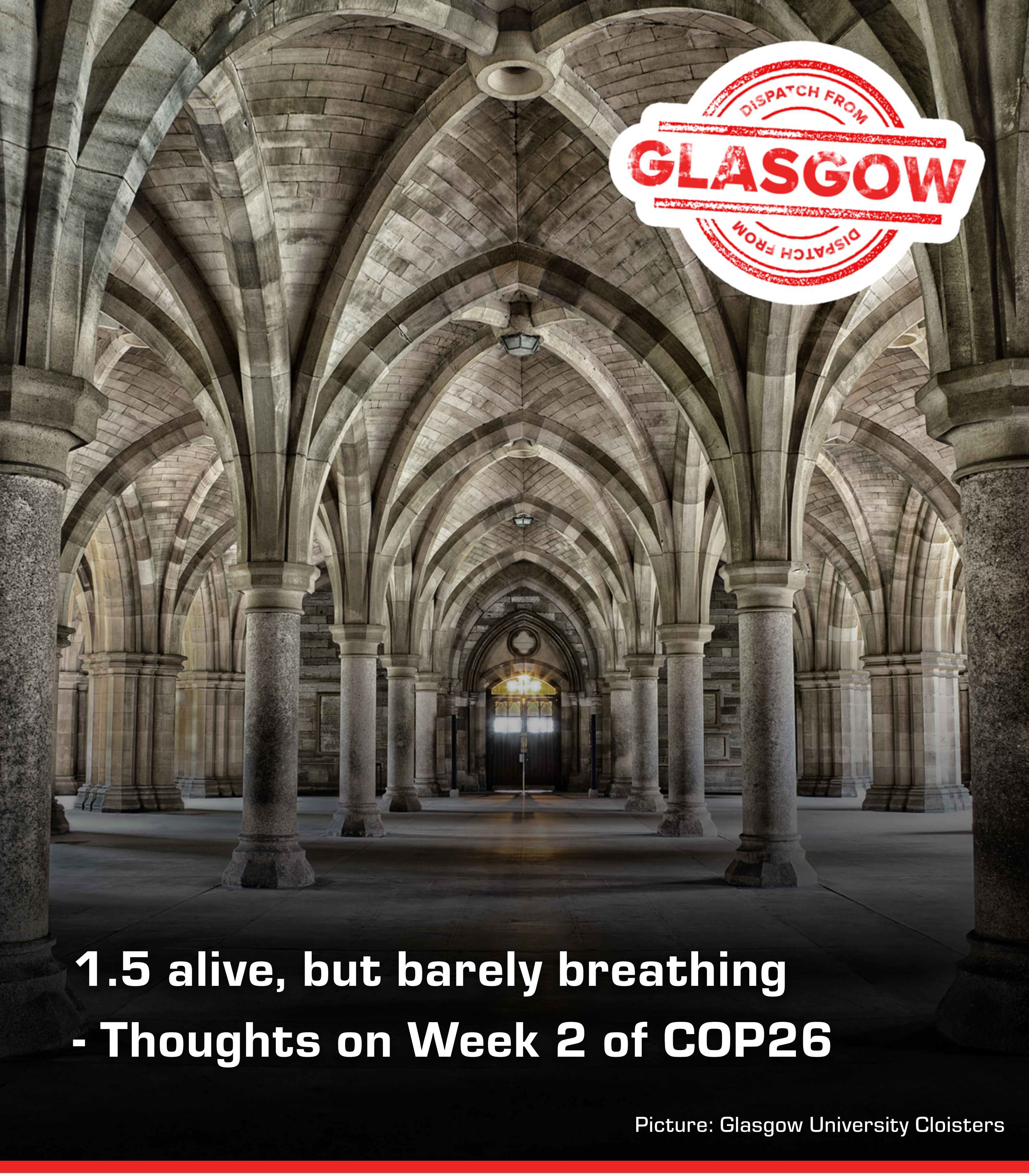

1.5 alive, but barely breathing - Thoughts on Week 2 of COP26

Picture: Glasgow University Cloisters

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Friday 6 pm arrived and instead of a deal that delivered an orderly phase-out of coal, a clear goal of limiting global warming to 1.5 degrees, and a unanimous collective step towards a green future...there was *nothing*. That is to say that the COP reached its official end time and talks were still on, and, at the time of writing—late night Friday—and they still are.

While this is not the conclusion that one had hoped for, it is extremely critical for banks and private finance providers to understand what these obstacles are, and why they are in this fight against climate change.

The ongoing use of coal is a definite sticking point, interestingly, the compromise seems to be about changing the wording in the text from 'phasing out coal' to 'phasing out *unabated* coal'. This means that, for coal plants to avoid being in the crosshairs of extinction, they would have to deploy carbon capture technology at the source. If this remains the language, it is a big step forward and has implications for relative production costs of coal versus renewables. Coupled with the intent of many countries to phase coal out completely, this is a clear signal to private finance about where subsidies and regulations will be targeted.

On the back of these coal discussions, oil is moving up the agenda, with an alliance being formed where countries commit to setting a date for ending its use. This could be seen as simply planning to plan, but it is again, a strong directional indicator in COP-speak. Reversing deforestation and cutting down methane emissions were significant achievements and will have a substantial impact on land use and agriculture.

The Following Big Obstacles Remain:

› Financing

The revised Friday text includes a doubling of annual funding from the developed to the developing world. This is contentious because of the failure of the original commitment, and because of how it can be interpreted - loans vs. grants being a significant concern to smaller nations.

› Annual Targets Reset

It is generally accepted that all pledges made so far would see the final warming limited to around 2.2 degrees (there are small variances in the estimates). This is a significant improvement from 2.7 degrees, which was the target based on Paris pledges. It is still too high, however, and these targets need to ratchet up through the 2020s if the 2030 target is to be met, and the significantly safer target of 1.5 degrees is to be achieved. Five-year gaps between resets will not reach the goal. Holding annual meetings to make adjustments would send a strong market signal that green investment will only become safer, while brown investment has small and decreasing prospects.

› 1.5 Degrees

The inclusion of 1.5 degrees in the joint announcement by China and the US seriously bolsters the COP ambition of 'keeping 1.5 alive', and *it is indeed alive*. The much-discussed issue is that we are already at 1.1, and therefore, there is virtually no room for errors. It is, though, another powerful market signal that what needs to be done, will be somehow undertaken.

The second week has seen ongoing protests, but also had a decidedly upbeat start with Barack Obama and John Kerry showing real optimism that the world's leaders were ready to act. The last-minute haggling was expected, and the expansive ambition of the UK presidency was always a stretch. Taken as a signpost to private finance, the second week and the summit as a whole can be viewed as a success.

It is unclear whether banks will be financing an orderly decade of change, or a disorderly flood of regulation after 2025, but it does appear that change will happen. We had mixed results from COP26. But it has certainly been a delight to be in Glasgow to witness this.

Sunday Addendum - A Deal is Reached

After working through much of the weekend, the COP26 agreement has been signed and as expected, there were last-minute adjustments to the wording.

The most significant was the change to ‘phasing down’ coal from ‘phasing out’. With Barack Obama’s imperfect compromises, and John Kerry’s market markers in mind, this does give fossil fuels more time. But, it also sends a strong signal to capital providers and markets as to where opportunities lie—renewables—and where risks have increased—fossil fuels.

The biggest win may be the review and resetting of targets annually. This makes it likely that a curve of successive and increasingly impactful changes over the decade can be enacted. Given an exponential difference in the global impact between the current projection of 2.2 degrees of warming and the target of 1.5 degrees, the annual resets could become the critical point of COP26.

Signing off, 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.

DISPATCH FROM GLASGOW DISPATCH FROM

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.