

# WHAT IS THE NEW U.N. CLIMATE RISK PROTOCOL, AND WHAT NECESSITATED IT?

Relevant for: Environment | Topic: Environmental Conservation, Sustainable Development, and EIA

**The story so far:** On May 10, 20 institutional investors from 11 countries convened by the U.N. Environment Finance Initiative (UNEP FI) made public [a report](#) that helps investors understand how to calculate the risk companies face from climate change. What necessitated this new protocol, which is more like an investor guide?

This guide was made in line with recommendations by the Task Force on Climate-related Financial Disclosures (TCFD), a 32-member board formed as a result of an agreement at a G20 summit in London, 2009. This board consisted of representatives from large banks, insurance companies, asset managers, pension funds, large non-financial companies, accounting and consulting firms, and credit rating agencies. The TCFD in 2017 developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders. To do that they considered the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries.

Climate change is already impacting economies around the world and this will continue to intensify. Extreme weather events, including floods, tropical cyclones, and extreme hot and cold days are already physically impacting business operations. Several reports by the Intergovernmental Panel on Climate Change warn of myriad risk to economies but so far there's been no specific assessment of how companies can account for such risks.

Policy and technology shifts mean that emission-intensive companies — thermal power and mining, for instance — would become less competitive. These changes pose potentially unprecedented risks — and opportunities — to institutional investors and other financial institutions which are exposed to such businesses.

How was it compiled?

The 20 institutional investors made up an Investor Pilot Group (IPG) and used a methodology developed by an analytics firm called Carbon Delta and the IPG to determine the risk to their portfolios. Each of the IPG members prepared scenarios, on how an average rise of global temperature by 1.5°C, 2°C, and 3°C respectively would impact the “portfolios” the companies they had invested in. This was intended as a pilot project and a model for other companies to account for the risk of climate change to their business activities.

Investors face as much as 13.16% of risk from the required transition to a low-carbon economy: The 1.5°C scenario, in line with the latest special report by the Intergovernmental Panel on Climate Change, exposes companies to a significant level of transition risk, affecting as much as 13.16% of overall portfolio value. Extrapolating this to the total assets under management (AUM) for the largest 500 investment managers in the world — \$81.2 trillion — would represent a value loss of \$10.7 trillion.

Utilities, transportation, agriculture as well as mining and petroleum refining sectors are at high levels of policy risk. On the bright side, there were profits to be made too and the report said that there was potentially \$2.1 trillion as ‘green profits’ for the taking. However, green revenues generated from the sale of low carbon technologies, which support the transition, will help companies offset costs from complying with greenhouse gas (GHG) reduction policies.

Low carbon technology opportunities help offset risk. Suitably mixing technology opportunities across a portfolio will alleviate losses generated under the 3°C, 2°C and 1.5°C policy scenarios and could mean portfolio benefits by 3.21%, 6.94%, and 10.74% under these scenarios. Finally, if governments delay action to enact climate policies that reduce greenhouse gas emissions, the 30,000 companies in the universe faced a further cost of \$1.2 trillion compared to a scenario where climate policy is enacted smoothly and steadily with immediate effect, the report added.

Governments have long been collaborating with scientists who use computer models to forecast how warming will impact their economies. These same models, which have been the basis for inter-governmental negotiations on the greenhouse gas emission cuts they must undertake, are now being used by large companies to plan — and hedge — for the risks posed by climate change.

India, in spite of being one of the top greenhouse gas emitters, finds no mention in this report. However, the guidelines proposed can — in theory at least — be adopted by any company based anywhere in the world. India has committed to reducing the emission intensity of its GDP by 33-35% below 2005 levels by 2030.

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