Imperfect compromises are becoming necessary to combat climate change

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Week 2 of COP26 began with Barrack Obama holding center stage, seemingly connecting desires of Saturday protesters with goals of countries at COP26. “Not only can we not afford to go backward, we cannot afford to stay where we are,” Obama stated. But he also reminded the conference that imperfect compromise was required to move forward and solve the problem that transcended day-to-day politics.

If this summit is to be deemed a success, the talk around Glasgow this week must focus on underlying details of the agreements.

There are key themes to almost every conversation here in Glasgow.

1) The devil is in the details

To a large extent, the success achieved at Paris COP was precisely because they did not attempt to implement a target that was agreed to by all participating nations. Instead, each country agreed to create its own targets, which it would monitor and report on. While an agreement was reached on this approach, it was nothing more than pledges and targets that failed to reach the required 2-degree limit on global warming. At COP26, the expectation is of greater detail and transparency into the actual commitments, in order to put the planet on the right path. This will take much negotiation from teams staying back in Glasgow after the leaders leave.

2) Developed vs developing economies

The rationale for the Paris compromise was based on a long-standing disagreement between various parties about who should pay the most, how developing countries could catch up without becoming heavy polluters, and how subsidies should work across them. In fact, in a separate 2009 agreement, $100 billion a year was supposed to be transferred from the developed group to enable this transition. This failed to be met, and without a wealth ‘catch-up’ transfer mechanism being agreed and enacted, it is difficult to see how the goals can be achieved.

3) Carbon markets

Trading or taxing carbon use has to be agreed upon at an international level. The less developed countries had expected to use subsidies to create climate adaptation/mitigation projects wherein, while not cutting emissions directly, would allow them to build resilient economies that halted the increase of CO_2 in the atmosphere. Transaction taxes on carbon use are seen as the most likely way to ensure that such subsidies can be provided. But negotiations around carbon markets are and will continue to be among the most complex at the conference. This is seen as a core result against which success will be measured.

4) Enforcement of Nationally Determined Contributions (NDCs)

Keeping the pledges made at COP26 requires ratification at the legislative level in most home countries. The tracking or reporting is currently provided by the country itself, which needs to change to make long-term goal tracking a reality.

5) Restatement of NDCs with more ambitious warming limits

Once enough progress has been made for targets to be realistic, they have to be reset for them to get well below the 2.7-degree they would currently deliver. The higher the accepted target, the more adaptation is needed by weaker economies, which implies greater subsidies from wealthier nations.

6) Climate pathways involving all GHGs

Climate pathways are not linear, with different gases having different effects and very different half-lives in the atmosphere. Methane pledges sit alongside CO_2 commitments, which create pathways that have endpoints in common but may see points above, before flattening by 2100. This clearly implies that adaptation plans have to be made with mid- and long-term physical impacts in mind.

In Glasgow, everybody appreciates circularity and complexity of the problem. But the split between direct emission taxation and private finance is crucial to how banking will be impacted.

Therefore, as Week 2 gets underway and the real negotiations begin, the question at every coffee shop, chip bar, and a pub is—just how imperfect the compromises will be, and will they satisfy the large governments and protesters enough, to form an uneasy alliance to make progress that both agree is urgently needed?

Signing off for today, best regards from Glasgow…

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.

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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