Energy Transition Risk project launched in Paris

Aims to provide transparency to the financial risks & opportunities for investors in a low-carbon economy

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In the wake of the Paris Agreement on Climate Change at COP21 and the launch of a task force on climate-related financial disclosure by the G20's Financial Stability Board, a consortium of think-tanks, researchers and financial sector companies have gathered their forces to help investors assess these risks.

The Energy Transition Risk (ET Risk) project has been launched by a consortium of organisations in Paris following a €2.2m (approx.) grant from the European Commission's Horizon 2020 programme.

The European consortium aims to mobilize capital for sustainable energy investment by developing an energy transition assessment framework which would bring transparency to the materiality of the energy transition risks and opportunities and help investors with data, research and analytics to assess the impact on bond and equity portfolios.

The consortium includes 2° Investing Initiative (project coordinator), Carbon Tracker Initiative, The CO-Firm, I4CE (Institute for Climate Economics), Kepler Cheuvreux, McGraw Hill Financial (MHFI), and the University of Oxford's Sustainable Finance Programme.

Focusing on how an assessment of energy transition risk can improve the "financeability" and attractiveness of sustainable energy and energy efficient investment, the ET Risk project will specifically develop:

- Standardized macroeconomic scenarios associated with changes in policies, technology deployment, and climate litigation for a range of industries and how their trajectory could impact risk variables that inform financial analysis
- A physical assets database for several industries, including a mapping of 'committed greenhouse gas emissions' associated with each asset and the extent to which sustainable energy investments can 'unlock' these future emissions
- A 'stress test' framework to assess the impact on company valuations and credit risk
- Financial performance benchmarks through the creation of indices

On the same day that the ET Risk research consortium was launched in Paris, the European Systemic Risk Board (ESRB) published a report[1] calling for "carbon stress tests" to assess the potential materiality of energy transition risks. The ESRB makes several recommendations, including the development of "relevant macroeconomic scenarios against which to stress test firms" and "dedicated carbon stress tests" in the medium term. They also call for further disclosure from companies to inform risk analysis.

[1] https://www.esrb.europa.eu/pub/pdf/asc/Reports_ASC_6_1602.pdf

“The progress made in a few years is very impressive: when we started the Initiative four years ago having '2° Stress tests’ for financial institutions looked like science-fiction. Today, they are mandatory in France and the ESRB advisory scientific committee now suggests generalizing them.” Stan Dupré, founder and Executive Director of **2° Investing Initiative**.

"Capital markets need to correctly price climate risk and the ‘true’ costs of investing in fossil fuels. Carbon Tracker welcomes the ET Risk project as a further step towards the internationalisation of financial stress-test models able to hold companies to account for how they propose to manage the energy transition to a low carbon future. Meeting the Paris agreement goals has strong implications for energy demand, price and emissions scenarios. We need to set a new benchmark for the industry capital expenditure plans. There are clear signs that major fossil fuel companies are overestimating the needed capex on projects in a 2˚C scenario and therefore run the risk of wasting shareholder funds and potentially stranding assets. The ET Risk Project will help investors to understand these challenges and to price these risks more effectively.” says Mark Campanale, Founder and Executive Director of **Carbon Tracker**.

“The Paris Climate Agreement emphasizes that governmental action will facilitate the pathway to a 2°C world. This creates fundamental changes in the real economy and thus poses risks to investors. We already see up to high double digit margin risks arising for, for example, cement companies – even accounting for any technology or market action they can perform to avoid regulatory pressure. We are pleased to partake in the ET Risk project to integrate the awareness on financial risk in the transition phase across sectors and companies in the market.” Dr. Nicole Röttmer, Founder & CEO, **The CO-Firm**.

“The idea behind the project is to better define how climate-related risks can affect the financial sector. Until now, the same narrative about these risks was applied evenly across the financial sector. The ET Risk project should help us better understand how different types of institutions will be impacted by those risks.” says Ian Cochran, ‘Finance & Investment’ Program Director at **I4CE – Institute for Climate Economics**.

“Kepler Cheuvreux research aims to help investors navigate the emergence of new tools and integrate them into investment analysis. We are very happy to be part of the ET project to help further advance the topic and related methodologies, and leverage our analytical knowledge in the process”, Julie Raynaud, Senior Analyst Sustainability Research, **Kepler Cheuvreux**.

“*This project will help provide valuable insight for the capital markets into the risks and opportunities associated with financing the transition towards a low carbon energy future*” said Michael Wilkins, Managing Director, Head of Environmental and Climate Risk Research, **Standard & Poor’s Ratings Services**, a division of **MHFI**. “*We are pleased to be working on the ET Risk project with capabilities from across Standard & Poor’s Ratings Services, S&P Global Market Intelligence and S&P Dow Jones Indices. The current landscape of data and models does not permit financial institutions to fully integrate energy transition risks & opportunities in their processes*” added Michael Bolle, Vice President, **S&P Global Market Intelligence**, a division of **MHFI**.

“The European Systemic Risk Board recently joined the Bank of England and the G20 Financial Stability Board in correctly highlighting how a late and abrupt transition to a low carbon economy could have implications for financial stability. This important work reinforces the need to pre-emptively manage stranded asset risk exposure in financial institutions and throughout the financial system as a whole. But without better data on asset-level and company-level exposure to these risks, effective stress testing will be challenging. Correcting this major flaw in our understanding is now an urgent priority and the new EC Energy Transition Risk project has been launched to help to do exactly that.” Ben Caldecott, Founder & Director, **Sustainable Finance Programme, University of Oxford**.

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About 2° Investing Initiative

2° Investing Initiative is a think tank created in 2012 to foster the integration of climate criteria in investment frameworks and financial regulation. It works with financial institutions, governments, universities and NGOs to advance research and test new solutions. The first 2° investing regulation, on mandatory climate disclosure for investor has been introduced in France in August 2015.
www.2degrees-investing.org

About Carbon Tracker

The Carbon Tracker Initiative is a not-for-profit financial think tank that seeks to promote a climate-secure global energy market by aligning capital markets with climate reality. Their research to date on unburnable carbon and stranded assets has begun a new debate on how to align the financial system with the energy transition to a low carbon future.
www.carbontracker.org

About The CO-Firm

The CO-Firm GmbH is a strategy consultancy in the field of energy and carbon risks and opportunities. We support businesses and financial service providers in identifying, evaluating and realizing their specific economic opportunities from climate change on a national and global scale and in mitigating their risks.
www.co-firm.com

About I4CE – Institute for Climate Economics

I4CE – Institute for Climate Economics is an initiative of Caisse des Dépôts and Agence Française de Développement. The think tank provides independent expertise and analysis on economic issues linked to climate & energy policies in France and throughout the world. I4CE aims to help public and private decision-makers improve the way in which they understand, anticipate, and encourage the use of economic and financial resources to promote the transition to a low-carbon resilient economy.
www.i4ce.org

About Kepler Cheuvreux

Kepler Cheuvreux is a leading independent European financial services company specialised in advisory services and intermediation. The company has four business lines: Equities, Debt & Derivatives, Investment Solutions and Corporate Finance. Headquartered in Paris, the group employs around 550 staff. This multi-local company is also present in Amsterdam, Boston, Frankfurt, Geneva, London, Madrid, Milan, New York, Paris, San Francisco, Stockholm, Vienna and Zurich.

Management and staff are the largest shareholders: major European financial groups, including Crédit Agricole CIB and UniCredit, are also important shareholders.

Kepler Cheuvreux employs 90 equity analysts who research 700 Continental European companies, of which 447 are classified as Small & Mid cap (market capitalizations under € 6bn). Kepler Cheuvreux has the largest equity research footprint in Continental Europe.
www.keplercheuvreux.com

About McGraw Hill Financial (MHFI)

McGraw Hill Financial is a leading financial intelligence company providing the global capital and commodity markets with independent benchmarks, credit ratings, portfolio and enterprise risk solutions, and analytics. The Company's iconic brands include: Standard & Poor's Ratings Services, S&P Capital IQ, S&P Dow Jones Indices, Platts, CRISIL, J.D. Power, and McGraw Hill Construction. The Company has approximately 17,000 employees in 27 countries.
www.mhfi.com

About the Sustainable Finance Programme at the University of Oxford's Smith School of Enterprise and the Environment

The Sustainable Finance Programme at the University of Oxford's Smith School of Enterprise and the Environment was established in 2012 (originally as the Stranded Assets Programme) to understand how finance and investment intersects with the environment and sustainability.

We seek to understand the requirements, challenges, and opportunities associated with a reallocation of capital towards investments aligned with global environmental sustainability. We seek to understand environment-related risk and opportunity in different sectors and systemically; how such factors are emerging and how they positively or negatively affect asset values; how such factors might be interrelated or correlated; their materiality (in terms of scale, impact, timing, and likelihood); who will be affected; and what affected groups can do to pre-emptively manage risk.
http://www.smithschool.ox.ac.uk/research-programmes/stranded-assets/index.php