Investors around the world need more and better information about the consequences of climate change. Together with some of the world’s largest banks, DNB will take part in a UN-sponsored pilot project that will establish a basis for future climate reporting.

“We welcome the UNEP’s (UN Environment Programme) initiative and want to contribute directly, because we believe that the early stages of these pioneering efforts are likely to affect the coming standards. But I think it will be a few years before any concrete requirements for such reporting are introduced,” says Kaj-Martin Georgsen, head of Corporate Responsibility and Public Affairs in DNB.

He believes that this will be a new and different approach to climate issues, that goes beyond duties and taxes and provides a basis for giving investors insights that will enable them to make strategically good climate choices.

“Climate change is real. It has consequences for businesses. They can be direct, such as production outages due to higher temperatures or increased precipitation. Or they can be indirect consequences of political measures and regulations. Investors need better information to be able to tell the difference between the winners and losers of tomorrow. Now we have a basis for climate disclosure on the table that can make it easier to compare companies.”

Georgsen points out that climate change affects the bottom line, and investors thus want to know whether companies are prepared for and comprehend what is coming.

“Do they have plans for reducing risk? Do they have a strategy for exploiting new business opportunities that arise? Just like we saw with digitalisation, current climate standards may change faster than many have assumed. Investors consequently need better tools so they can do better assessments of risk and opportunities.”

Financiers on the same team as idealists
As Georgsen sees it, the issues that previously only mattered to idealists are now being addressed by financiers as well.

“This is an example of the financial world taking on its social corporate responsibility and proof that «money talks». Due to the surge in private pension saving, a steadily increasing proportion of the world’s asset management is long-term. We will see an emergence of capital, especially long-term capital, for dealing with climate change, because what is profitable today will not be in the future. This means we will see new winners. We will see companies taking advantage of new business opportunities and this will interest investors.”

One reason this is of interest for DNB is that the bank employs long-term assessments of risk and profitability. Mark Carney, the governor of the Bank of England, who has played a central role in these efforts, says that climate change is the biggest threat to financial stability. Banks lend money long term and do not want to grant loans to companies that have unsustainable business models or whose assets will decline in value.

ZERO (Zero Emission Resource Organisation) sees it as positive that DNB is helping to put focus on climate risk disclosure and the need to establish reporting standards.

“Climate risk is not taken sufficiently into account in the business world’s decision-making. I believe that both politicians and the business sector currently underestimate the consequences of a long-term structural decline for fossil fuel. This is not an ordinary business cycle», says Per Kristian Sbertoli, acting communication officer in ZERO.
«The Oil Fund is a concrete example. SPU (the State Pension Committee) was set up to ensure good management of our assets and achieve returns to secure our future. When the climate targets are met, the value of investments in fossil fuels will tumble. The Oil Fund needs to take the ensuing increase in financial risk into account but the portfolio is not positioned to cope with a global transformation of the energy sector. Oil and gas account for roughly 20 per cent of the investments while renewable energy only accounts for one per cent.

CICERO (The Centre for International Climate Research) regards this as a very important project and sees it as highly beneficial that DNB will be involved in making it easier for the banking and financial sector to evaluate climate risk and climate opportunities.»

«CICERO has also noted that investors and financial institutions are seeking more information about how climate changes and changes of climate policies will affect profitability on the short and long term. We have a fruitful collaboration with DNB, which participates in the Advisory Board for CICERO Climate Finance. If UNEP and the banks that are taking part in this pilot project can help ensure systematic and relevant information about climate risk, this will be of major importance for the global flow of capital. If investors seek the most climate-friendly solutions, that would make a major contribution to the greening process,» says head of CICERO, Kristin Halvorsen.

UN-led initiative
UNEPIs pilot project consists of the following UNEP FI member banks: ANZ, Barclays, Bradesco, Citi, DNB, Itau, National Australia Bank, Royal Bank of Canada, Santander, Standard Chartered, TD Bank Group and UBS.

Background:
About a year ago, the Financial Stability Board (FSB), which is chaired by Mark Carney, governor of the Bank of England, established the «Task Force for Climate-related Financial Disclosures» (TCFD). The task force was headed by Michael Bloomberg and was charged with examining how companies could report climate-related risk in a better, more systematic manner. The Bloomberg report presents advice and recommendations companies need to consider in light of the transition to a low-emission society.

Better, more accessible and more comparable information will make it easier for investors to understand and manage the climate risk attached to their investments. It could also reduce the risk of financial unrest triggered by sudden changes in the value of assets that are exposed to climate risk.

In June 2017, Michael Bloomberg and Mark Carney presented the results of the Task Force’s work at the G20 summit. The aim of the work was to develop systems companies could use to voluntarily disclose climate-related information to keep investors, banks, insurance companies and other stakeholders updated. A number of experts from the financial industry, business sector and academia...
from all over the world were involved in the work. The Task Force examined the physical risk, liability risk and transition risk linked to climate change in addition to considering systems that might be suitable for reporting across a wide range of industries.

The work and recommendations of the Task Force will help companies understand what type of reporting financial markets want in order to measure and address climate-related risk, and will encourage companies to tailor their own climate disclosure to investors' needs.