Climate Change and the Financial Sector Response

Incorporating Carbon Risk in the ERM Process – Key Challenges and Opportunities

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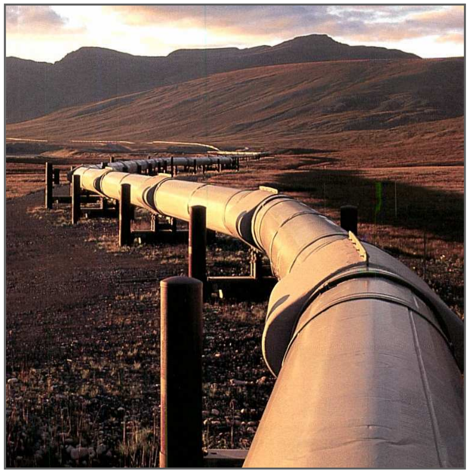
Summary of Presentation

- Understanding the issue
- The Risk Paradigm
- Organisational Footprint
- “Indirect” Emissions
- The Business Case for Climate Change
- The Emerging Carbon Markets
- The growth of “New” Technology
- The Way Forward



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Understanding the Issue

- A general recognition that Climate Change is one of the world's most significant environmental and economic problems
- We are seeing activism around certain issues ,industries and clients
- Financial Institutions are being engaged in certain sensitive industry sectors
- Initiatives like the the Carbon Disclosure Project has highlighted the increasing institutional concern and interest in how climate related risks are managed
- Intermediaries of Financial Capital are role-players
- Where will the market move?
- Know your Client……….

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The Risk Paradigm

- Challenge for Risk Management and Research?
- Carbon Measurement and Financial Assessment is a new reality
- New evaluation filters are being employed
- Dedicated New players are moving into the Analysis Space
- Externalising the Cost or Value of Carbon
- Impact of Activism on Market Capitalisation
- What is our direct and indirect footprint and risk?
- Clients to measure ,disclose and mitigate?
- Revision of Lending / Investment Policies?

Organisational Footprint

- Direct and Indirect Footprint Issues
- Top Down Vision versus Bottom Up grounding
- Internal energy/carbon reduction initiatives
- Low carbon procurement practices
- Savings potential a real value driver?
- Offset or Invest – Carbon Neutrality?
- Indirect footprint is the material issue
- Adjust Risk Parameters to the New Realities
- Development of Climate Policies

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“Indirect” Emissions

- Assessment of carbon and climate risk in the client review process
- Equity analysts to incorporate climate risk in research
- Engagement with clients from GHG intensive sectors to understand their mitigation planning?
- Filter to determine business involvement?
- Quantify GHG emissions in Project Transactions
- The challenge of product diversity…
- Report aggregate emissions from above?
- Choice of metrics…?

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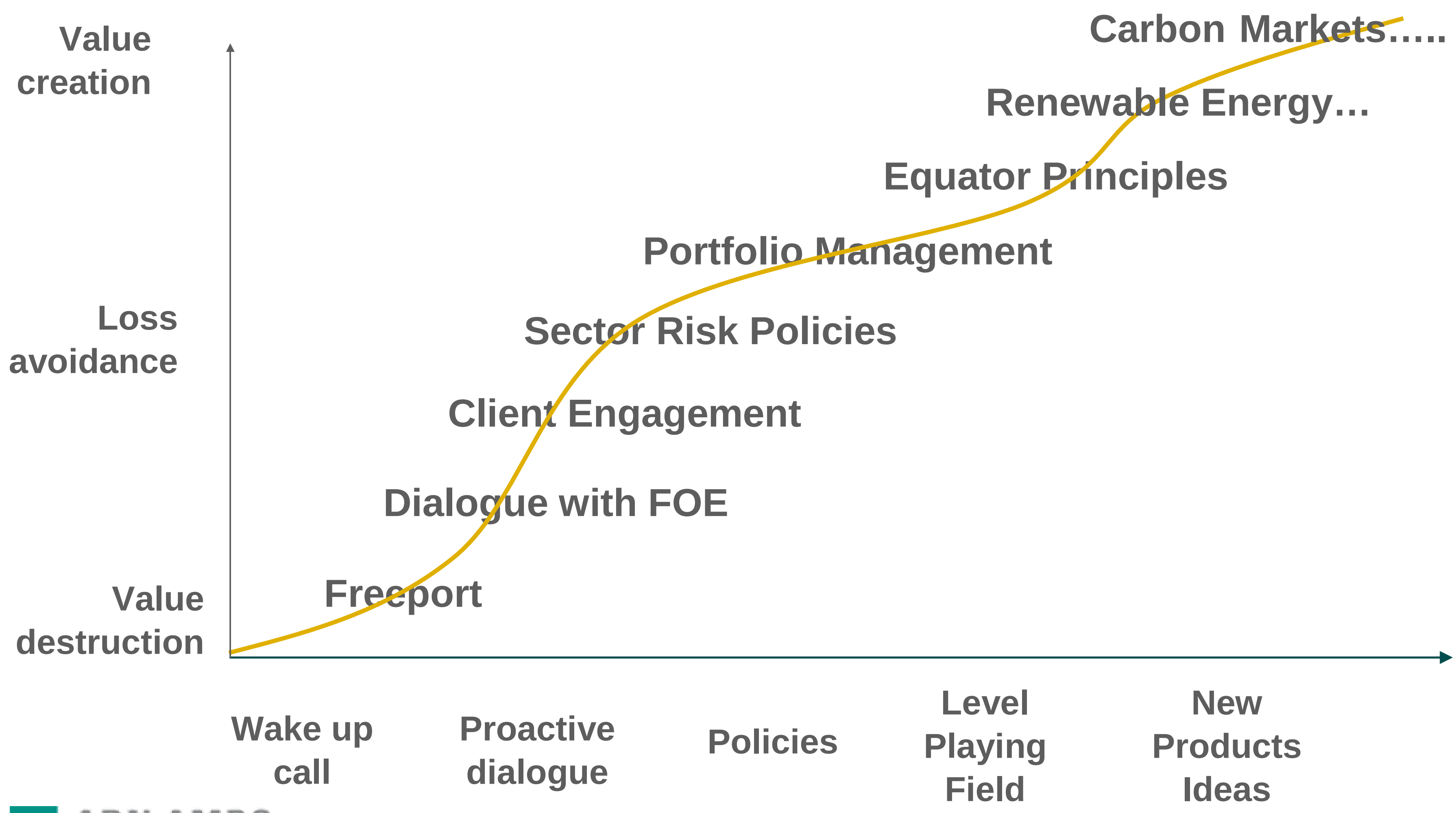
The Business Case for Climate Change



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The Emerging Carbon Markets

- The EU ETS and Kyoto regulatory environments have created “compliance markets” of huge potential magnitude
- OTC trading has picked up significantly in EU allowances since 2005
- The emergence of trading / clearing on European Exchanges offering Carbon based contracts
- Kyoto based Carbon Credit instruments being “traded”
- Carbon based lending a new reality
- Increasing demand from Client Base
- Real Developing Country Potential exists
- Listing the first “carbon” businesses on LSE

The Growth of “New” Technology

- The market in Renewable Energy and Clean Technologies is set to boom
- Combination of regulatory pressure and voluntary initiatives
- Clear shift evident in Corporate Activity in this space
- in EU alone goal in to achieve12% of energy from Renewable Sector by 2010
- This implies a 10% growth rate in wind and bio-mass
- Capital requirements to meet 2020 target are €500bn+
- New Growth in Fund and PE involvement
- Need to understand the risk profiles of new markets
- Much of the technology is “proven”
- Negative Legacy of the High Tech boom??

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The Way Forward?

- Focus on Direct Footprint Issues (carbon reduction or neutrality)
- The need to monitor and report (relevant targets to be set and communicated)
- Exploration of the indirect footprint issues facing the client base and assess what response to take to growing market pressures?
- Adjust Risk Parameters to the new realities?
- Financing the transition to a low carbon economy
- Proactive engagement in relevant Industry Initiatives
- Development of Climate related Policies?

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