The first week of COP26 in Glasgow was an interesting mix of hyperbole, disappointment, excitement, and pledges

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Through the week, commitments on methane, coal, and deforestation had created a buzz that this summit was going to achieve its goals to be considered a success. Mark Carney's sobering speech on 'finance day' reminded everyone of exactly how much it was going to cost, and how the private sector—banks, in particular—needed to engage with the challenges and provide an executable solution. As the week wound down, with the Presidents and Prime Ministers gone, the energetic protests by the youth who are in Glasgow in full force, made it clear that promises made so far were nowhere near sufficient to limit climate change.

The truth about the success of the summit so far is somewhere in the middle, of course. In this dispatch we review what was committed to, and how those pledges may impact financial institutions and markets across the world.

› Methane...

US and EU have been working on a global alliance to cut methane emissions by 30% by 2030. Methane is a greenhouse gas that is significantly more harmful vis-à-vis its impact on global warming compared to CO2. That said, methane also remains in the atmosphere for a significantly shorter time than CO2—for decades rather than centuries. The role methane plays in climate pathways is interesting. It implies that an overall cut over the next decade in emissions would lead to a rise above the 2100 target of 2 degrees, but then it will return to the target line as the gas leaves the atmosphere before the end of the century. In the end, global adoption of the plan would mean a 0.2-degree decrease in the final 2100 target.

The fact that over a hundred countries signed the pledge is good news, but the lack of specificity about how it would be achieved, along with the conspicuous absence of India, China, and Russia from the pledge, implies that there are concerns about its ultimate effectiveness.

Banks will need to keep an eye on countries who did sign up, as meeting the promise of a 30% reduction would likely see extensive transitional policies across methane-emitting industries and agriculture. Policies in these areas would have a material impact on business models and credit profiles in these sectors.

› Coal...

Coal has been a key target of COP26, and some success has been achieved so far as 23 countries that are significant users of coal have signed up to a full commitment to eliminating it from their power sources. As part of the consortium, a number of international banks also pledged to end funding new coal power projects.

This particular agreement could have very significant implications for energy companies, particularly their hedging and funding activities. Besides, banks in this sector will have to look closely at the implications on their current book of business and the impact on their credit risk-related capital requirements.

› Deforestation...

Perhaps the most eye-catching announcement was the agreement to stop and reverse deforestation. This included a commitment towards trade and development policies and redesigned agricultural standards.

The fact that Brazil signed up was a cause of celebration at the COP, but banks in the US agricultural sector will have to watch how policies are rolled out in order for them to be ready to support their customers through the sustainability transition.

There was pessimism introduced by the analysis from the UN that stated that the current policy set would achieve a limit of 2.7 degrees to global warming by 2100. This is far above the 1.5 degrees aimed for, and even the 2-degree commitment made at the Paris COP. In UN's view there are too many targets lacking specific details. To reach the 1.5-degree limit, GHG emissions would have to halve by 2030—an outcome that seems a long way from current pledges and one that banks should be concerned about. If the world were to attempt to achieve that level of mitigation, policies would likely be stringent and would have to be very quickly implemented. Such a disorderly approach could be very damaging to the real economy of every country, as well as balance sheets of banks financing it.

With more details forthcoming in the second week, discussions regarding transportation industry, and as the COP winds down, there is much to balance between the successes of the governments and the disappointment of the protestors.

Signing off for today, best regards from Glasgow...

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ABOUT GREENCAP

- GREENCAP is a turnkey 'Risk as a Service' (RaaS) solution, designed to achieve sustainability and economic resiliency on an individual loan, balance sheet, and systemic level.
- The banking system is central to achieving these green goals of the global economy to arrest climate change.
- The private sector will be required to invest trillions of dollars, with banks acting as credit and funding risk intermediaries.
- It is imperative that a common capital impact language is established to assess resiliency at loan, portfolio and systemic levels.
- Financial targets have to be established to meet sustainability goals at local and global levels.
- Analytical frameworks and systems need to be in place that enable regulators, CSOs and Lending Officers to measure and monitor impact. This will empower them to make those choices which position them on the right side of history.

ABOUT GREENPOINT FINANCIAL

- GreenPoint Financial is a division of GreenPoint Global, which provides software-enabled services, content, process and technology services, to financial institutions and related industry segments.
- GreenPoint is partnering with Finastra across multiple technology and services platforms.
- Founded in 2006, GreenPoint has grown to over 400 employees with a global footprint. Our production and management teams are in the U.S, India and Israel with access to subject matter experts.
- GreenPoint has a stable client base that ranges from small and medium-sized organizations to Fortune 1000 companies worldwide. We serve our clients through our deep resource pool of subject matter experts and process specialists across several domains.
- As an ISO certified company by TÜV SÜD South Asia, GreenPoint rigorously complies with ISO 9001:2015 and ISO 27001:2013 standards.
- GreenPoint is owned by its founders and principals and is debt free.

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Marcus Cree

MANAGING DIRECTOR AND
CO-HEAD OF FINANCIAL TECHNOLOGY AND SERVICES

Marcus has spent 25 years in financial risk management, working on both the buy and sell side of the industry. He has also worked on risk management projects in over 50 countries, gaining a unique perspective on the nuances and differences across regulatory regimes around the world.

As Managing Director, Marcus co-heads GreenPoint Financial Technology and Services and has been central in the initial design of GreenPoint products in the loan book risk area, including CECL and sustainability risk. This follows his extensive experience in the Finastra Risk Practice and as US Head of Risk Solutions for FIS. Marcus has also been a prolific conference speaker and writer on risk management, principally market, credit and liquidity risk. More recently, he has written and published papers on sustainability and green finance.

Marcus graduated from Leicester University in the UK, after studying Pure Mathematics, Phycology and Astronomy. Since graduation, Marcus has continually gained risk specific qualifications including the FRM (GARP's Financial Risk Manager) and the SCR (GARP's Sustainability and Climate Risk). Marcus's latest academic initiative is creating and teaching a course on Green Finance and Risk Management at NYU Tandon School of Engineering.

Sanjay Sharma, PhD

FOUNDER AND CHAIRMAN

Sanjay is the Founder and Chairman of GreenPoint Global – a risk advisory, education, and technology services firm headquartered in New York. Founded in 2006, GreenPoint has grown to over 380 employees with a global footprint and production and management teams located here in the U.S, India and Israel.

During 2007-16 Sanjay was the Chief Risk Officer of Global Arbitrage and Trading Group and Managing Director in Fixed Income and Currencies Risk Management at RBC Capital Markets in New York. His career in the financial services industry spans over two decades during which he has held investment banking and risk management positions at Goldman Sachs, Merrill Lynch, Citigroup, Moody's and Natixis. Sanjay is the author of "Risk Transparency" (Risk Books, 2013), Data Privacy and GDPR Handbook (Wiley, 2019) and co-author of "The Fundamental Review of Trading Book (or FRTB) – Impact and Implementation" (RiskBooks, 2018).

Sanjay was the Founding Director of the RBC/ Hass Fellowship Program at the University of California at Berkeley and is an Adjunct Professor at EDHEC, Nice in France. Sanjay is also Adjunct Professor at Fordham University where he teaches a similar master's capstone course and at Columbia University. He has served as an advisor and a member of the Board of Directors of UPS Capital (a Division of UPS) and is a frequent speaker at industry conferences and at universities. He served on the Global Board of Directors for Professional Risk International Association (PRMIA).

He holds a PhD in Finance and International Business from New York University and an MBA from the Wharton School of Business and has undergraduate degrees in Physics and Marine Engineering. Sanjay acquired his appreciation for risk firsthand as a merchant marine officer at sea where he served for seven years and received the Chief Engineer's certificate of competency for ocean-going merchant ships. Sanjay lives in Rye, NY with his wife and two teenage sons.

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