

New framework factors climate risk into financial valuation

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The University of Waterloo has developed a tool to help the capital markets incorporate physical climate change and extreme weather risk into investment decisions.

Researchers at Waterloo's Intact Centre on Climate Adaptation developed a [climate](#) risk framework which will help institutional managers to guide investments, securities commissions to assess disclosure, and credit rating agencies to measure risk by incorporating the impacts of [climate change](#) into business analysis.

"Climate change is irreversible, impacting every aspect of our lives, including the capital markets," said Blair Feltmate, professor at Waterloo and head of the Intact Centre that authored the new report profiling the Climate Risk Matrix, which identifies the most impactful climate change related impacts, specific to industry sectors.

The incentive to write the report came from the Task Force on Climate-Related Financial Disclosures and Canada's Expert Panel on Sustainable Finance. As suggested by the expert panel's chair, Tiff Macklem, the Climate Risk Matrix "provides a solid and practical way to assess and value physical climate risks."

"We now have a framework that uses climate-related data with existing valuation models to determine a company's climate change risk exposure in financial terms," said Sonia Baxendale, President and CEO, Global Risk Institute. "The outputs from this framework will be invaluable to regulators and investors by filling in data gaps that are crucial for effectively assessing risk."

"Climate change and extreme weather risks can represent challenges for [capital markets](#)," said Brian Porter, President and CEO at Scotiabank. "This report provides practical guidance that will help the financial sector to better incorporate climate risk into financial valuation."

The report, "Factoring Climate Risk into Financial Valuation," was generously supported by the Global Risk Institute (GRI), Scotiabank and Intact Financial Corporation, and presents Climate Risk Matrices for the

Commercial Real Estate sector and the Transmission and Distribution of Electricity. The report identified that the next sectors best suited for Climate Risk Matrix development are Materials, Energy, Utilities, Industrials and Real Estate.

Mark Carney, Governor of the Bank of England and Special Envoy on Climate Action and Finance to the United Nations, warned that climate disclosure must become comprehensive, climate risk management be transformed, and sustainable investing go mainstream. Climate Risk Matrices offer a practical and readily deployable means to act on Carney's warning.

Provided by University of Waterloo

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