

**CASE STUDY**

# Managing Exposure to Climate Risk in Bank Portfolios

**THE CLIENT:**

A North American retail  
and investment bank

**USERS:**

The environmental team

The average global temperature on earth has been rising significantly and scientists attribute this to greenhouse gases (GHGs), calling for the world to transition to a low-carbon economy. While banks emit little GHGs to run their operations, they finance the emissions of other companies through loans and investments. These “financed emissions” need to be understood if a bank is to effectively assess its GHG footprint and take action.

The environmental team at this North American bank is part of the corporate sustainability group. It is responsible for aggregating information from across the bank’s divisions to include in a report for the Task Force on Climate-related Financial Disclosures (TCFD). The team was also recently charged with helping quantify the bank’s financed emissions and setting reduction targets. This has become strategically important as customers and other stakeholders continue to ask for more transparency and new regulations regarding disclosure begin to take hold.



## Pain Points

The environmental team wanted to be able to quantify financed emissions in a way that was both meaningful and actionable. This would require highly-granular data on thousands of companies and asset classes in the bank's loan and investment portfolios. To support the initiative, the team wanted to find a third-party firm that could:

- Conduct a desk study of best practices and climate risk scenarios.
- Collect data and do analysis across numerous divisions within the bank.
- Cover real estate and business loans, as well as investments in listed equity, corporate debt, and sovereign bonds.
- Analyze carbon pricing and policy alignment risk.
- Assist with setting targets for the reduction of GHG emissions in the portfolios.

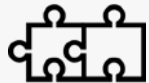
Importantly, team members wanted the provider to deliver an analytical framework and toolset that would enable them to conduct the assessments internally in future years. They reached out to S&P Global Market Intelligence ("Market Intelligence") to discuss the firm's offering.

**The bank needed to better understand the potential risks and opportunities it faced by financing GHG emissions through its loan and investment portfolios. The environmental team was tasked with quantifying these emissions for thousands of companies and portfolio assets, and establishing appropriate reduction targets.**



## The Solution

Market Intelligence discussed a consultative solution that would deliver actionable insights for divisions across the bank, along with an analytical framework and toolset that the environmental team could use on its own in the future. Market Intelligence would undertake a desk study, followed by an analysis of the bank's financed emissions, the energy sector, and climate scenarios. It would then work with the bank to set targets for GHG emissions in its portfolios. All the results would be summarized by Market Intelligence in short reports and presented to the bank. In addition, the delivery of an Excel file would enable critical data elements to be stored in the bank's internal repository. The assignment involved leveraging many Market Intelligence datasets, including climate analytics by Trucost, part of S&P Global.



### **Incorporate natural capital considerations in portfolio analysis**

**Trucost Environmental Register** is a database containing information on the direct and supply chain environmental impacts for a universe of over 15,000<sup>1</sup> companies, representing 98% of global market capitalization. Information about each company's environmental impact is updated annually using a mix of disclosed and, where gaps are present, modeled data. The data covers hundreds of environmental issues encompassing carbon and other pollutants, water dependency, natural resource efficiency, and waste disposal.

<sup>1</sup> Data as of October 2020.



### Understand sovereign bond carbon exposure

**Trucost Sovereign Carbon Exposure Database** provides an understanding of carbon exposure linked to investments in sovereign bonds, and enables users to compare performance against a benchmark and report in line with voluntary and mandatory reporting requirements. The dataset covers the territorial and import-export GHG emissions of 170 countries across all GHG Protocol gases, plus country-level socio-economic and energy data.



### Assess the ability of a company to absorb future carbon prices

**Trucost Carbon Earnings at Risk Dataset** can be used to stress test a company's current ability to absorb future carbon prices and understand potential earnings at risk from carbon pricing at a portfolio level. Integral to this analysis is the calculation of the Unpriced Carbon Cost, which is defined as the difference between what a company pays for carbon today and what it may pay at a given future date based on its sector, operations, and a given policy price scenario.



### Track a company's progress on meeting the Paris Agreement goal

**Trucost Paris Alignment Dataset** assesses company-level alignment with the Paris Agreement goal to limit global warming to well below 2°C from pre-industrial levels. This dataset enables investors to track their portfolios and benchmarks against the goal of limiting global warming to 1.5°C and 2°C climate change scenarios.



### Evaluate a company's financial situation

**S&P Capital IQ Fundamentals** provides standardized data for over 5,000<sup>2</sup> financial, supplemental, and industry-specific data items for over 150,000 companies globally, including more than 95,000 active and inactive companies across multiple industries. Data is available at numerous frequencies.

<sup>2</sup>Data as of September 2020.

**Link information  
across datasets**

**Cross Reference Service** enables the linking of over 63 million instruments to a range of identifiers, such as ISINs and CUSIPs, 28 million entities to the S&P Capital IQ Company ID, and industry sectors to GICS and other industry classifications schemes.<sup>3</sup>

**Get concise  
summaries of  
findings**

**Customized reports** prepared by the S&P team outline key findings and targets across financial instruments and asset classes.

**Internalize  
analytical  
capabilities**

**Capacity-building capabilities** include templates, worksheets, and other toolsets to enable the users to conduct the analysis on their own.

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<sup>3</sup> ISIN=International Securities Identification Number; GICS=Global Industry Classification Standard. Data as of September 2020.



## Key Benefits

The environmental team felt that Market Intelligence could provide the actionable insights they needed. The results would also help other groups in the bank make specific decisions about which companies and countries to include in loans and investments. In particular, the team saw value in having access to:

- **A comprehensive approach** – from identifying industry best practices to setting targets.
- **Granular-level data** covering both the environmental and financial sides of the equation.
- **Extensive climate risk data intelligence** by Trucost.

*[Click here to explore some of the datasets and solutions used in this case study.](#)*

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