

# US CLIMATE BILL RE-IGNITES BEACON OF HOPE AGAINST CLIMATE CHANGE. BANKS NEED TO TAKE NOTICE.

THE US RECENTLY SIGNED INTO LAW, A LANDMARK CLIMATE BILL THAT HAS REVIVED THE FEASIBILITY OF THE 2-DEGREE/NET ZERO TARGETS OF THE PARIS 2016 COP. BANKS SHOULD PAY PARTICULAR HEED!

Climate Risk Perspectives

## JADED HORIZON

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## Its economic legislation...

Officially called the 'Inflation Reduction Act', the recent legislation effectively puts the US economy on a determinedly greener path, aiming at reducing US greenhouse gas (GHG) emissions to 42% of their 2005 levels. This is a reduction that would simultaneously represent a cut of 2.5% of total current global amount. This underlines just how important a significant move by the world's largest economy is to the overall climate program.

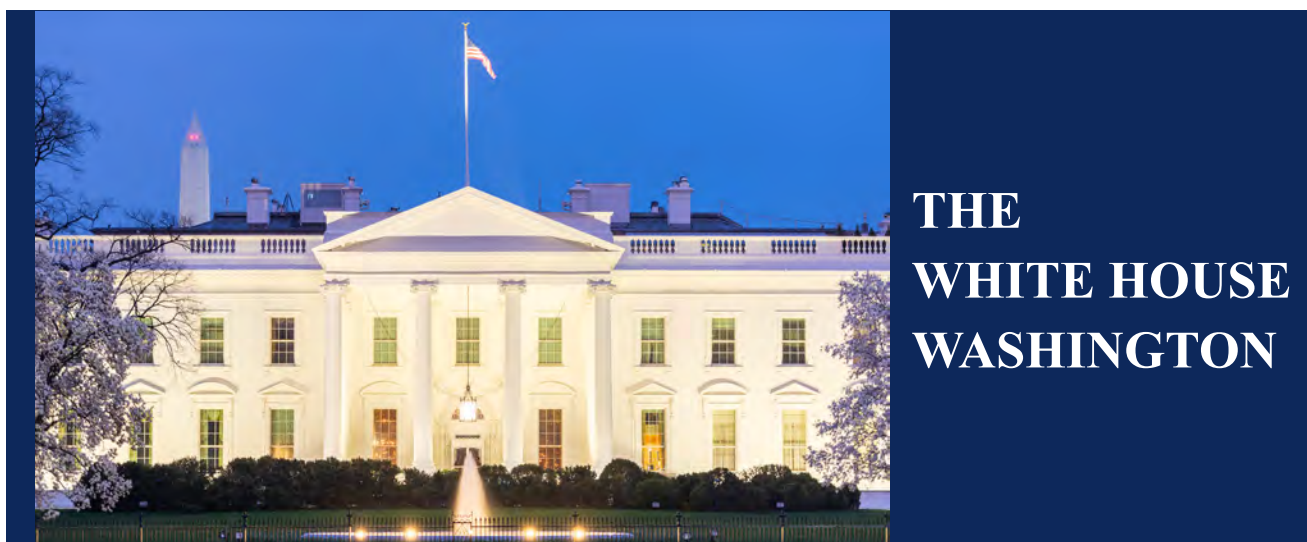
The US had made a 'Nationally Determined Contributions' (NDC) at the 'Conference of Parties' (COPs), in Paris, in 2015, under Obama. After the Trump administration left the Paris Agreement, President Biden rejoined, upon taking office, and strengthened the original commitment to:

- Achieving a minimum 50% cut in GHG emissions by 2030
- Net zero by 2050

The importance of the NDCs was, in part, the fact that they reflected a global ambition to hold global warming levels to 2 degrees above 'pre-industrial' levels. This limit is widely viewed as one that avoids the most extreme effects of climate change. This aim, though, was also looking increasingly fanciful with:

- 2017 seeing the average surface temperature already 1% above 'pre-industrial' levels
- Average temperatures rising at around 0.2 degrees per decade
- Agreement on 'carbon budget spend' between developed and developing economies stalling
- The US making no federal laws to support its own NDC

This began to change with the Biden administration joining the 'Global Methane Pledge' and unveiling the '[U.S. Methane Emissions Reduction Action Plan](#)' in November 2021. This was framed in terms of an economic boost, rather than simply a climate measure, and this is how the most recent bill has also been presented.



## But is it a climate bill?...

While not exclusively dealing with climate-related issues, the new Act does go some way to reorient the US economic direction towards sustainability and a net zero future. Climate-related pieces of the Act include:

- › Methane reduction, impacting
  - ▶ Agriculture
  - ▶ Industry
- › Electric vehicle subsidies and support, including
  - ▶ Direct support for the emergent industry
  - ▶ Support for US-based mining for battery materials
- › Clean energy, including
  - ▶ Solar energy subsidies
  - ▶ Increased support for wind farms
  - ▶ Investment in nuclear energy



There is little in the Act regarding the wider electrification of the energy grid, and there is explicit support for oil and gas exploration. These notwithstanding, the direction of travel for the economy is clearly towards sustainability, presented as increased energy security for the country and households.

## The Act will move the market...

Explicitly mentioned within the bill itself are tax support for heat pumps, water heaters, and home solar panels. The aim is obviously to push market forces towards a greener economy.

There are also provisions for increasing the value of new technologies around Carbon Capture and Sequester (CCS), with increased rates paid for carbon that is captured and re-used within industrial processes. It is worth noting that as global schemes come together, the arbitrage between regimes around carbon pricing will become a major indicator of progress towards the future that 196 governments have signed up to.

## What the act means for the rest of the world...

Outside of the US bill, the EU has been forging ahead with legal provisions for its 'Green Deal', including 'Border Carbon Adjustments' (BCAs) [discussed in a [previous piece](#)]. Even so, without explicit support of the largest economy in the world, these measures are unlikely to change the 'laissez faire' attitude towards climate change that characterizes non-COP government announcements globally.

The 'Inflation Reduction Act' changes the game in terms of where the world heads next, economically. By not only signaling intent, but encoding into law, an ambition to meet its Paris commitments, the US has effectively re-lit the beacon that 2 degrees is still possible. Economies around the globe are likely to significantly increase their ambition towards this same endpoint. Taken in the round, this means that businesses have to be prepared to invest in the technologies and changes required to meet net zero by 2050.

## Banks should take stock now...

Banks lend to economies based on certain expectations of how governments will support and finance those economies. When a shift in paradigm occurs, the credit pricing basis on which loans are made, from subsidies to consumer behavior change with them. The move from a predominantly 'brown' economy to a 'green' one is just such a shift.

It is now most likely that transitional measures, to move from where we are to a more sustainable future, will be mostly back in line with the 2-degree commitment made in Paris in 2015. This means that there are three main scenarios to run against balance sheets to assess the increasing credit risk from the changing environment, which are:

- Current Policies - The rules and regulations already in place in each country
- 2-degree limit - Current and future changes needed to limit global warming to 2 degrees above pre-industrial levels
- Delayed action 2-degree limit - Aiming for the same end result, but with policies put in place later than expected

These climate pathways are available from the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), with the estimated costs being available from the Network for Greening the Financial System (NGFS). Taken together, banks ought to be able to look at the total costs and disaggregate these into impacted industries and firms. Furthermore, given that the needs per industry are reasonably well understood, they should be capable of seeing those borrowers who have already taken steps to avoid heavy costs by investing early in green technology, and rewarding them with commensurately lower borrowing rates.

As the costs of the full transition are expected to be in tens of trillions, finding and rewarding companies that are on the right side of history needs to become an imperative for banks that want to be part of the funding of a future global economy.

## GreenCap can help...

GreenCap is a 'Risk as a Service' (RaaS) solution that allows banks to quantify the increased credit risks and costs associated with various climate pathways. Every loan can be assessed against each potential outcome, as it is built to take into account policies at local, regional, and global levels, provided there are:

- › Increases in unexpected losses
- › Increases in expected losses
- › Implied increases in default probabilities
- › Implied increases in basis point spreads per loan



Visit [GreenCap.live](https://www.greencap.live) for more insights, news and resources, curated with the explicit aim of assisting banks in their journey towards sustainable finance.



## ABOUT GREENCAP

- › GREENCAP is a turnkey 'Risk as a Service' (RaaS) solution, designed for banks to include climate change as a category in their risk management frameworks.
- › The solution allows banks to replicate climate pathways within their scenarios for economic impact and risk analysis.
- › Using GreenCap, banks can modify pathways and scenarios to include the timing effects of delayed sustainability transition measures.
- › Loans and credit facilities are measured and monitored against risks arising from both 'physical' and 'transition' impacts.
- › GreenCap provides support for risk reporting and governance in the areas of 'Responsible Banking' and climate change.
- › With GreenCap, banks can ensure that their climate strategies are financially grounded, and loan pricing is optimized throughout the transition to a green global economy.



## 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 500 employees with a global footprint. Our production and management teams are in the US, 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 by TÜV Nord, GreenPoint rigorously complies with ISO 9001:2015, ISO 27001:2013, and ISO 27701:2019 standards.



## Marcus Cree

MANAGING DIRECTOR AND  
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 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, Psychology 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 provides strategic and tactical guidance to GreenPoint senior management and serves as client ombudsman. His career in the financial services industry spans three decades during which he has held investment banking and C-level risk management positions at Royal Bank of Canada (RBC) 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" (Risk Books, 2018).

Sanjay was the Founding Director of the RBC/Hass Fellowship Program at the University of California at Berkeley and has served as an advisor and a member of the Board of Directors of UPS Capital (a Division of UPS). He has also served on the Global Board of Directors for Professional Risk International Association (PRMIA).

Sanjay 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. As well as being a regular speaker at conferences, Sanjay actively teaches postgraduate level courses in business and quantitative finance at EDHEC (NICE, France), Fordham, and Columbia Universities.