TWG 5: GHG Risk Management
Conference Call: February 27, 2014
16.00 EST / 22.00 CET

https://www.anymeeting.com/749-145-782
Dial-in: (+1) 213 416 1560
Access Code: 634 7822
Agenda & Materials

• Welcome and introduction
• Review project goal and objectives
• Discuss proposed guidance structure, process and timeline
• Agree on next steps and agenda for next TWG call
• Final Q&A

Additional materials distributed prior to the conference call

• Project overview
• Technical Working Group member list
Technical Working Group Leads

• **Marisa Buchanan, TWG Chair ([marisa.j.buchanan@jpmchase.com](mailto:marisa.j.buchanan@jpmchase.com))**
  – Marisa is a Vice President in JPMorgan Chase’s Sustainable Finance Advisory group, which manages environmental and social risks in the firm’s business activities, and helps to identify and develop environmentally-beneficial opportunities. **As Chair, Marisa will be responsible for facilitating the TWG effort including leading conference calls, serving as a key point of contact for sub-group leads, supporting TWG members with assignments, and reviewing draft chapters of the guidance.**

• **Mark Fulton, Special Advisor ([mark.fulton@et-edvisors.com](mailto:mark.fulton@et-edvisors.com))**
  – Mark is a founding partner of Energy Transition Advisors, an advisory firm looking at key issues in the transition to more sustainable energy outcomes. This follows a 35 year career in financial markets as an economist, strategist and head of equity research in a number of financial institutions including Citigroup and Deutsche Bank, where he more recently focused on climate change investment opportunities. **As Special Advisor, Mark will advising and providing strategic direction to sub-group leads on the development of the guidance, particularly the chapters on risk assessment and management. He will also assist in reviewing and editing draft chapters and the full guidance.**

• **Magda Paszkiewicz, TWG Facilitator ([magdalena.paszkiewicz@unep.org](mailto:magdalena.paszkiewicz@unep.org))**
  – Magda is engaged as a consultant with the UNEP FI climate change advisory group on the Financed Emissions Initiative project. Magda has experience as a corporate environmental lawyer and has expertise in corporate sustainability reporting. **As TWG Facilitator, Magda will be working with the Chair to facilitate the guidance development process, including helping to schedule TWG calls, distributing notes from each call, and serving as the principal point of contact between the Secretariat and the TWG.**
Members of the Technical Working Group

**Stakeholder representation**

- Finance sector: 34%
- Government: 25%
- NGOs: 8%
- Academia / Research: 4%
- Business / Private sector: 3%
- Consultants / Advisory services: 1%
- Accounting firms: 1%

**Geographical representation**

- Oceania: 35%
- Europe: 31%
- Asia: 11%
- South America: 8%
- North America: 5%
- Africa: 10%
Project Overview

• **Project Goal:**
  – Develop a practical conceptual framework to help financial institutions and investors better understand, assess and manage potential financial risk associated with “carbon assets”
    • Carbon assets are projects or companies with high exposure to greenhouse gas (GHG) emissions. This could include those in the fossil fuel industry, those that are heavily reliant on fossil fuels (e.g., electric power plants), and potentially those that are exposed to deforestation.

• **Target Audience:**
  – Research analysts, investment banking deal teams, risk managers, investors, commercial loan officers and other interested stakeholders

• **Deliverables:**
  – The risk management framework would be published as a guidance document that is composed of several chapters, each of which should be no more than 10 pages

• **Project Structure:**
  – Phase One: Develop a general risk management framework and guidance
  – Phase Two: The opportunities for developing supplemental guidance to support risk assessment and management strategies for specific sectors will be explored during Phase One
Key Objectives

- Identify and provide insight on the types of risks that are likely to impact business performance and investments (e.g., policy/regulation, social, market and economic risks)

- Map the GHG intensity of various sectors and identify those that are most likely to be exposed to potential risks

- Provide insight on how to assess potential risk in capital raising through various financial products and services, and relative to various kinds of financial intermediaries and asset owners (the “Capital Stack”)

- Identify key market factors and other issues that are important to consider when developing different risk scenarios that could impact the performance of a company or asset (e.g., investment timeframe, projections on commodity prices and fuel demand/supply, etc.)

- Suggest conceptual approaches that could be used by financial institutions and investors to evaluate the potential impact of various risk scenarios (e.g., stress testing)

- Provide guidance on strategies that financial institutions and investors could pursue to manage potential risk (e.g., ensuring appropriate risk pricing, shareholder engagement on equities, risk disclosure in capital markets transactions, etc.)
Principles Guiding Development of the Framework

The TWG will seek to develop guidance that:

- Can be used by a range of financial institutions and investors with different business models, ranging from banks to asset managers and investors

- Serves financial institutions and investors with a range of risk appetites and perspectives on the probabilities of different risks occurring

- Can be applied to different types of ‘carbon assets’ across a range of different sectors

- Enables financial institutions and investors to consider a wide range of potential scenarios in their risk assessments, and does not endorse or support specific scenarios or policy outcomes
## Proposed Guidance Structure

<table>
<thead>
<tr>
<th>Chapter 1</th>
<th>Chapter 2</th>
<th>Chapter 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction, Background and Objectives</strong>&lt;br&gt;<em>(Executive Summary)</em></td>
<td><strong>Types of potential risks that could impact carbon assets</strong></td>
<td><strong>Mapping the carbon intensity of different sectors and identifying those that are most exposed to potential risk</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 4</th>
<th>Chapter 5</th>
<th>Chapter 6</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Understanding risk in context of different financial products and services (mapping the “capital stack”)</strong></td>
<td><strong>Key market and other factors to consider when developing risk scenarios</strong></td>
<td><strong>Actionable approaches to evaluate risk scenarios</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies that financial institutions and investors could pursue to manage potential risk</strong></td>
</tr>
</tbody>
</table>
We propose having a Sub-Group Lead and Co-Lead responsible for the development of Chapters 5, 6 and 7.
Proposed Sub-Group Structure

• The TWG will request volunteers to serve as Sub-Group Leads, who will take primary responsibility for developing designated chapters of the guidance (no more than 10 pages for each chapter)

• TWG participants can volunteer to serve as a member of a Sub-Group to support the Lead with research, idea generation, and drafting the guidance

• Marisa and Magda will be responsible for ensuring regular coordination among Sub-Group Leads, ensuring that key issues or questions are reviewed and addressed by the TWG, and providing feedback on content throughout the chapter development process

• Mark will provide strategic advice and direction to Sub-Group Leads on the development of chapter outlines, assist with guidance development (particularly the chapters on risk assessment and management) and provide feedback on draft guidance
# Full Project Timeline (Present – Jan 2016)

<table>
<thead>
<tr>
<th>Date</th>
<th>Project phase</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2014</td>
<td>First draft of guidance (Phase One) completed</td>
<td>TWG</td>
</tr>
<tr>
<td></td>
<td>[Explore development of Phase 2 sector-based guidance]</td>
<td></td>
</tr>
<tr>
<td>September 2014 – May 2015</td>
<td>First public comment phase (stakeholder workshops)</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td>February – June 2015</td>
<td>First round of revisions</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TWG</td>
</tr>
<tr>
<td>June – July 2015</td>
<td>Second public comment period</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td>August – October 2015</td>
<td>Second round of revisions</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td></td>
<td></td>
<td>TWG</td>
</tr>
<tr>
<td>November – December 2015</td>
<td>Copy editing, design and publication</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td>January 2016</td>
<td>Publication</td>
<td>UNEP FI / GHGP</td>
</tr>
</tbody>
</table>
## Proposed Development Process (Phase One)

<table>
<thead>
<tr>
<th>Date</th>
<th>Milestone</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 27</td>
<td>Kick-off call</td>
<td>TWG</td>
</tr>
<tr>
<td>Mar 13</td>
<td>Sub-groups appointed</td>
<td>Guidance Editorial Team</td>
</tr>
<tr>
<td>Mar 25</td>
<td>Detailed chapter outlines completed</td>
<td>Sub-Group Leads</td>
</tr>
<tr>
<td>April – May</td>
<td>Sub-Groups research and draft initial chapters for review</td>
<td>Sub-Group Leads</td>
</tr>
<tr>
<td>May 29</td>
<td>First draft of each chapter completed</td>
<td>Sub-Group Leads</td>
</tr>
<tr>
<td>June 26</td>
<td>Draft Guidance compiled and distributed to TWG members for review</td>
<td>Guidance Editorial Team</td>
</tr>
<tr>
<td>July 31</td>
<td>TWG review completed</td>
<td>TWG</td>
</tr>
<tr>
<td>September</td>
<td>Phase One Guidance released for public comment</td>
<td>UNEP FI / GHGP</td>
</tr>
<tr>
<td>September 2014</td>
<td>Commence development of Phase Two Guidance</td>
<td>TWG</td>
</tr>
</tbody>
</table>
Next Steps

• Request volunteers to serve as Sub-Group Leads (5) and Sub-Group Members
  – Magda will distribute an online survey immediately after the call; responses are due March 7
  – Selections will be made by March 13

• Host kick-off discussions with each Sub-Group Lead
  – Marisa, Mark and Magda will schedule calls to discuss detailed outline development
  – Aim to complete detailed chapter outlines by March 25

• Finalize date/time and agenda for next full TWG calls
  – Thursday March 13 From 11:00 – 12.30pm EST / 4:00 – 5.30pm GMT (Proposed)
  – Thursday, March 27 from 10:00 – 11:30am EST/ 3:00 – 4:30pm GMT (Proposed)
  – Propose structuring the discussion around initial key issues/questions that have been identified by the Sub-Groups through the outline development process

• Establish communication list-serve
Key Issues for Discussion with the TWG

• In addition to providing a framework to help identify, evaluate and manage risks in new business/investment decisions, should the guidance address potential risks in currently-held investments or positions?

• Should climate resilience or adaptation be included in the scope of the guidance? (i.e., provide insight on assessment and management risks that could impact the potential resilience of assets?)

• In addition to focusing on risks associated with assets in the fossil fuel industry or those that are heavily reliant on fossil fuels, should the project scope include risks associated with land-use changes, especially those associated with the production of soy and palm oil commodities?

• Phase 2 Sector-based Guidance: What is the current landscape of sector-specific tools being developed? What opportunities are there for developing supplemental sector-based guidance and where can we add value?
Thank you for your participation!
Appendix

Proposed Chapter Outlines

*(To be further developed and refined by Sub-Groups)*
Chapter 1: Executive Summary & Introduction

Objective: Provide context and rationale for the guidance

- Background and rationale
- Project goals and objectives
- Business case for using the guidance
- Process used to develop guidance
- Summarize main points of the guidance
- TWG participants, advisors, funders and commenters (Appendix)
Chapter 2: Types of Potential Risk

Objective: Identify and map out the types of risks that could impact future business performance or investments in ‘carbon assets’

- Policy / regulation risk
  - Identifying key GHG-related and non-GHG related policy structures or regulations that could impact the performance of carbon assets (e.g., regulatory controls/limits, carbon pricing, etc.)

- Economic and market risk
  - Market forces affecting consumer demand such as introduction of new technologies, efficiency improvements, or shifts to more environmentally-conscious consumption
  - Identify dynamics in fuel and energy prices or fuel production costs that could impact the economics of an asset or access to raw materials

- Social license / reputational risk
  - Degree to which development of carbon assets is supported by communities and other stakeholders
  - Degree to which an investment or business relationship poses reputation risk for a financial institution or investor
Chapter 3: Identifying Relevant Sectors / Assets

Objective: Map the carbon intensity of various sectors and identify those that are most likely to be exposed to potential risks

- Briefly describe trends in global GHG emissions

- Identify sectors and assets that are the largest GHG emitters
  - Thermal coal
  - Oil & gas
  - Electric power
  - Energy-intensive sectors such as iron/steel and aluminum
  - Others

- (Note: this section should draw heavily from existing research and information, such as IPCC’s GHG inventories and the IEA’s World Energy Outlook and other publications.)
Chapter 4: Understanding Risk in the Capital Stack

Objective: Provide insight on how to assess potential risk (as outlined in Chapters 2-4) in the context of capital raising through various financial products and services, and in terms of financial intermediaries and asset owners.

Develop a map (diagram) of and discuss key products and services in the Capital Stack*

- **Equity**
  - Equity capital markets (stocks)
  - Private equity

- **Debt**
  - Debt capital markets (bonds)
  - Corporate loans
  - Project finance

- **Financial Services**
  - Debt or equity underwriting
  - Buy or sell-side advisory

Discuss the key players and their roles in the Capital Stack

- **Owners of Capital**
  - Investors such as pension funds and individuals

- **Intermediaries**
  - Banks
  - Asset Managers

*While the guidance should mention other products and services in the capital stack, we propose having the guidance focus principally on the ones above*
Chapter 5: Developing Risk Scenarios

Objective: Identify key market factors and other issues that are important to consider when developing different risk scenarios that could impact carbon assets

- Investment timeframe
- Type and location of assets
- Forecasts / projections on commodity markets (e.g., fuel prices, supply and demand for fuel)
- GHG emissions and/or intensity
- Assigning probabilities to different risk scenarios
Chapter 6: Tools / Approaches to Evaluate Risk Scenarios

Objective: Provide practical, actionable approaches to help financial institutions and investors evaluate the potential impacts of different risk scenarios

- Shadow carbon pricing
- Stress testing
- Others
Chapter 7: Approaches for Managing Risk

Objective: Provide guidance on appropriate strategies that financial institutions and investors could pursue to effectively manage potential risks

- Direct investment
  - Appropriate pricing of risk in underlying securities
  - Shareholder engagement
  - Portfolio re-balancing
  - Divestment

- Financial services
  - Due diligence / transaction reviews
  - Appropriate pricing of risk in underlying securities
  - Promote good disclosure of risks in listing documentation / prospectuses