Why are financial institutions engaged in efforts to measure carbon risk exposure?

1. NGO Campaigns
   Campaigning-NGOs such as Greenpeace and WWF have worked for decades to push environmental issues into the corporate sphere. Recently, BankTrack – a network of NGOs including Rainforest Action Network – have focused their attention on the finance sector.

   BankTrack’s 2011 report, Bankrolling Climate Change, named and shamed the ‘climate killer’ banks that finance private sector fossil fuel extraction. Investment and lending activities were targeted because they facilitate the emission of greenhouse gases around the world.

2. Disclosure Groups
   As climate change established itself on political agendas, calls for corporate-level reporting on sustainability metrics began to emerge.

   CDP’s (formerly the Carbon Disclosure Project) annual questionnaire and climate disclosure rankings emerged to provide this data. Backed by 767 institutional investors, representing US$92 trillion in assets, CDP have become a globally renowned information source on corporate-level sustainability.

   Disclosing to CDP is fast becoming an industry norm. Companies must now implement systems to measure, understand and report sustainability data.

3. ‘Carbon Risk’
   Reports such as Carbon Tracker Initiative’s Unburnable Carbon have fostered interest in ‘carbon risk’. Such analyses argue that regulation will limit the amount of fossil fuels we can burn. This substantially increases the risk of investing in energy companies.

   In recent years the concept of carbon risk has taken hold. Board members of fossil fuel companies are being bombarded with letters from shareholders demanding that they take this matter seriously. As a result, Shell and ExxonMobil have been cajoled into publishing reports on the financial risks of climate change.

4. Carbon Accounting
   One question remains: How do we measure carbon risk? Emerging carbon accounting standards aim to do just this.

   While the standards are voluntary, CDP is likely to require compliance as part of its questionnaire. Similarly the tools are geared towards the data demanded by NGOs.

   Surrounded by this range of coordinated pressures, financial institutions have little choice but to adopt these ‘voluntary’ carbon accounting standards.

The Thesis in Brief

Civil Society Organisations (CSOs) – from NGOs to standard-setters – are ramping up the pressure on financial institutions to voluntarily disclose their carbon risk exposure. By coordinating their influence, networks of CSOs effectively become quasi-regulators, turning voluntary practices into industry norms. This thesis examines these efforts to reveal an emerging calculative infrastructure that may come to underpin climate change governance.

Empirical Core

The findings have emerged from a participant observation of a standard-setting project coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the Greenhouse Gas Protocol, the dominant standard-setter for carbon accounting. The project, The Portfolio Carbon Initiative, is creating a standardised methodology for measuring and reporting the emissions that financial institutions enable through their investment and lending activities.

Robert Charnock
3rd Year Ph.D. Candidate | Department of Accounting
London School of Economics
@RobertCharnock | r.j.charnock@lse.ac.uk