

LaSalle Street Podcast: Climate Glossary for Episode 8

By Jahru McCulley, Financial Markets Analyst, Financial Markets Group

Scenario Analysis – Scenario analysis helps organizations gauge the resiliency of their risk management strategies to key risk exposures. Scenario analysis does not make future predictions. Rather, a scenario describes different future states of the world and how an organization or investment portfolio is likely to perform in a particular state. This methodology is widely used by policy makers and business leaders, though the application of scenario analysis to climate-related risks and investments is a more recent undertaking.

In 2015, the Financial Stability Board created the Taskforce on Climate-Related Disclosures to provide recommendations and guidelines for financial disclosure of climate-related risks. A comprehensive understanding of the risks and opportunities associated with climate change allow organizations to better adapt their risk management strategies. Climate change scenarios explore various future pathways that describe an organization’s key climate risk exposures and opportunities under different circumstances.

<https://www.fsb-tcfd.org/about/>

Climate change risk scenarios can be broadly understood through two risk types: transition risks and physical risks. Transition risk scenarios model future risk exposures related to the transition to a low carbon economy (e.g. technological, industrial and policy changes). Physical risk scenarios model the future physical impacts of climate-related changes, such as increase frequency of severe weather patterns, that may directly or indirectly affect asset values and investments. (e.g., direct damages to industrial infrastructure and supply chain disruptions). The International Energy Agency (IEA) provides commonly used reference scenarios affecting the energy sector. The Inter-governmental Panel on Climate Change (IPCC) provides an extensive set of climate scenarios.

<https://www.iigcc.org/download/navigating-climate-scenario-analysis-a-guide-for-institutional-investors/?wpdmml=1837&refresh=612d168fd86731630344847>

Climate Dashboard – This dashboard provides an overview of past, current and future climate information throughout the 10th district utilizing flood data from various government agencies.

Tableau – Tableau is a data visualization and business intelligence tool used to extract data and build reports in the form of worksheets and dashboards.