

# International experience in identifying and managing climate-related financial risks and directors' duties

ICSC and ICD webinar on the Philippines energy transition  
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## Founders

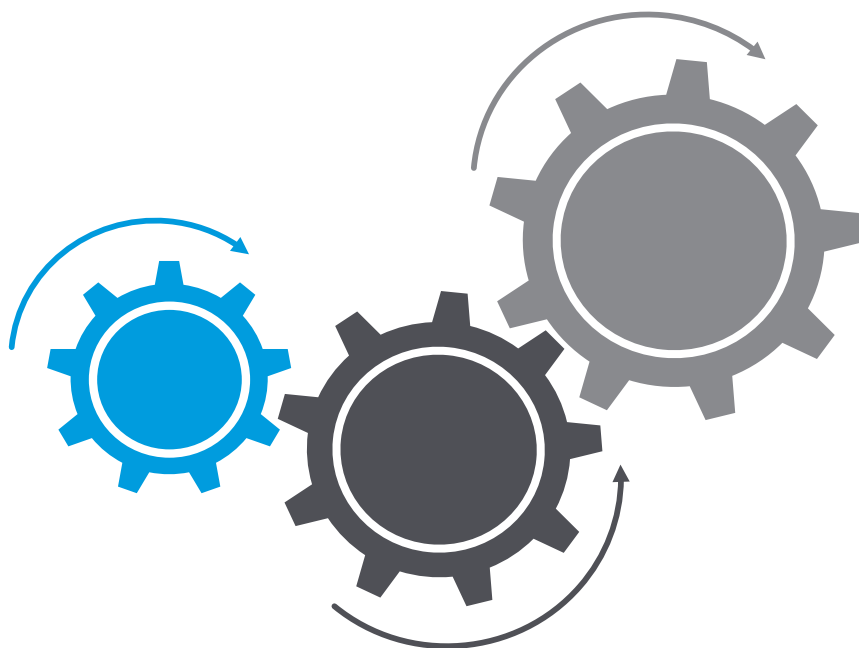


## Partners



Centre for  
Environmental Rights  
Advancing Environmental Rights in South Africa





## Physical risks

gradual onset changes, extreme weather events and ecological impacts



## Transition risks

market impacts driven by policy and regulation, technology and social responses to those physical risks



## Liability risks

failure to mitigate, adapt to or disclose the physical or transition risks



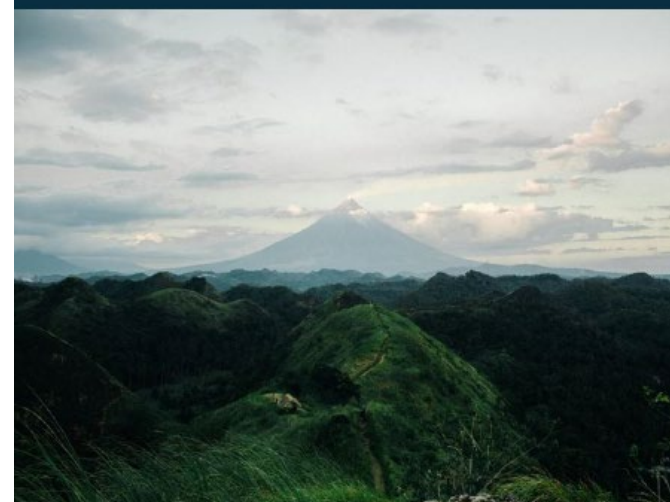
## Key drivers of transition risks

- The speed of the energy transition in the Philippines will be driven by a combination of endogenous and exogenous factors. Specifically,
  - **The rate of technology innovation** in power generation technologies.
  - **Divestment, restrictions, and cost of capital** from capital market and financial regulatory policies.
  - Carbon pricing and air pollution policies.
  - A shift in foreign restrictions to ownership.
  - **Grid absorption** capability and management.
  - Institutional inertia.
  - **Availability of viable land** due to land scarcity and convertibility issues.
  - Volatility and trends in **coal and gas prices**.
  - Regulatory incentive improvements.
  - Retail competition's interaction with low-cost renewable energy.

*Carbon emissions have to decline by 45% from 2010 levels over the next decade in order to reach net zero by 2050. This requires a massive reallocation of capital. If some companies and industries fail to adjust to this new world, they will fail to exist."*

Governor of Bank of England Mark Carney  
Governor of Banque de France François Villeroy de Galhau and Chair of the Network for Greening the Financial Services Frank Elderson (17 April 2019)

## Analysing Energy Transition Risks in the Philippine Power Sector



March 2021

# Ongoing ratchet in investor and regulatory expectations globally, *despite covid*



Regulators and investors respond to the climate science



Heightened investor expectations – from intention to action, net zero by 2050 or sooner



Call to action on climate risk – supervision, stress testing and own balance sheets



Supervision from prudential, corporate and securities regulators



Debt markets accelerate pricing of climate risks



Heightened societal expectations of financial institutions on climate change



IFRS trustees guidance on integrating climate risks in financial statements prepared to IFRS Standards, plus ISSB consultation



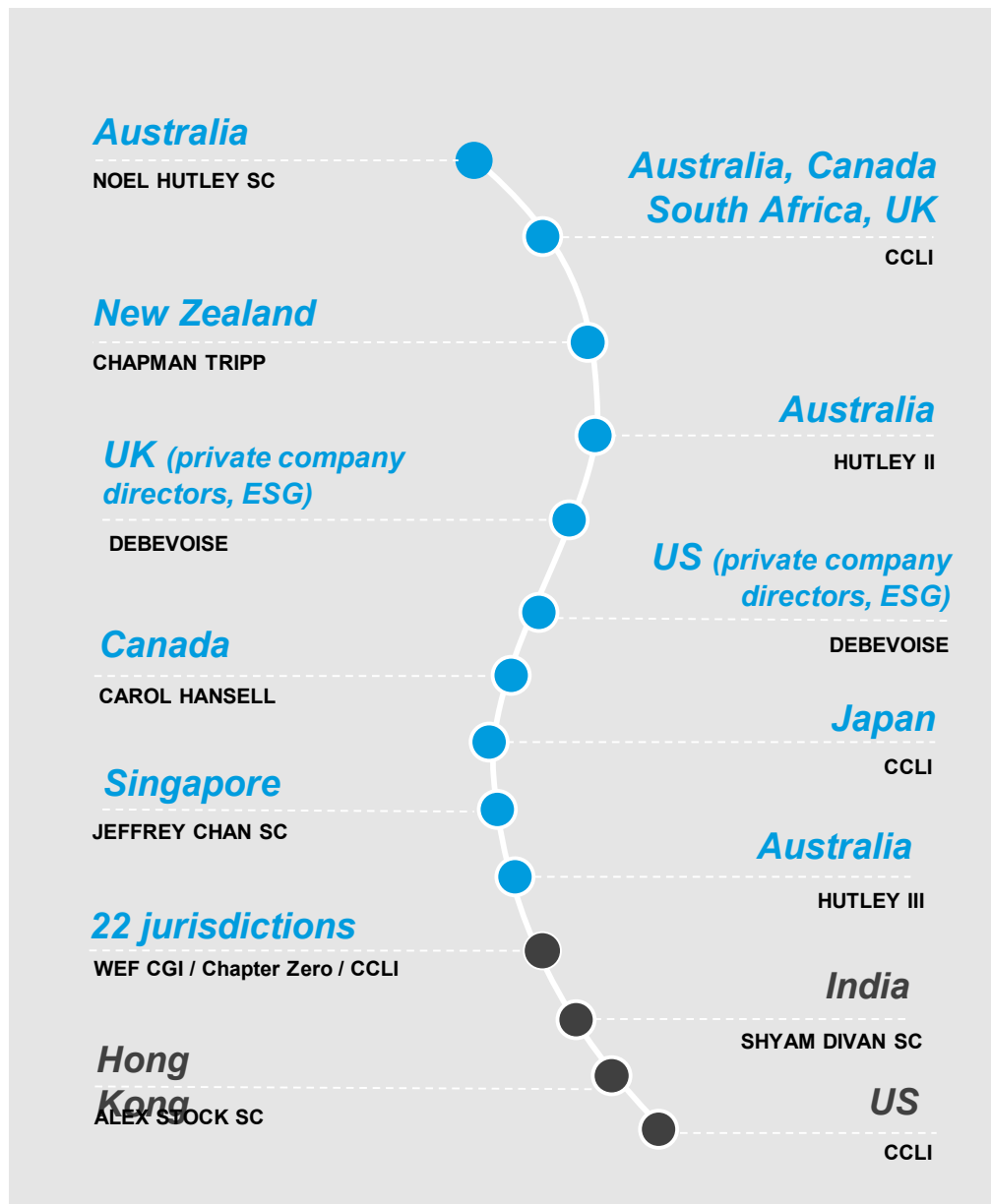
Disorderly transition looking increasingly plausible as the physical impacts increase



The EU continues to push policy and regulatory ambition forward globally with the Green Deal, Taxonomy and carbon border adjustment mechanisms

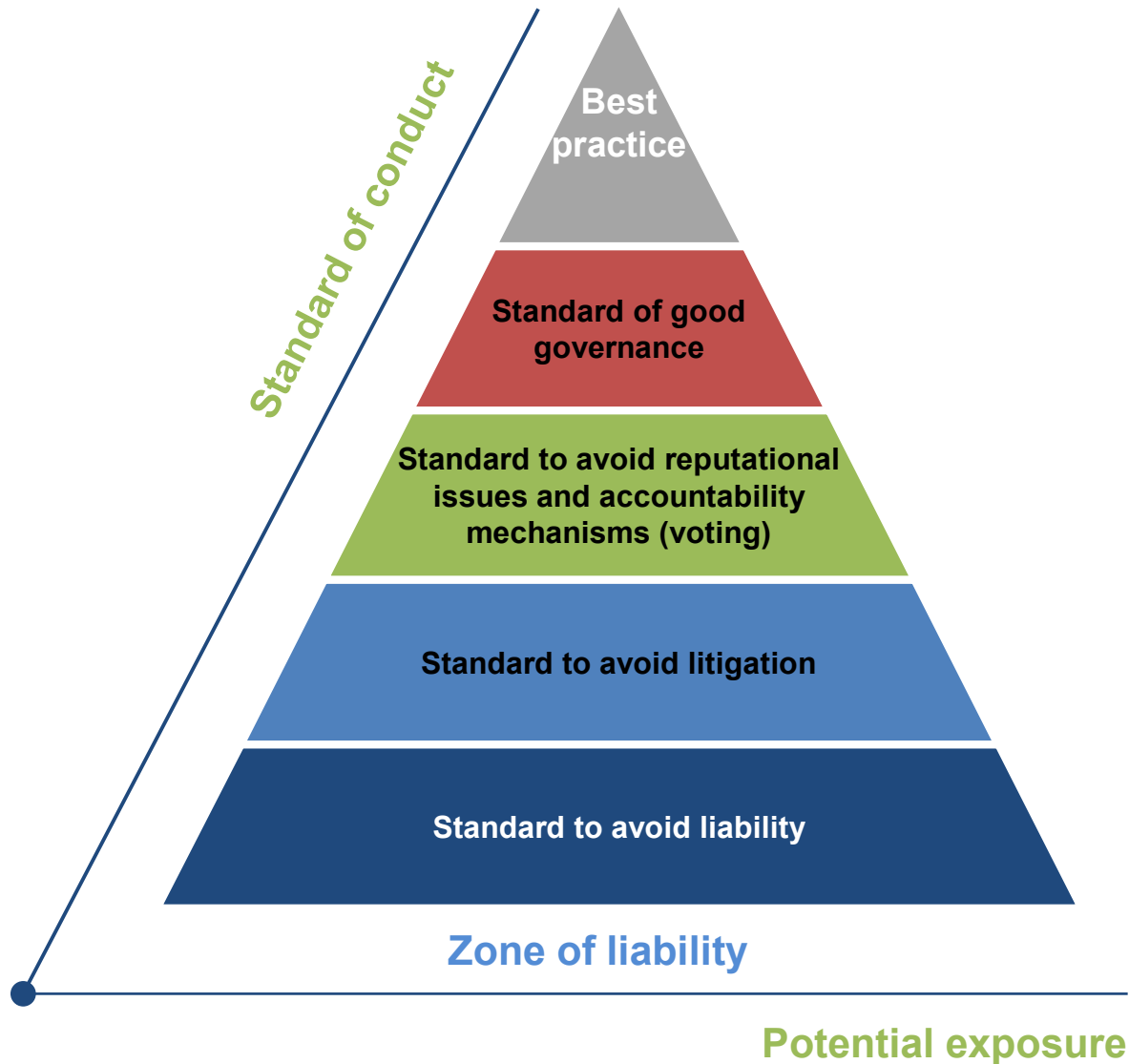


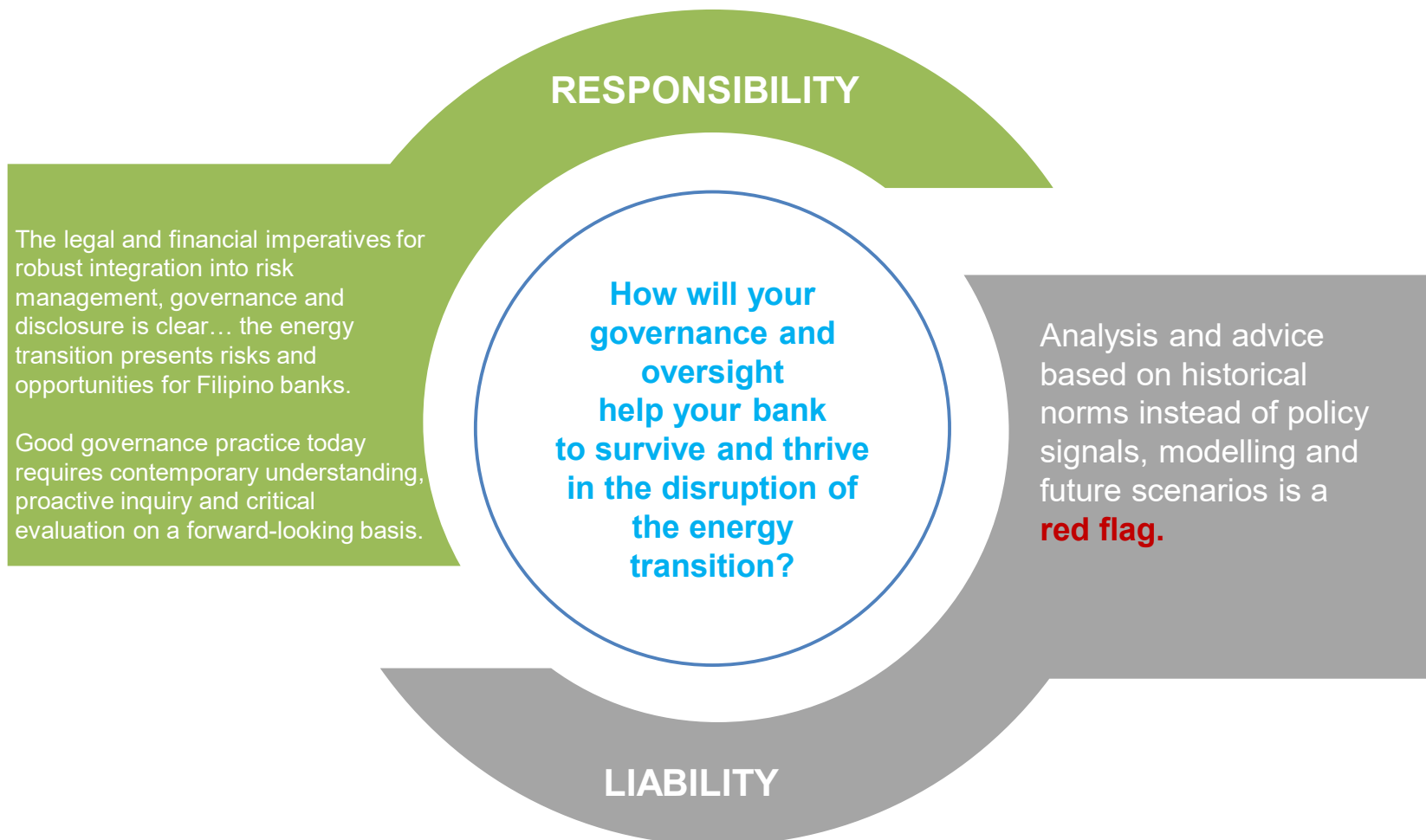
Covid-19 shows importance of stress-testing and scenario analysis in the face of uncertainty



*Directors' duties to act in the best interest of the company require consideration of climate issues to the extent they intersect with the interests of the company.*

*And the duty to exercise due care, skill and diligence requires a proactive and increasingly robust consideration of climate risks to fulfil the standard of care.*









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