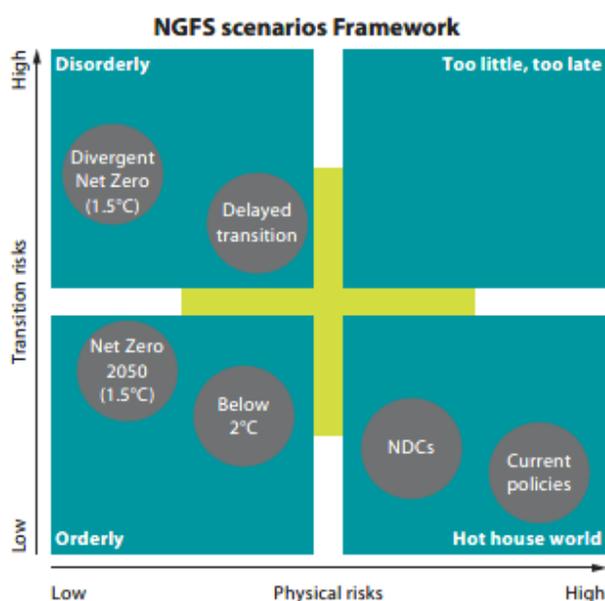


# Legal Update

## Network for Greening the Financial System Issues Second Iteration of Climate Scenarios

On June 8, 2021, the Network for Greening the Financial System (NGFS)<sup>1</sup>—a group of 91 central banks and supervisors and 14 observers—issued the [second iteration](#) of its climate scenarios, noting that such scenarios are “a true milestone in the race to better understand the risks from climate change.” The NGFS also stated that because “climate scenario analysis is a vital tool that helps [...] prepare for a range of future pathways” and the “challenges and costs of creating such scenarios are beyond most individual firms or institutions,” the NGFS has designed its climate scenarios “to act as a foundation for analysis across many institutions, creating much needed consistency and comparability of results.”

The NGFS chose six different climate scenarios to “show a range of lower and higher risk outcomes.” The scenarios have been refined from the June 2020 iteration to “leverage the latest versions of models, reflect the shifts in climate policy since 2018, and reflect the near-term IMF growth projection from COVID-19.” The six scenarios and how they compare for risk are shown in the chart below from the NGFS’ report:



Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100.

The NGFS climate scenarios are characterized by “their overall level of physical and transition risks,” which are driven by “the level of policy ambition, policy timing, coordination and technology levers.” This NGFS chart provides additional details on the risks for each:

Category	Scenario	Physical risk		Transition risk		
		Policy ambition	Policy reaction	Technology change	Carbon dioxide removal	Regional policy variation*
Orderly	Net Zero 2050	1.5°C	Immediate and smooth	Fast change	Medium use	Medium variation
	Below 2°C	1.7°C	Immediate and smooth	Moderate change	Medium use	Low variation
Disorderly	Divergent Net Zero	1.5°C	Immediate but divergent	Fast change	Low use	Medium variation
	Delayed transition	1.8°C	Delayed	Slow/Fast change	Low use	High variation
Hot House World	Nationally Determined Contributions (NDCs)	~2.5°C	NDCs	Slow change	Low use	Low variation
	Current Policies	3°C+	None – current policies	Slow change	Low use	Low variation

Colour coding indicates whether the characteristic makes the scenario more or less severe from a macro-financial risk perspective<sup>†</sup>

- Lower risk
- Moderate risk
- Higher risk

\* See slide 18 for more details.  
<sup>†</sup> Risks will be higher in the countries and regions that have stronger policy. For example in Net Zero 2050 the EU, USA and Japan reach net zero GHGs by 2050, but globally only net zero CO<sub>2</sub> is reached by this point.  
<sup>‡</sup> This assessment is based on expert judgment based on how changing this assumption affects key drivers of physical and transition risk. For example, higher temperatures are correlated with higher impacts on physical assets and the economy. On the transition side economic and financial impacts increase with: a) strong, sudden and/or divergent policy, b) fast technological change even if carbon price changes are modest, c) limited availability of carbon dioxide removal meaning the transition must be more abrupt in other parts of the economy, d) stronger policy in those particular countries and/or regions.

The NGFS’ 51-page report includes further descriptions of the scenarios and their respective transition and physical risks and economic impacts.

The NGFS climate scenarios were developed as a common starting point for analyzing climate risks to the economy and financial system, and, while developed primarily for use by central banks and supervisors, the scenarios may also be useful to the broader private sector, government and academia.

*For more information about the topics raised in this Legal Update, please contact the following lawyer.*

**J. Paul Forrester**

+1 312 701 7366

[jforrester@mayerbrown.com](mailto:jforrester@mayerbrown.com)

**Endnotes**

<sup>1</sup> The NGFS says that it is “committed to sharing best practices, contributing to the development of climate- and environment-related risk management in the financial sector and mobilizing mainstream finance to support the transition toward a sustainable economy.”

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