

ClimateWise Transition Risk Framework

Organization

ClimateWise, University of Cambridge Institute for Sustainability Leadership

Summary

The ClimateWise Transition Risk Framework (CISL 2019) provides an open-source, step-by-step guide that captures risks and opportunities emerging from the low-carbon transition to infrastructure investments. Under the framework, transition risks are defined as arising from efforts to address climate change, including but not limited to abrupt or disorderly introduction of public policies, technological changes, investor sentiment, and disruptive business model innovation.

The objectives of the framework are to: a) understand and measure financial implications of transition risks with the focus on infrastructure assets, b) identify scenarios and time horizons in which exposure to low-carbon transition risks will materialize, and c) demonstrate a transparent, adaptable, and robust methodology for assessing transition risks.

Climate Focus

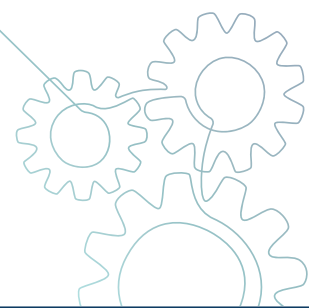


Resource Type



Intended Users





ClimateWise Transition Risk Framework

WHO	The framework is intended to provide real and practical value for chief investment officers, asset managers, regulators, and the wider financial community.
WHAT	<p>The ClimateWise Transition Risk Framework is an open-source methodology designed to help investors to:</p> <ul style="list-style-type: none"> • Assess the breadth of asset types exposed to transition risk and opportunity across an investor’s portfolio (across different subsectors, regions, and time frames); • Define the potential financial impact from the low-carbon transition down to an asset level; and • Incorporate transition impacts into their asset financial models. <p>At the core of the framework is the analysis of the financial drivers of transition risks:</p> <ul style="list-style-type: none"> • For each asset type, the financial cost and revenue drivers (e.g., typical inputs for the financial model of that asset type) are identified and assessed for any potential impact from transition risks. • The framework can also be used as a starting point for building customized scenarios by allowing users to sense check the underpinning financial drivers within the low-carbon scenarios and tailor these in line with in-house views on the direction and speed of the transition.
WHEN	<p><i>Investors can use the framework in multiple ways:</i></p> <ul style="list-style-type: none"> • The framework can serve as a basis for a high-level assessment of risk exposure across their portfolios. • Investors can use the framework to complete a deep-dive into a particular sector. • Investors can incorporate the quantifiable impacts of transition risks into their own financial models.
WHERE	<ul style="list-style-type: none"> • The coverage of asset types include infrastructure in the United States, the European Union, and India with six identified sub-categories, namely power assets, fuel infrastructure, transport, social, water, and telecommunications. • As for the time horizons, the Risk Exposure Matrix focuses on 2025, 2030, and 2040 in its 2020 edition.
WHY	<ul style="list-style-type: none"> • The ClimateWise Transition Risk Framework aligns with recommendations from the TCFD. • It provides methods to captures risks and opportunities emerging from the low-carbon transition to infrastructure investments and is intended to provide real and practical value for chief investment officers, asset managers, regulators, and the wider financial community.
HOW	Step-by-step guidelines and Excel tools can be found on ClimateWise’s website .