initial design of GreenPoint products in the loan book risk area, including CECL and sustainability risk. This follows his extensive experience in the Finastra Risk Practice and as US Head of Risk Solutions for FIS. Marcus has also been a prolific conference speaker and writer on risk management, principally market, credit and liquidity risk. More recently, he has written and published papers on sustainability and green finance.

Marcus graduated from Leicester University in the UK, after studying Pure Mathematics, Phycology and Astronomy. Since graduation, Marcus has continually gained risk specific qualifications including the FRM (GARP's Financial Risk Manager) and the SCR(GARP's Sustainability and Climate Risk). Marcus's latest academic initiative is creating and teaching a course on Green Finance and Risk Management at NYU Tandon School of Engineering.

Sanjay Sharma, PhD

FOUNDER AND CHAIRMAN

Sanjay provides strategic and tactical guidance to GreenPoint senior management and serves as client ombudsman. His career in the financial services industry spans three decades during which he has held investment banking and C-level risk management positions at Royal Bank of Canada (RBC) Goldman Sachs, Merrill Lynch, Citigroup, Moody's, and Natixis. Sanjay is the author of "Risk Transparency" (Risk Books, 2013), Data Privacy and GDPR Handbook (Wiley, 2019), and co-author of "The Fundamental Review of Trading Book (or FRTB) - Impact and Implementation" (Risk Books, 2018).

Sanjay was the Founding Director of the RBC/Hass Fellowship Program at the University of California at Berkeley and has served as an advisor and a member of the Board of Directors of UPS Capital (a Division of UPS). He has also served on the Global Board of Directors for Professional Risk International Association (PRMIA).

Sanjay holds a PhD in Finance and International Business from New York University and an MBA from the Wharton School of Business and has undergraduate degrees in Physics and Marine Engineering. As well as being a regular speaker at conferences, Sanjay actively teaches postgraduate level courses in business and quantitative finance at EDHEC (NICE, France), Fordham, and Columbia Universities.