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The London Accord – Making Investment Work For The Climate

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A Robust World Via Vigorous Markets

Today's extra-financial and social issues are tomorrow's key investment drivers. The financial services industry must develop better ways of engaging with society on long-term, extra-financial issues. A good example of how rapidly 'fringe' issues become core to investment is climate change and the carbon markets. The financial services industry was largely absent from the public climate change debate, yet has been producing research on the subject for some time that could aid policy-makers.

Sell-side and independent financial analysis has a short life within the industry, perhaps three to six months for most research reports. The audience for investment research is a narrow one, perhaps several hundred people for most reports, yet there is additional value to gain by sharing this research appropriately with society. The financial services industry produces copious research on a variety of topics of interest to policy-makers, politicians, industry and NGOs, for example on:

- ◆ all of the Copenhagen Consensus issues, malaria, AIDS/HIV, corruption, armed conflict, governance, pandemics, ...
- ◆ scarcity – water, cropland, fish, living space, ...
- ◆ quality of life – obesity, longevity, genetic modification, access to medicine, ...

Given that financial markets are more and more frequently the mechanism by which global risks and rewards are transmitted, e.g. micro-finance, internalisation of carbon emissions, or motivations for drug companies to research tropical diseases, the robustness and resilience of financial markets themselves is an issue crucial to solving global risks. Policy-makers are interested in how the financial world thinks and how it views prospective policy changes or improvements.

London Accord – to date

Created in 2005, the London Accord has become the largest cooperative project among investment research firms. During 2007 London Accord members conducted the largest-ever private-sector investment collaboration into climate change, representing work valued at £7 million (\$15 million), and proved that society has a hunger for financial services research. Nineteen firms, ten of them investment banks or analytical firms, cooperated in the London Accord, www.london-accord.co.uk, an “open-source” research project with the theme of “cash in, carbon out”. This work resulted in a twenty-four report, 780-page guide, to investment for climate change launched at Mansion House in London in the presence of the Lord Mayor on 19 December 2007 before over 300 people.

Research providers included ABN Amro, Bank Sarasin, Barclays & Acclimatise, Canaccord Adams, Cheuvreux, Credit Suisse, Herbert Smith, JPMorgan Chase, Merrill Lynch, Morgan Stanley, Société Générale and WestLB. Each provided a research teams *gratis* to make it all happen. Sponsors of the London Accord are BP, the City of London Corporation (the authority for the Square Mile business district), Forum for the Future, Gresham College and Z/Yen Group. Herbert Smith and Sustainable Forestry Management also contributed, as did institutions like the Cambridge Centre for Energy Studies, the Center on International Cooperation (part of New York University), the Climate Conservancy, the NextEarth Foundation and River Path Associates. Just part of the table of contents gives a flavour of the depth and quality of the research:

C. Investment opportunities

- C1: [Solar Energy 2007](#) - Eckhard Plinke and Matthias Fawer, Bank Sarasin
- C2: [Investing in Biofuels](#) - Conor O’Prey, ABN AMRO
- C3: [Investing in Renewable Energy](#) - Mark Thompson, Canaccord Adams
- C4: [Energy Efficiency: The Global Case for Efficiency Gains](#) - Miroslav Durana, Tanya Monga and Hervé Prettre, Credit Suisse
- C5: [Energy Efficiency: The Potential for Selected Investment Opportunities](#) - Asari Efiog, Merrill Lynch
- C6: [Carbon Capture and Sequestration](#) - Marc Levinson, JPMorgan Chase
- C7: [Emissions Trading: Trends and Opportunities](#) - Andrew Humphrey and Luciano Diana, Morgan Stanley
- C8: [Forest Assets for the Future](#) - Stephane Voisin and Mikael Jafs, Cheuvreux

D. Analysis

- D1: [Adaptation: Credit Risk Impacts of a Changing Climate](#) - Christopher Bray, Barclays and Acclimatise
- D2: [Modelling Carbon Intensity](#) - Valéry Lucas-Leclin, Société Générale
- D3: [Investments to Combat Climate Change - Exploring the Sustainable Solutions](#) - Alice Chapple, Vedant Walia and Will Dawson, Forum for the Future

D4: [*Investment in Low-Carbon Technology - the Legal Issues*](#) - Lewis McDonald, Herbert Smith, editor

D5: [*A Portfolio Approach to Climate Change Investment and Policy*](#) - James Palmer and Prof Michael Mainelli, Z/Yen

E. Commentary

E1: [*Dynamics of Technological Development in the Energy Sector*](#) - J Doyne Farmer & Dr Jessika Trancik, The Santa Fe Institute

E2: [*Toward a Product-Level Standard: Life Cycle Analysis of Greenhouse Gas Emissions*](#) - Steven Davis, The Climate Conservancy

E3: [*A Commentary on the Product-Level Standard*](#) - Hendrik Garz: WestLB

E4: [*Cap-and-Trade Versus Carbon Tax: a Comparison and Synthesis*](#) - Michael Mainelli, Alexander Knapp, Z/Yen, Jan-Peter Onstwedder

E5: [*Carbon Markets: the Forest Dimension*](#) - Eric Bettelheim, Gregory Janetos and Jennifer Henman, Sustainable Forestry Management

E6: [*A Role for Philanthropy*](#) - Davida Herzl, NextEarth Foundation

Why financial analysis? Why not look at the science? Two reasons: scientific research has been done and is well covered by some of the very advanced scientific institutions. Further research into “does forestry work?”, “does solar work?”, “does something reduce CO₂ in the atmosphere if you look at it on a total life cycle?” is tremendously important, but it is for the financial analyst to critique, not perform. Secondly, financial analysis shows how can we make things work through our pensions, the companies we work for, the money we save – by translating financial instructions and funds into investments. Fiduciary duty invokes hard-nosed financial analysis. But the financial world is a world of odds and portfolio investment, where the policy world is too often one of deterministic, top-down allocations. The London Accord helps both sides to share perspectives on an enormous global problem. The London Accord put forward some of the conclusions:

- ◆ climate change will be avoided if prices per tonne of CO₂ equivalent rise above €30;
- ◆ policy makers should focus on developing carbon markets and avoiding carbon dumping wars;
- ◆ more research is need to quantify forestry numbers and prove the basics of carbon capture & sequestration;
- ◆ international organisations could do more to produce carbon intensity and offset standards.

London Accord – the future

From the enthusiastic reception from policy-makers (EU, Germany, US, Italy, France, Japan...), it is clear that more vigorous engagement by financial services people with policy-makers in international, trans-national, national and local government, as well as influential academics and think-tanks, would be welcomed. What the London Accord has achieved, the application of financial analysis to climate change in a more or less consistent framework, collaboratively, with much greater scope than what has been done

before, it could easily extend to other sustainability challenges. Z/Yen proposes to continue the London Accord momentum on climate change, but widened to include other issues of global risk and robustness, by providing a service of organising and sharing research from the financial services community with policy-makers.

Rather than commission special reports as it did in 2007, the London Accord wants to leverage existing work better in the future, increase the social value of the existing investment research process and add value for the authors and their firms by helping them influence sensible policy recommendations. There are five major strands of activity:

- ◆ website and media publication – providing a one-stop database for people outside financial services to access social and ethical financial services reports towards the end of their useful commercial life, i.e. three to six months old;
- ◆ social responsibility enhancement – the London Accord enhances the reputations of participating members and stress the social benefit of sharing their proprietary research;
- ◆ policy development – moving from risk and problem-analysis to the governmental and investment implications – a ‘one-stop shop’ for financial services dialogue with policy-makers;
- ◆ incubation – forming new collaborative groups and spin-offs, e.g. similar to the 2007 “cash-in, carbon-out” initiative, perhaps in areas such as “ensuring a resilient global financial system”, “deploying technology to solve problems” or “strategies for dealing with scarcity in water, forestry, fisheries or farmland”;
- ◆ support – the London Accord should assist the many excellent, ongoing initiatives in socially responsible investment, ranging from sustainability organisations to the Enhanced Analytics Initiative to the Universities Superannuation Scheme’s & Gresham College’s Farsight Award, by giving them more evidence to support their activities.

London Accord - next steps

A number of investment research houses have also indicated their desire to donate current research. Several organisations involved with policy have asked to join as observers in order to get a supply of evidence-based research from a financial perspective. The City of London Corporation may well, as it did for the London Accord 2007 reports, ‘hold’ the intellectual property rights of ‘donated’ reports. The London Accord is simple, getting more recognition and societal value from research by sharing what investment research firms typically archive. If you or your firm are interested in exploring participation in the London Accord, please contact: Professor Michael Mainelli at Z/Yen Group, michael_mainelli@zyen.com, tel: +44 (0) 207-562-9562.

The Z/Yen Group is pleased to be affiliated with Groupe international de recherche en éthique financière de l'Université du Québec à Montréal (GIREF). Z/Yen's concern is the future of financial services and their importance to solving worldwide ‘wicked’ problems. We believe that research into financial systems governance and financial systems ethics can help to ensure that finance connects with solving society's problems, and in the process generates value for itself and others by addressing global risks.

***Professor Michael Mainelli**, PhD FCCA FSI, originally undertook aerospace, environmental and computing research, followed by seven years as a partner in a large international accountancy practice before a spell as Corporate Development Director of Europe's largest R&D organisation, the UK's Defence Evaluation and Research Agency, and becoming a director of Z/Yen (Michael.Mainelli@zyen.com). Michael is Mercers' School Memorial Professor of Commerce at Gresham College (www.gresham.ac.uk).*

***Z/Yen** operates as a commercial think-tank that asks, solves and acts on strategy, finance, systems, marketing and intelligence projects in a wide variety of fields (www.zyen.com), such as developing an award-winning risk/reward prediction engine, helping a global charity win a good governance award or benchmarking transaction costs across global investment banks. Z/Yen's humorous risk/reward management novel, *Clean Business Cuisine: Now and Z/Yen*, was published in 2000; it was a Sunday Times Book of the Week; Accountancy Age described it as "surprisingly funny considering it is written by a couple of accountants".*