FutureWise Partners

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Factsheet Green Finance

Understanding climate risks - 1st step towards green finance

1 Identification of climate related Impacts, Risk and Opportunities (IRO)

What is a climate related risk?

Transition risks: Associated with moving to a low-carbon economy (e.g., regulatory changes, market shifts, new technologies).

Physical risks: Can be acute risks (e.g., extreme weather events such as floods or storms) or chronic risks (e.g., rising sea levels or long-term temperature increases).

How to find them?

Topical Standards: ESRS 1 Appendix A ncludes the 10 topical standards, along with their topics, subtopics, and sub-subtopics.

Sector standards or entity-specific sectors: Use best practices and/or available frameworks or reporting standards, such as IFRS sector-based standards SASB, or GRI sector standards.

2 Determination of the material IROs - case of climate risks

Which ones are material?

- A **climate-related risk** is financially material if it significantly affects cash flows, cost of capital, or financial performance over the short-, medium-, or long-term (considering the potential for cumulative impacts).
- The risks have to be assessed not only within one's own operations but also within the value chain

How to determine these risks?

Use of historical information **OR** <u>If commensurate with the circumstances of the company</u>, ESRS recommends the use of two climate scenarios:

- **High physical risks:** A scenario where the world takes no action ("too little too late"), resulting in temperatures rising above 4°C ("hot house world").
- **High transition risks:** A scenario consistent with limiting climate change to 1.5°C by 2100, where transition risks are very high due to extensive regulation, while physical risks are lower as climate volatility is managed.

5 steps approach

Step 1: Assess the risks with the support if needed of climate research institute.

Step 2: Determine the likelihood of occurrence of the risk.

Step 3: Establish a financial threshold above which the risk will be deemed material - Discuss it with your (financial) stakeholders.

Step 4: Determine the potential magnitude of the financial effect of the risk.

Step 5: Based on the threshold, identify the topics that require reporting.

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3 Reporting on resilience* - Climate related risks case

Requirement:

A description of the long term resilience of the company's strategy and business model in relation to climate change.

Examples of information:

- Critical assumptions on how the transition to a lower carbon and resilient economy will affect its surrounding macroeconomic trends, energy consumption and mix and technology employment assumptions.
- Results from the use of scenario analysis if any were used.

4 Climate transition plan** - (covers the mitigation plans)

Requirement:

A high-level explanation of how the company will adjust its strategy and business model to ensure limiting of global warming to 1.5°C in line with the Paris Agreement using either a sectoral decarbonisation pathway if available for the company's' sector or an economy-wide scenario.

Examples of information***

- How the (GHG) targets align with limiting global warming to 1.5°C.
- Identification of decarbonisation levers and planned key actions, such as changes to the product and service portfolio or the adoption of new technologies across operations and the value chain.
- Investments and funding supporting the implementation of its transition plan (link with EU taxonomy if applicable)
- Cumulative locked-in GHG emissions associated with key assets from the reporting year until 2030 and 2050 in tCO2eq.
- Explanation of plans to manage, transform, decommission, or phase out GHG-intensive and energy-intensive assets and products.

About FutureWise Partners: FutureWise Partner is a Vienna based boutique consulting firm advising corporateson their reporting standards, their climate risks and their sustainable funding.

Website

*ESRS 2 strategy & Business Model SBM3
**ESRS E1-1
***ESRS Disclosure requirements DR E1-1 & Application Requirement R 3

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