



TRANSITION RISK CHECKLIST

This checklist provides a guide for businesses transitioning to a low-carbon future, highlighting financial risks from policy shifts, technological advances, and market changes.



Transition risk refers to the financial risks associated with the global shift towards a low-carbon economy. As the world grapples with the climate crisis, businesses and economies are transitioning to more sustainable practices, which can result in significant changes in asset values or increased costs.

The Task Force for Climate-Related Financial Disclosures (TCFD) has categorized risks into three primary categories: climate, transition, and physical. While physical risks encompass the direct impacts of climate change, such as extreme weather events, transition risks are associated with the global move to a low-carbon economy.

KEY COMPONENTS AS DEFINED BY TCFD

1 POLICY AND LEGAL RISKS

- ◆ Conduct energy audits to identify areas for improvement.
- ◆ Increased carbon disclosure mandates.

2 TECHNOLOGY RISK

- ◆ Shift from carbon-intensive products to low-carbon alternatives.
- ◆ Investments in emerging climate technologies.

3 MARKET RISK

- ◆ Fluctuating costs of raw materials.
- ◆ Altered consumer behavior due to climate change concerns.

4 REPUTATIONAL RISK

- ◆ Evolving consumer, employee, and stakeholder preferences.
- ◆ Stigmatization of certain sectors.

POTENTIAL FINANCIAL IMPACTS

1 INCREASED OPERATIONAL COSTS

- ◆ Implementation of new technologies or processes to meet regulatory requirements.
- ◆ Training and development costs for employees to adapt to new systems.

2 ASSET DEPRECIATION

- ◆ Stranded assets leading to significant write-downs, especially in fossil fuel-based industries.
- ◆ Depreciation of outdated technologies or machinery that aren't in line with low-carbon initiatives.

3 MARKET VALUATION FLUCTUATIONS

- ◆ Reduced investor interest for companies not aligning with sustainability trends, leading to lower stock prices.
- ◆ Decreased access to capital markets and increased borrowing costs.

4 LIABILITIES AND LITIGATIONS

- ◆ Increased legal challenges from stakeholders or regulatory bodies for non-compliance.
- ◆ Compensation or remediation costs for environmental damages.

5 SUPPLY CHAIN DISRUPTIONS

- ◆ Disruptions in supply chains that aren't climate-resilient, leading to increased procurement costs.
- ◆ Potential need to source alternative suppliers or materials.

A "Green Swan" event refers to a rare and unexpected occurrence that can have widespread repercussions on the economy. These events, like the rapid shift to electric vehicles, can disrupt entire industries. The term is derived from the concept of "black swan" events in risk management.

While all industries will experience some level of transition risk, carbon-intensive sectors like oil, gas, and transportation are particularly vulnerable. These industries will need to adapt their operations, for instance, transitioning from fossil fuels to renewables or from combustion engines to electric vehicles. Jurisdictions with stringent climate regulations, like the EU, will also experience heightened transition risks.

MITIGATING TRANSITION RISKS

1 CONDUCT A MATERIALITY ASSESSMENT

- ◆ Understand the business's vulnerabilities across operations, supply chain, and product life cycles.

2 USE SCENARIO ANALYSIS

- ◆ Evaluate potential outcomes of the transition and develop strategies accordingly.

3 IDENTIFY OPPORTUNITIES

- ◆ Align business operations with global decarbonization goals and stakeholder preferences.
- ◆ Explore new markets or product lines that cater to the growing demand for sustainable solutions.

4 SET TARGETS

- ◆ Establish ambitious carbon reduction targets to demonstrate commitment to climate action.
- ◆ Monitor and report progress regularly to ensure targets are met.

5 DISCLOSE AND ENGAGE

- ◆ Improve transparency by disclosing carbon footprints and engage with the supply chain to address risks.
- ◆ Regularly update stakeholders on sustainability progress and initiatives.

- ◆ In the face of a rapidly changing global landscape, understanding and mitigating transition risks is paramount. As the momentum towards a sustainable future intensifies, businesses that proactively navigate these risks not only protect their assets but also position themselves for unparalleled growth. Embracing the challenges of this transition can unveil novel opportunities, fostering innovation and granting a competitive advantage. In essence, addressing transition risks is not just about resilience; it's about seizing the future and turning potential threats into avenues of progress.

As businesses, organizations, and governments navigate the financial risks of transitioning to a low-carbon future, the Net0 platform stands as a pivotal tool. Its cutting-edge capabilities ensure entities are equipped with the latest strategies in smart carbon reduction, making the journey both sustainable and strategic.

