

Institutional investors and climate risk

Martin Skancke, October 2023



The PRI

Investor-led, supported by the United Nations

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice.

Its goals are to understand the investment implications of environmental, social and governance issues and to support signatories in integrating these issues into investment and ownership decisions.

2

UN PARTNERS:

UNEP FINANCE INITIATIVE
UN GLOBAL COMPACT



5000+

SIGNATORIES:

ASSET OWNERS
INVESTMENT MANAGERS
SERVICE PROVIDERS



120+

US\$ trn

**ASSETS UNDER
MANAGEMENT**



One mission – six principles

Developed by investors

"We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation."

1 We will incorporate ESG issues into investment analysis and decision-making processes.

2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

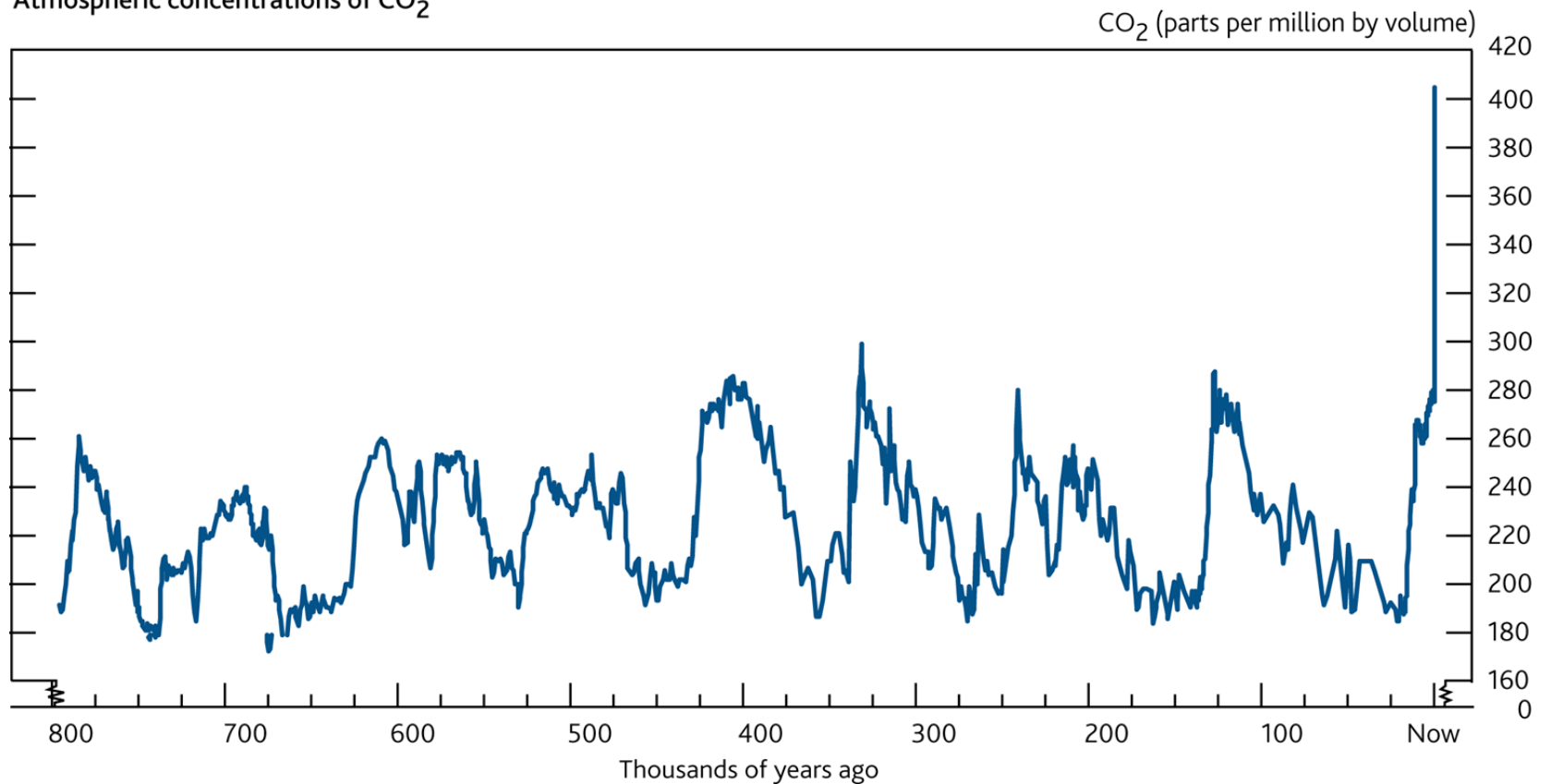
5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.

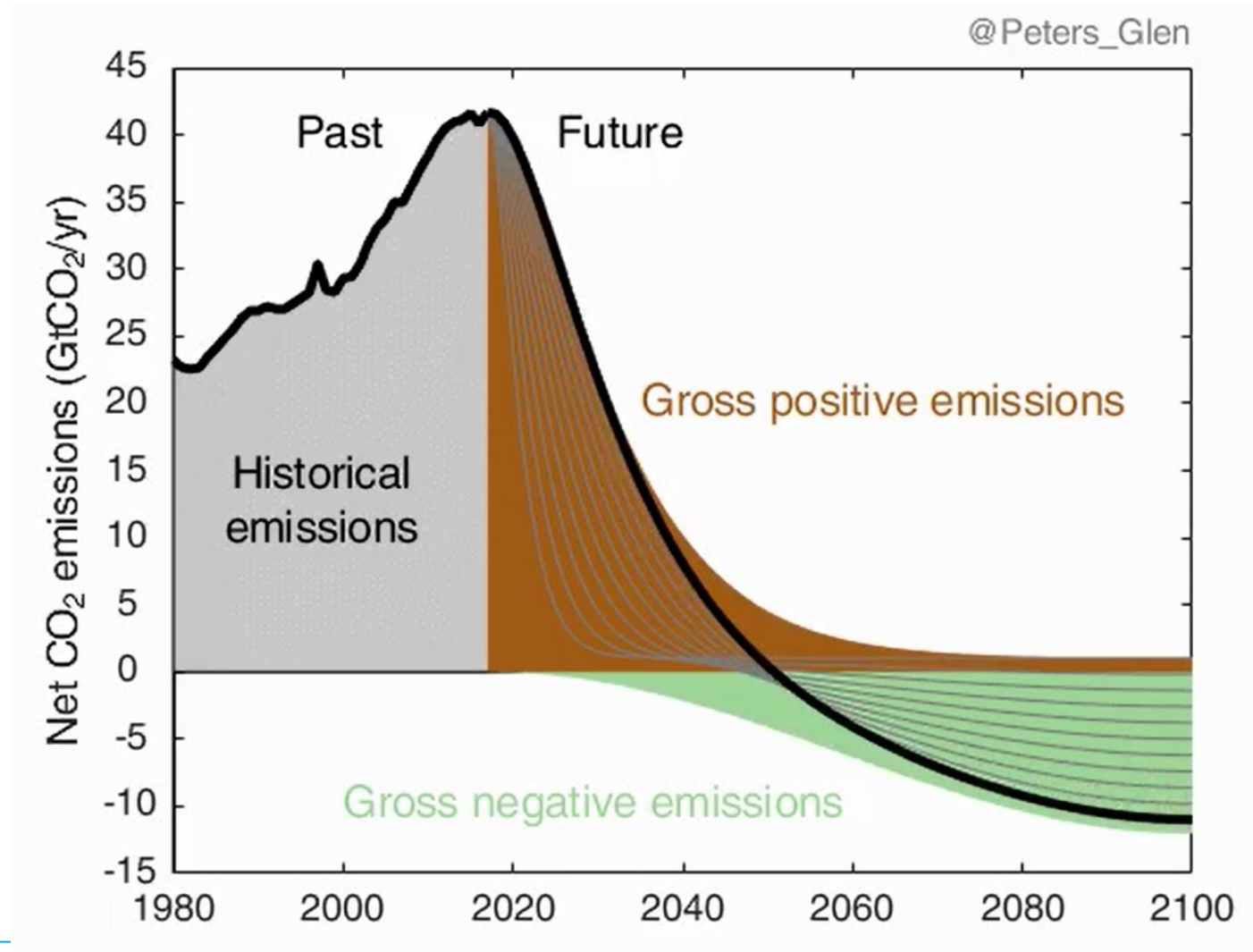


The problem:

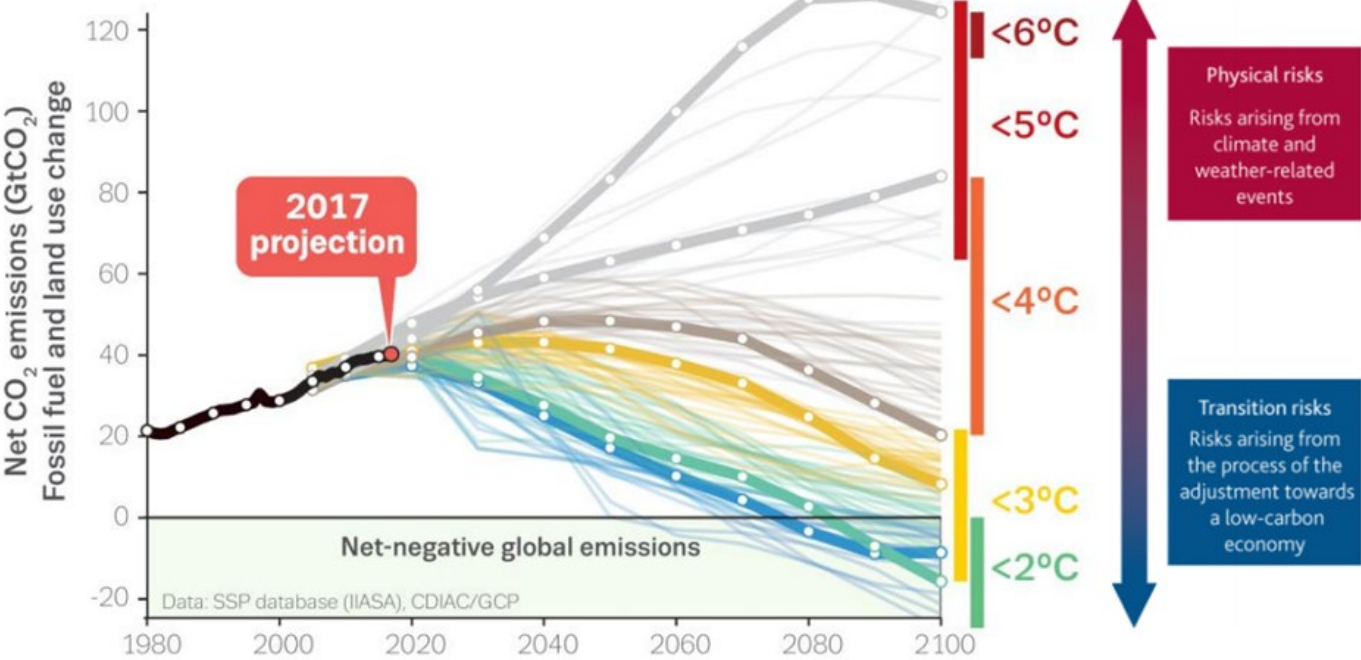
Atmospheric concentrations of CO₂



The transition challenge

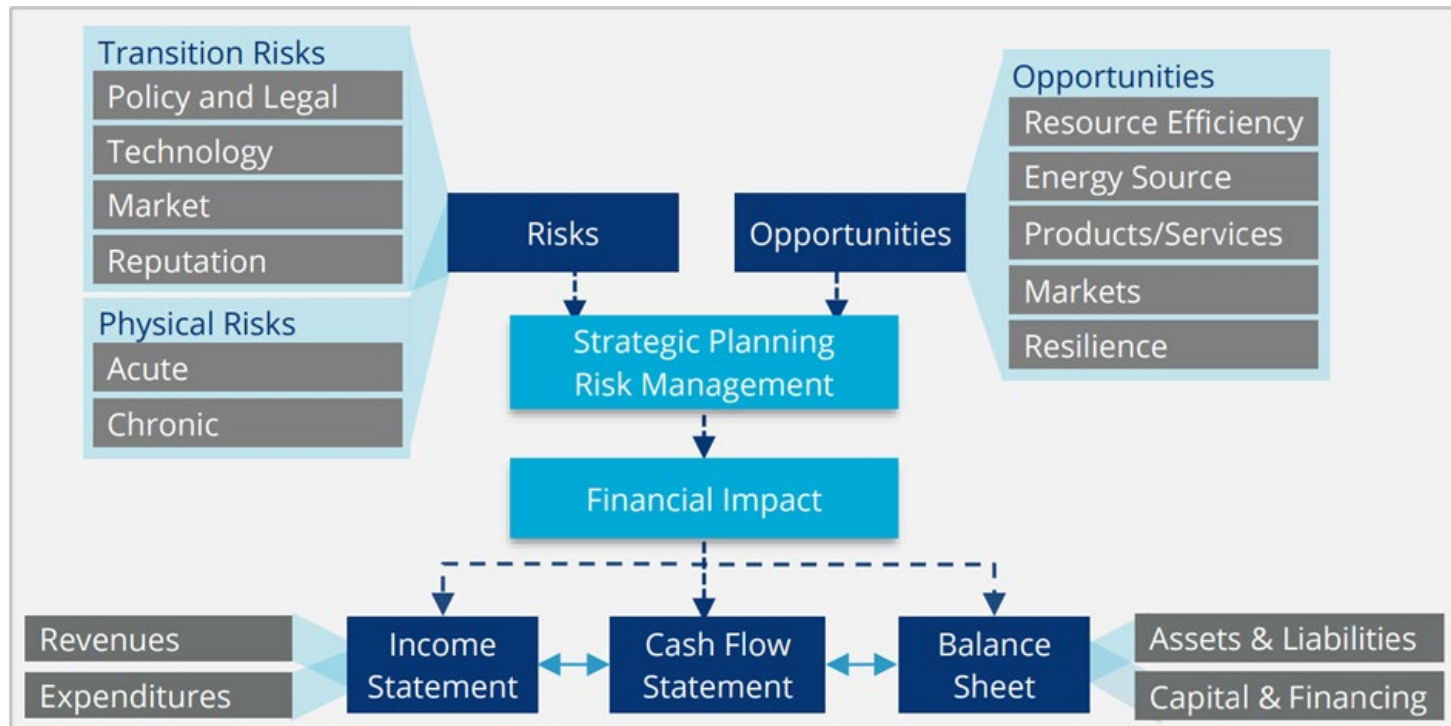


Climate change and the energy transition...



Source: Bank of England (2018)

...lead to physical and transition risk for companies



Source: TCFD (2017)



TCFD Background



September 29 2015

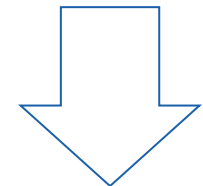
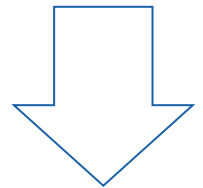
Speech by Mark Carney:
Breaking the tragedy of the horizon – climate change and financial stability

December 4 2015

Establishment of Task Force on
Climate-related Financial
Disclosure

June 29 2017

Release of final TCFD
Recommendations report and
supporting materials



Mark Carney, Bank of England Governor,
Chairman of the G20's Financial Stability Board (FSB)

TCFD framework

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Recommended Disclosures

- a) Describe the board's oversight of climate-related risks and opportunities.
- b) Describe management's role in assessing and managing climate-related risks and opportunities.
- c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.

Recommended Disclosures

- a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.
- b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.
- c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Risk Management

Disclose how the organization identifies, assesses, and manages climate-related risks.

Recommended Disclosures

- a) Describe the organization's processes for identifying and assessing climate-related risks.
- b) Describe the organization's processes for managing climate-related risks.
- c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

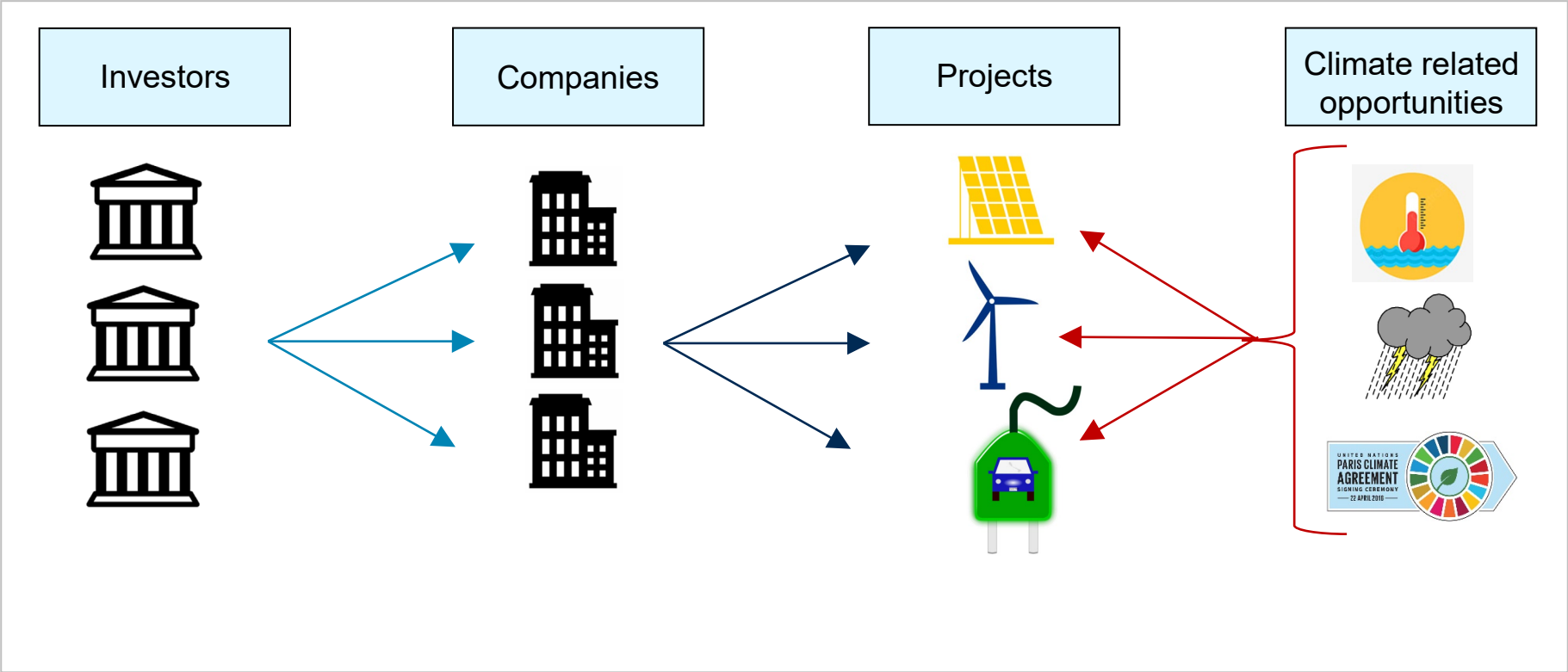
Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Recommended Disclosures

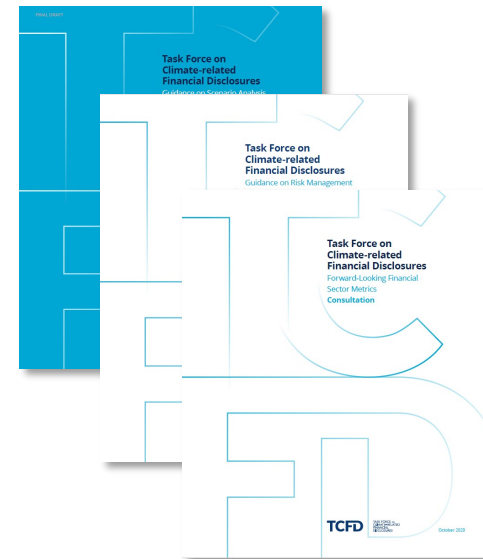
- a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Companies as investment platforms

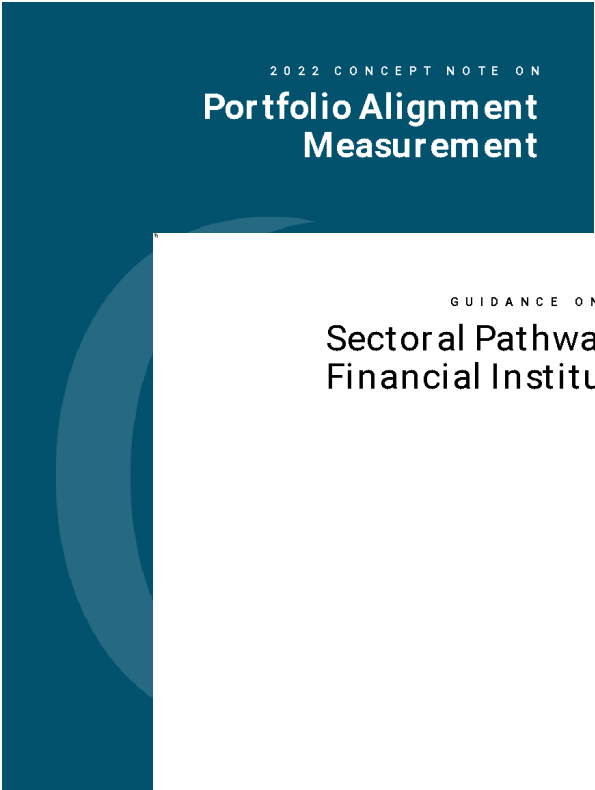


Technical guidance on risk management and climate scenarios

- The TCFD has developed several guides to support implementation:
 - Guidance for non-financial companies on conducting climate-related scenario analysis
 - Guidance on integrating climate-related risks into existing risk management processes and disclosing those processes
 - Consultation document on forward-looking metrics for the financial sector



GFANZ guidance



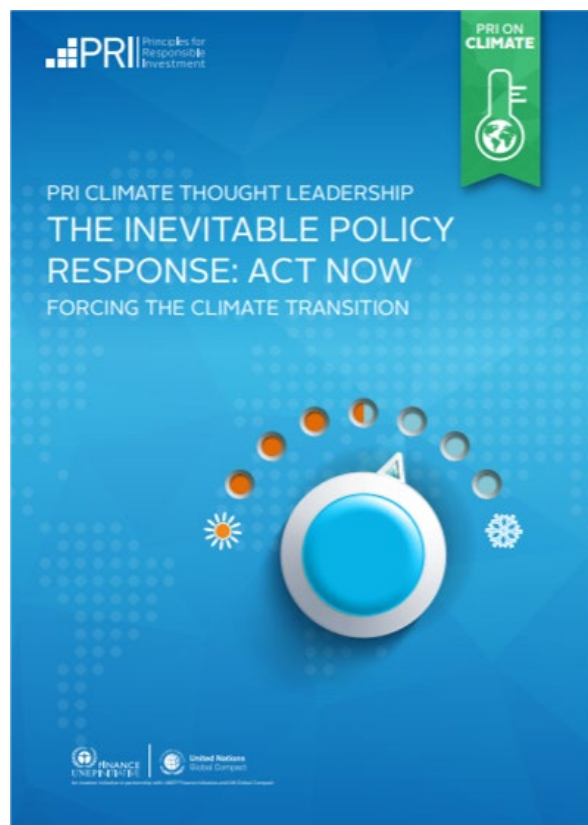
GUIDANCE ON USE OF
**Sectoral Pathways for
Financial Institutions**

GFANZ
Glasgow Financial Alliance for Net Zero

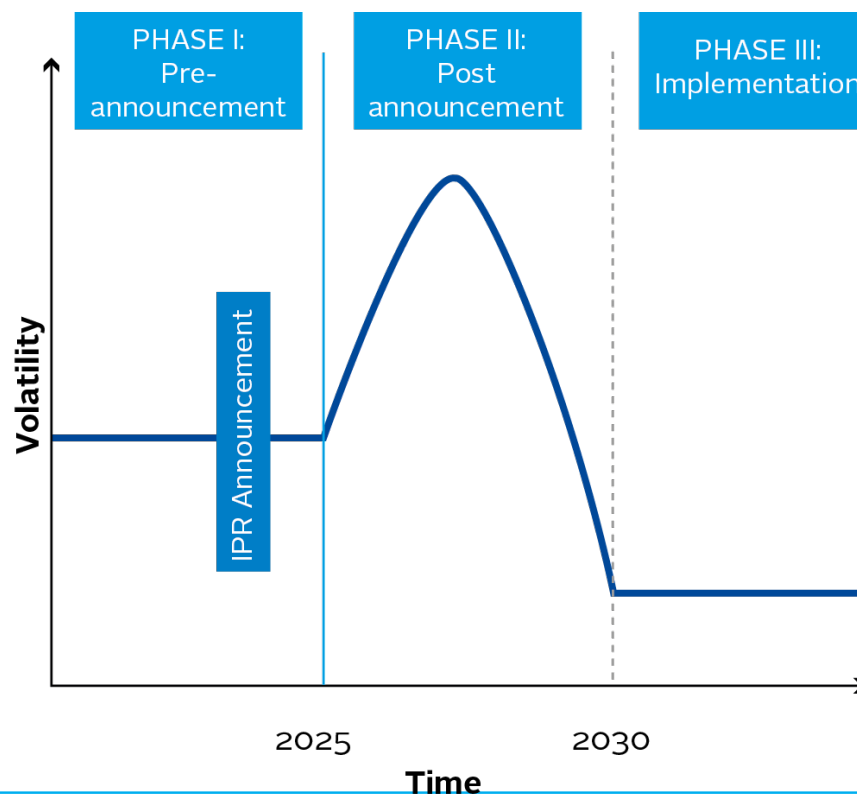




The Inevitable Policy Response



Impact of IPR on volatility



Climate Action 100+

Index ▲ 1.56 ▼ 0.78



climateaction100.org