Earth Day Letter to CEOs
from Grant Bremner, Easier Levels Limited
22 April 2020

Earth Day Letter to CEOs

Pioneering Climate Ratings to Create Value

Dear CEO,

I hope this letter finds you and your loved ones well. As I write this the pandemic is raging and playing havoc with our lives, our firms and the economy. With the abrupt halt in commuting, travel and industry, consumption of coal, oil and gas has plummeted, along with associated emissions. It's quieter. The streets and skies are clearer, the stars are brighter… Eventually when the economy roars back into action, will we have gained any useful insights from this shock on *the new normal*?

We could use this extraordinary disruption to innovate on sustainable value creation. The coronavirus is not the only thing in the air; climate-related financial impacts are also upon us. Firms will either create or destroy value in their positioning for market and technology shifts, physical climate events, carbon pricing, and Government actions. Fast-emerging climate-related factors are causing ambiguities, information asymmetries and inefficiencies in capital asset pricing. Investors are seeking transparent and reliable financial reporting, essential to the operation of efficient markets. Today, marking the 50th anniversary of Earth Day, is a golden opportunity for me to share with you our climate ratings for firms and their value.

Easier Levels Limited developed climate ratings to crystallise the net effects of climate impacts on firms. Companies can reposition and integrate climate-related financial disclosures into annual reporting to improve climate ratings.

Adoption of Easier Levels climate ratings helps firms create sustainable value.

- The climate rating methodology is effective, innovative and sufficiently rigorous.
- Stakeholders can see a company's world ranking — versus a BB world climate rating at the Vulnerable level, or if we go net-zero, BBB+, Least Concerned.
- Stakeholders can understand a company's climate position in the stock market.
- Stakeholders can benchmark a company's climate performance against sector and industry peers, now and over time.
- Stakeholders can determine a company's climate position in an equity portfolio.
- Climate ratings are useful for company management, auditors and beyond.

A short section on each point follows. Climate-related financial impacts have random timing and materiality, and the aim is to correlate climate ratings with shifts in firm value. The climate rating algorithm models these uncertainties under future scenarios. We pre-assessed over one thousand equities, covering $50 trillion or almost two thirds of the world's total market capitalization. In this Earth Day letter to CEOs I present climate ratings for firms in two scenarios, Overshoot and Net-Zero; evoking the choice between adapting to climate impacts and mitigating climate risk.

Climate Rating Methodology

The climate rating methodology is effective, innovative and sufficiently rigorous. Climate ratings are fair and unbiased, transparent, comparable, dynamic, scaleable, and scenario horizon-based.

Climate ratings of companies are **fair and unbiased**.[1] The algorithm models climate quality, with sensitivity analyses on multiple variables. Seven summary driver variables for short-term and long-term climate value impacts are objectively scored from 1 to 10. Ratings are weighted to produce neutral/unbiased summary level indicators for any given time horizon. At this pre-assessment stage, we analysed the indicators for some companies in more detail and other ratings are based on industry peers and fewer metrics. All market cap data is from March 2019.

The various climate metrics underpinning climate ratings enable **transparency** in climate reporting. We are at a tipping point in evaluating the impact of climate quality on firm value, as firms begin to determine materiality and initiate climate-related financial disclosures. Climate factors can have financial statement impacts such as asset impairment, changes in the fair value of assets, changes in the useful life of assets, contingent liabilities, increased capital and operating costs, and changes in revenues. Forecasts of impacts are inherently uncertain and drive climate ratings.

Climate ratings indicate the expected net effect of climate factors on free cash flows of firms. Non-financial indicators (NFIs) are key determinants of climate ratings. NFIs such as carbon emissions and physical climate impacts drive firm value and are beginning to affect financial performance. We are at the early stage of applying such data and connections are imperfect. It is unlikely markets have as yet fully factored climate value into capital asset prices. Climate ratings can help overcome ambiguity.

Applying a modified threatened species taxonomy[2] to enable **comparability**, climate ratings are classified under seven threat levels:

1. Sustainable
2. Balanced
3. Least Concern
4. Near-Threatened

5. Vulnerable
6. Endangered
7. Critically Endangered

Companies will either survive or be threatened by climate risk, to varying degrees. Companies rated in the first four levels are likely survivors while those in the final three are threatened — comprising the Red List of Threatened Companies. Threatened companies may below investment grade with material climate risks.

[1] We applied independent professional judgment to determine preprint climate ratings drawing on detailed experience in carbon accounting, strategy and climate-related financial disclosures.

[2] A threatened species taxonomy modified to capture upside is applicable given the interrelationship between the sustainability of companies and species, and climate change is a stressor on both. Companies' actions are a stressor on climate, and biodiversity feedbacks are vital to our sustainability.

The table below describes the rating levels, integrating a credit rating taxonomy.

Climate Rating Levels

	Threat Level	Rating Level	Description
SURVIVORS	**Sustainable**	**AAA**	Forefront of net-zero emissions transformation with materially positive effect on financial performance
		AA+	↑ (higher relative standing within the AA rating category)
		AA	Net-zero emissions transformation beneficial with positive effect on financial performance
		AA-	↓ (lower relative standing within the AA rating category)
	Balanced	**A+**	↑ (higher relative standing within the A rating category)
		A	Net positive effect on financial performance, however may be exposed to downside risks
	Least Concern	**A-**	↓ (lower relative standing within the A rating category)
		BBB+	↑ (higher relative standing within the BBB rating category)
	Near-Threatened	**BBB**	Immaterial effect on financial performance, however more likely that downside risks may eventuate
		BBB-	Considered near threatened level by market participants
THREATENED	**Vulnerable**	**BB+**	Considered least threatened level on the Red List by market participants
		BB	Faces critical threats with material downside risks and possible impairment in financial performance
	Endangered	**B**	More exposed to critical threats with material downside risks and impairment in financial performance
		CCC	Faces an existential threat and requires favorable regulatory and market conditions
		CC	Faces an existential threat with high-likelihood of disruption due to regulatory and market forces or due to physical climate impacts
		C	Causing a materially negative effect on financial performance, with expected further decline in the value of the firm
	Critically Endangered	**D**	Materially negative effect on financial performance; assigned when climate-related risk results in bankruptcy or extremely challenging financial conditions

Ratings colours represent the likely impact of climate factors on company value from green, an increase in value, down to red, a decrease. Materiality increases towards the upper and lower bounds. Deeper red indicates greater threat to value. Yellow indicates a moderate increase in the value of the firm, and orange, immaterial.

Companies on the Red List are likely to suffer value impairment due to climate risk — from minimal for the least threatened level (BB+) to a near complete destruction of value for those rated at the lowest level (D), Critically Endangered. (e.g. PG&E).

Firms' climate ratings are **dynamic**, and are revised as climate factors take effect, as competitive positioning changes, and with shifts in underlying climate factors. These factors are constantly changing and climate ratings need to be regularly revised. Therefore the Red List of Threatened Companies is always changing. The climate ratings presented herein are pre-assessment ratings prior to a comprehensive process with assessment, review, consistency check, submission and publication.

Climate ratings are **scaleable** to many levels, for example to the industry, sector, fund, index, country, region, and world levels. Similar to scientific climate models, climate ratings are less accurate at higher levels of resolution. Scientific forecasts of physical climate impacts are more accurate at the world than at regional levels, which are more accurate than country-level, then city-level results, and so forth. Corporate level forecasting requires an even higher resolution again. For corporate climate risk modelling, climate quality results aggregated at the world level are more accurate than country-level results, which are more accurate than sector results, then industry, and then firm results. Due to significant uncertainties, more granular resolutions have higher associated error bands.

The algorithm enables ratings across a range of **scenarios** and **time horizons**. The time horizon influences the scenario's climate ratings. The 'short-term' is defined to be less than one year, 'medium-term' is one to ten years and 'long-term' is more than ten years. Applying different weightings to each climate metric results in scenarios ranging from a very high emissions pathway through to a zero carbon world. At one extreme, a high emissions pathway threatens firm value for most firms with many endangered while the other extreme, zero carbon, has upside for most firms. Scenarios and ratings can be tailored to suit a particular user's scenario and time horizon preferences. The two scenarios presented, Overshoot and Net-Zero, are based on generally accepted medium-term outcomes:

Overshoot Scenario

The world overshoots the **carbon budget** envisaged in the Paris Agreement and fails to constrain global warming to less than two degrees Celsius. We deepen the **climate crisis** manifesting in serious consequences of physical climate risks, while natural resources are **drawn down**, coal, oil and gas extraction continues **unabated**, **deforestation** is unchecked, many **ecosystems and species collapse**, markets largely **forego** climate mitigation **solutions**, and companies incur **high adaptation costs**.

Net-Zero Scenario

The world goes net-zero emissions by 2050 achieving the Paris Agreement aim to **constrain global warming** to less than 2℃. Governments enact mitigation measures with **high carbon pricing** to drive a **low-carbon** transformation, and **protect biodiversity**, **averting** many of the harmful negative consequences of physical climate impacts, eroding the value of energy companies **stranding fossil fuel reserves**, and enhancing the value of companies that are enablers of **climate solutions**.

While much rhetoric supports Net-Zero, our collective actions are driving us towards the Overshoot Scenario. Markets and firms respond to world carbon prices which fall well short of the mitigation price required for global economy decarbonisation (of around $200 per tonne). The interaction between adaptation and mitigation costs plays out differently across firms. Some firms benefit from climate-related financial impacts under either scenario while others suffer.

World Climate Rating

Stakeholders can see a company's world ranking — versus a BB world climate rating at the Vulnerable level, or if we go net-zero, BBB+, Least Concerned.

Climate Profile

	Overshoot	Net-Zero
Star Rating (from 1-5)	★★	★★★
Climate Rating	**BB**	**BBB+**
Climate Quality Score	**2.6** out of 10	**4.5** out of 10
Climate Threat Level	**Vulnerable**	**Least Concerned**
Threatened Mkt Cap	63%	27%

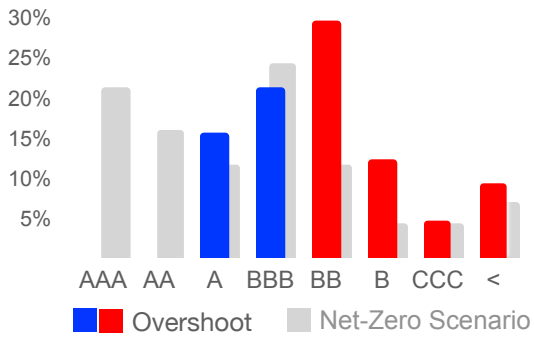
Climate Quality

Overshoot	Net-Zero
Very High	Very High
High	High
Average	**Average**
Low	Low
Very Low	Very Low

Key Climate Characteristics:

- The Red List of Threatened Companies comprises $31 trillion (equivalent to 40% of the global market capitalisation of all companies in the world). Under Net-Zero the red list shrinks to $14 trillion, i.e. it more than halves.
- 390 companies are survivors (under Net-Zero the number of survivors increases to 820).
- 150 companies comprise one half of the total value, or $25 trillion.

Climate Ratings



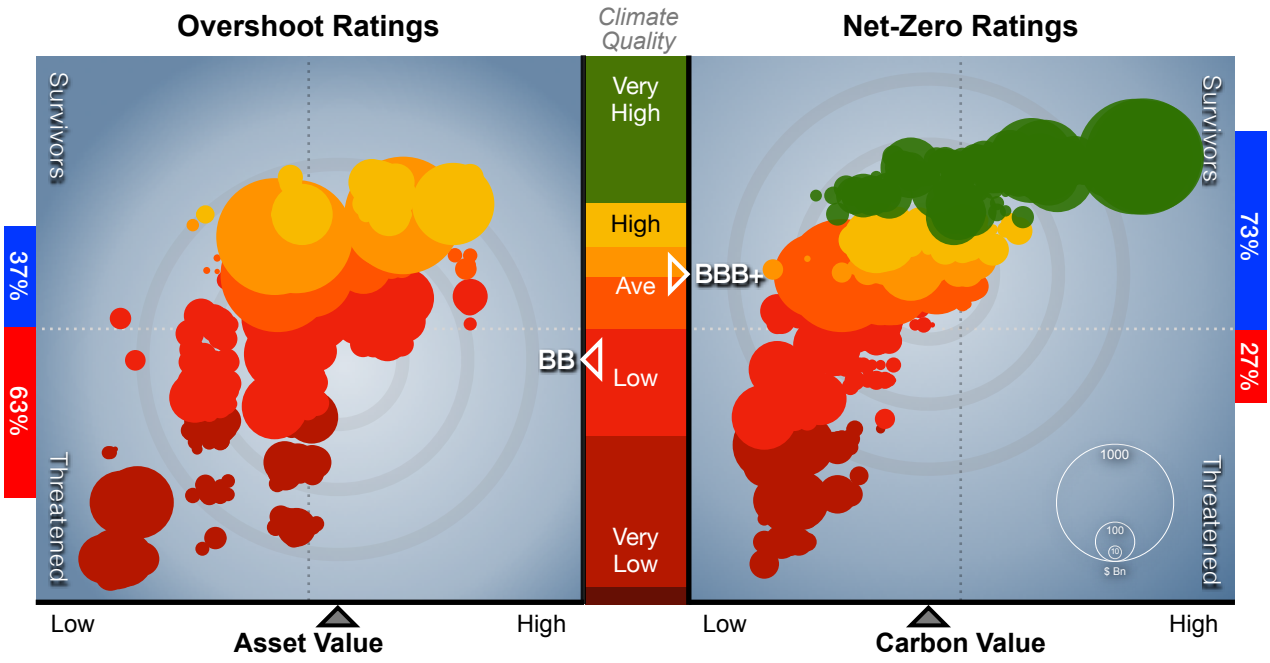
The world climate rating is the weighted aggregate rating for over one thousand equities totalling $50 trillion or almost two thirds of the world's market capitalization, and its rating likely approaches that of the MSCI World Index. This grouping includes all of the companies in the six market indexes: the S&P 500, NASDAQ, FTSE, TSX, ASX and NZX, plus 500 other companies.

An overall BB rating is low quality and is concerning as it indicates the Overshoot pathway leads to large-scale disruption to asset values in the medium-term. The majority of the value of capital assets is in threatened territory. Climate ratings are lower due to the large influence of adaptation costs on financial performance. Simply, as Governments are not pricing carbon at high enough levels, firms are taking insufficient account of externalities in their investment decisions. Essentially by ignoring an externality at large we do not mitigate climate risk and this leads to physical climate impacts that destroy value in many firms.

In the Net-Zero Scenario, the world index climate rating improves to BBB+. This moves the market up into survivor territory. By pricing carbon at the mitigation price, Governments would incentivise firms to invest in low-carbon solutions which in turn lessens physical climate risk and asset damage. In this way we avoid threatening trillions of capital asset value. On balance red list companies will suffer from lower financial performance and those critically endangered could fail due to climate risk. Climate investors may prefer to exclude red listed companies from their portfolios.

Climate risk impacts a company's various cash inflows and outflows in unexpected ways complicating financial analysis. Multiple actors and company stakeholders are involved including, shareholders, bondholders, credit providers, insurers, suppliers, customers, and Governments. Ultimately the larger the impact of a risk event, the more likely Government will need to intervene to retain essential services. Overall, capitalism likely fares better in a low-carbon world with fewer bankruptcies and interventions. For governments and many corporations, the Overshoot Scenario means a bailout world, with more climate disruption overall than under Net-Zero.

The following graph pair shows company climate ratings for both scenarios.



Climate ratings in the Overshoot Scenario are skewed towards threatened territory whereas there are more survivors in Net-Zero. Asset risk weighs heavily in the Overshoot Scenario versus carbon risk in Net-Zero. Both evoke climate disruption.

Each bubble represents a firm's (unadjusted 2019) market cap applying the colour of the seven threat levels from Sustainable to Critically Endangered. The survivors appear in the top half of the chart and the threatened level companies in the lower half. The red bubbles below midway represent companies on the red list. Overall companies perform better in a Net-Zero Scenario although the highest performers vary between scenarios adding complexity to investment decisions.

Capital value will shift to companies with higher climate ratings. Short-term and 1.5℃ scenarios have higher world index ratings whereas long-term and high emissions pathway scenarios have lower world ratings. Market sentiment usually absorbs such data assuming the efficient market hypothesis (EMH). Given information asymmetries this shift in capital flows will have been imperfect to date. Our understanding of climate risk is evolving and climate ratings help shed some light. As the investment community better understands climate ratings and their underlying metrics, value will shift. Virtually any company can improve their climate rating and create climate value, and every company that repositions has an impact on the overall world rating.

Climate Ratings of Market Indexes

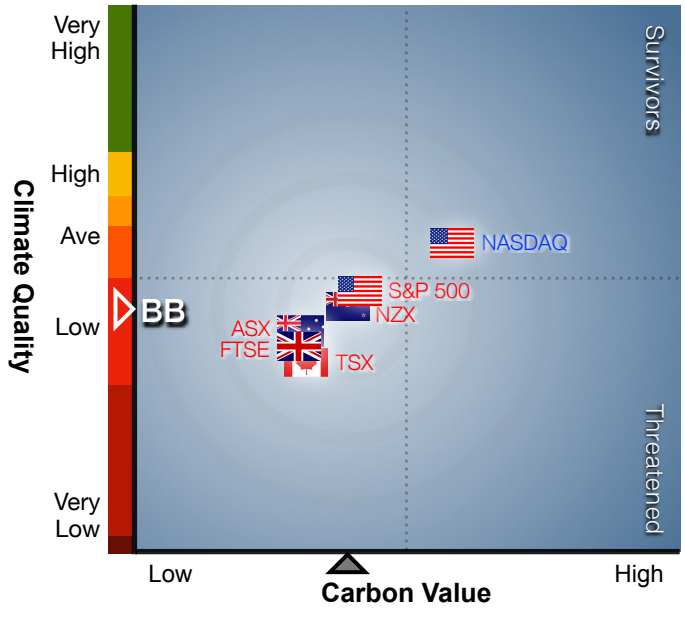
Stakeholders can understand a company's climate position in the stock market. To date coverage for indexes in the US, Canada, the UK, Australia and New Zealand shows: the ASX and NZX are BB, US market indices are higher at BB+/ BBB, and the FTSE and TSX have lower B climate ratings.

Climate Profiles

	S&P500	NASDAQ	FTSE	TSX	ASX	NZX
Star Rating (from 1-5)	★★	★★★	★★	★★	★★	★★
Climate Rating	**BB+**	**BBB**	**B**	**B**	**BB**	**BB**
Climate Quality	**2.8** / 10	**4.3** / 10	**2.2** / 10	**2.0** / 10	**2.3** / 10	**2.6** / 10
Climate Threat Level	Vulnerable	Near-Threatened	Vulnerable	Vulnerable	Vulnerable	Vulnerable
Threatened	**51%**	**12%**	**81%**	**89%**	**84%**	**67%**

The NASDAQ nudges into survivor territory with higher carbon value due to constituents having climate solutions but five of the six indexes are threatened level. The vast majority of the market cap of the FTSE, TSX and ASX is threatened. All indexes have higher climate ratings in the Net-Zero Scenario but the FTSE, TSX and ASX remain at the threatened level given lower overall carbon value. If governments in these markets were price carbon higher and if companies were to implement stronger mitigation measures, more decarbonizers would undoubtably emerge.

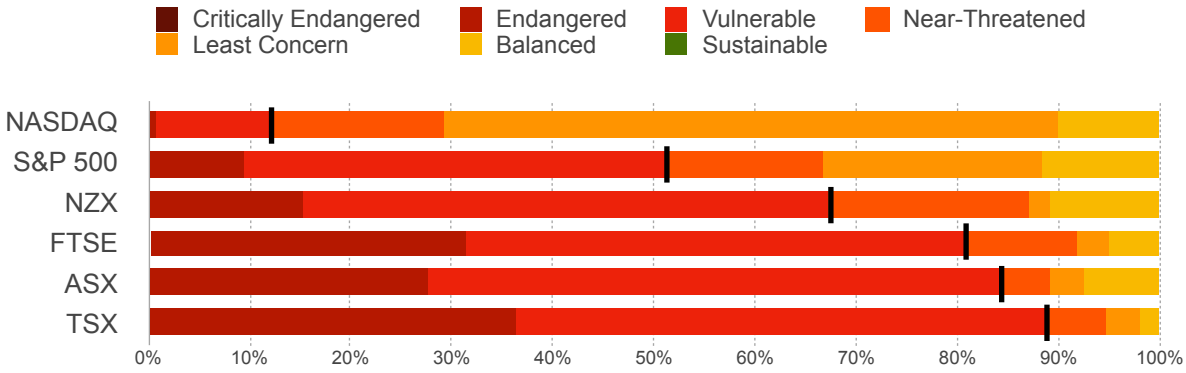
Index Ratings



Key Climate Characteristics:

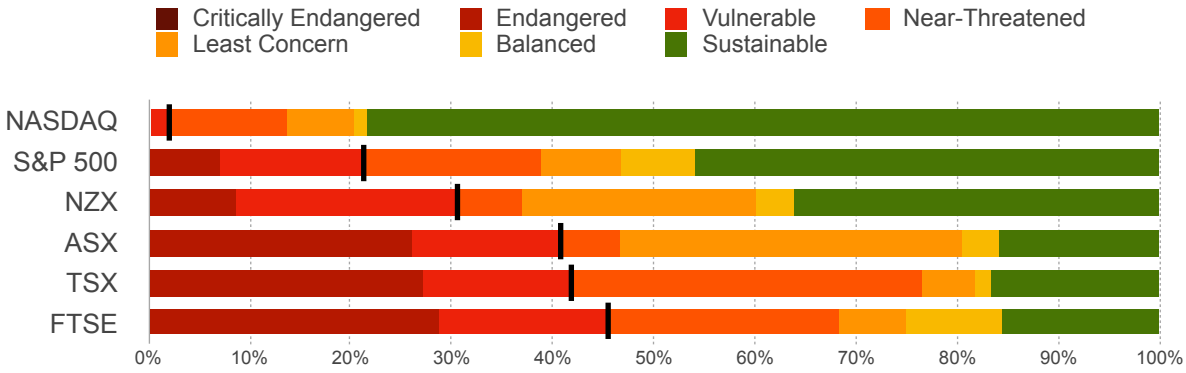
- Cluster around the BB world index climate rating.
- Five of the six indexes are threatened, rated at the Vulnerable threat level.
- The NASDAQ has higher carbon value and is in survivor territory.
- The FTSE, TSX and ASX have lower carbon value with a higher proportion of threatened constituents.

Proportion of Threatened Level Companies in the Overshoot Scenario



The NASDAQ has the lowest proportion of threatened companies of the six indexes and the TSX has the highest. This is largely structural and due to industry weightings (see next section).

Proportion of Threatened Level Companies in the Net-Zero Scenario



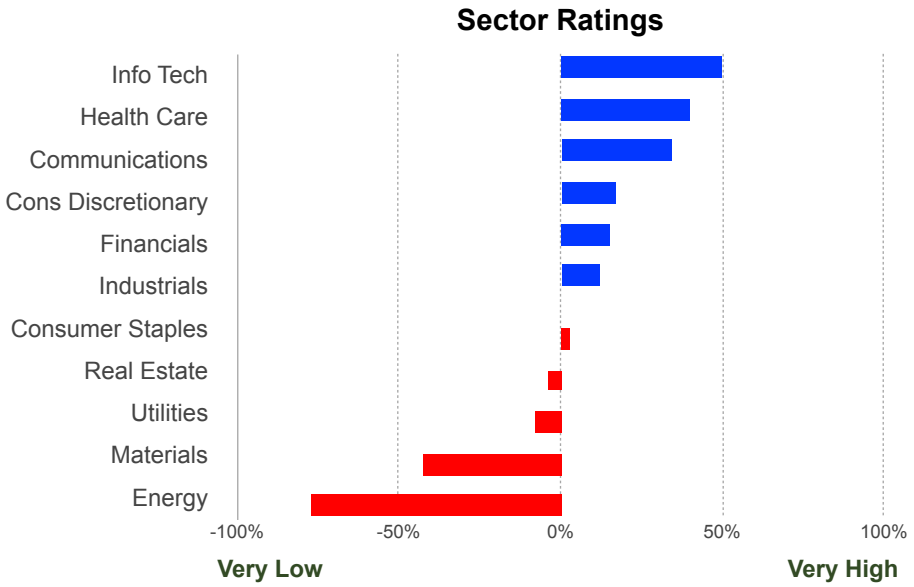
Going Net-Zero would significantly improve the climate ratings of constituents in all six indexes and this is reflected in the proportions of threatened companies. The FTSE has the highest proportion of threatened companies in this scenario. The index lens focusses on the aggregate growth and retrenchment of existing constituents as they presently stand with respect to climate-related strategy. As companies develop more transformational climate strategies to de-risk, climate ratings will improve — including for the index.

Index climate ratings change over time with changes in the climate ratings and composition of constituents. The S&P 500 climate rating has improved from BB in 2011 when 57% of the index was threatened[3]. In effect the S&P 500 has slowly de-risked for climate-related impacts, and climate de-risking is likely to accelerate now. In 2011 the energy sector comprised 12% of the index whereas by 2019 that proportion had declined to 5%. As the index market cap more than doubled over that period the energy sector market cap in aggregate only retrenched slightly. Also over that eight year period the tech sector grew as a proportion from 17% to 21% of the index. Industry climate ratings are discussed in the next section.

[3] Applying 2019 climate ratings to 2011 market caps with 97% coverage

Industry Climate Ratings

Stakeholders can benchmark a company's climate performance against sector and industry peers, now and over time. For a variety of reasons there may be a wide spread of climate ratings within a sector or even within an industry between companies from the highest to lowest climate quality. The climate ratings of sectors and industries vary. The following graph shows aggregate climate ratings by sector in the Overshoot Scenario.

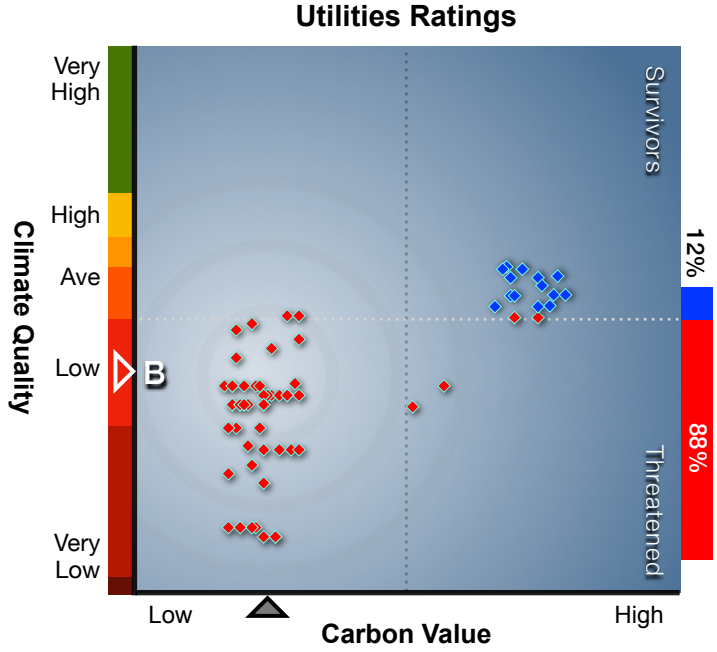


The top-rated sectors, tech, healthcare and communications have higher proportions of survivors while the lower rated sectors, energy and materials have higher proportions of threatened companies. Tech and communications companies have many climate solutions which translates into carbon value driving up their ratings. Whereas energy and materials have high carbon risk and physical asset risk driving down their ratings. The world's energy system is primarily based on coal, oil and gas, and the Net-Zero Scenario results in stranded assets, disrupting energy companies.

As climate ratings are dynamic aggregate sector ratings change over time and most sectors could conceivably shift towards the higher end of the spectrum. Capital expenditure choices are pivotal. By investing in renewables, a key climate solution, oil and gas companies are positioning for a low-carbon future. On balance the faster the energy companies transition, the higher their climate ratings will be, and even more so under Net-Zero.

Similarly the climate ratings of the indexes will improve as their constituents' ratings increase, illustrated by the TSX composition. The low climate rating of the TSX is largely structural: 30% is weighed by the energy and materials sectors, the two lowest rated sectors; 37% is in financials and a further 9% is in industrials, both average performers. Canada's rising carbon price, not without its critics in the oil-rich provinces, will likely drive companies' transition towards a low-carbon economy, increasing climate ratings.

The utilities sector offers a great example of this variation with companies' climate ratings ranging from survivor level to very low. Overall the sector's climate rating is low, at the threatened level. Utilities are challenged by climate-related financial impacts, from both mitigation and adaptation perspectives. Positively, utilities are vital to enabling a net-zero future. The renewable electrification mega trend presents a solution for decarbonising the global economy. Utilities can position for net-zero and for managing downside climate risks. In doing so they enable customers to go low-carbon. As more utilities go net-zero the sector rating improves, and ultimately with industry transformation the sector's climate rating could rise to high or very high.



Key Climate Characteristics:

- The overall climate rating for the Utilities sector is B, threatened & low quality
- 88% of the sector's market capitalisation is threatened
- Climate ratings for utilities range from average to very low.

Carbon value and risk swing wildly across utilities. A utility's climate rating depends on a variety of climate factors. More advanced utilities are net-zero while others are hamstrung by legacy assets in coal-fired power plants. Electricity can range in carbon intensity from zero carbon to more than 1,000 kg-CO_2e per MWh depending on the proportion of renewables and nuclear energy in the portfolio. Some utilities have solar and battery storage offerings enabling customers to go zero carbon.

Asset value and risk also swing wildly across utilities. The resilience of network assets and the risk of physical climate impacts can range widely depending on location and asset lifecycle management. Some are evaluating physical climate risk of assets at each location based on future climate scenarios.

An extreme example of a very low rating is Pacific Gas & Electric (PG&E) in California. PG&E is the first known climate bankruptcy, in this case from wildfires caused by drought. PG&E's climate rating is D, the lowest level, with a positive outlook and expectation that it will increase this year once adaptation costs are settled, the government/ratepayer bailout and financial restructuring is complete and they emerge from Chapter 11 bankruptcy. Wildfires are an ever-present seasonal risk in a megadrought depressing PG&E's climate rating for the foreseeable future.

Physical climate impacts are beginning to redefine the new normal and the nature and geographic location of an industry's fixed assets are pragmatically becoming key cost drivers, particularly in the Overshoot Scenario.

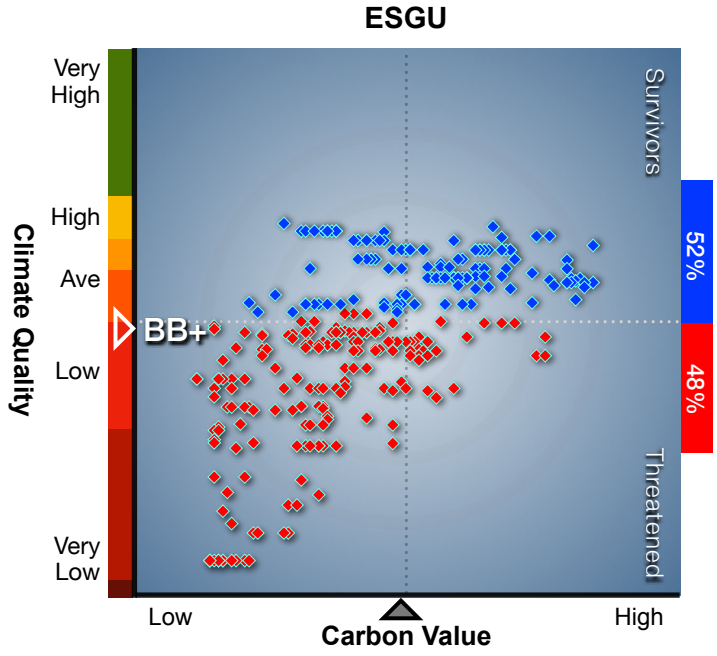
Portfolio Climate Ratings

Stakeholders can determine a company's climate position in an equity portfolio. The algorithm enables ratings of equity portfolios such as ETFs and mutual funds. Climate ratings of portfolios provide an indicator of climate quality.

For portfolios, the algorithm combines climate ratings of individual firms to yield weighted portfolio ratings. These ratings apply to stock market indexes such as the S&P 500 (e.g. IVV ETF) as discussed earlier, to any equity portfolio such as various funds, and to any equity portfolio that an investor may choose to compile. Climate ratings could also be usefully applied to portfolio construction for climate investors (which I discuss in the next section).

As yet few portfolios constructed for climate quality are available to investors. This is highly likely to change in the near future. Portfolio climate ratings for existing funds yield some surprising aggregate results — due to the information asymmetries. The following three examples of portfolio climate ratings illustrate the new reality: BlackRock's iShares MSCI USA ETF (ESGU), the UBS Climate Aware World Equity Fund, and the CDP A List.

Portfolios constructed for Environmental Social and Governance (ESG) investors have a broader focus. Resolving for climate yields more concentrated portfolios than ESG. For ESG investors with climate sensitivity the ideal portfolio will depend on preferences for degree of climate influence versus the many other ESG metrics. An example is BlackRock's iShares ETF ESGU which according to MSCI's ratings has high ESG quality. MSCI bases this on 37 ESG metrics including carbon footprint, gender diversity, business exclusions (from firearms/weapons/predatory lending/ alcohol/tobacco), Sustainable Development Goals (SDG) impacts, and sustainable revenue sources (including alternative energy, green building). The Easier Levels climate rating for ESGU is BB+, Vulnerable, which is low climate quality.



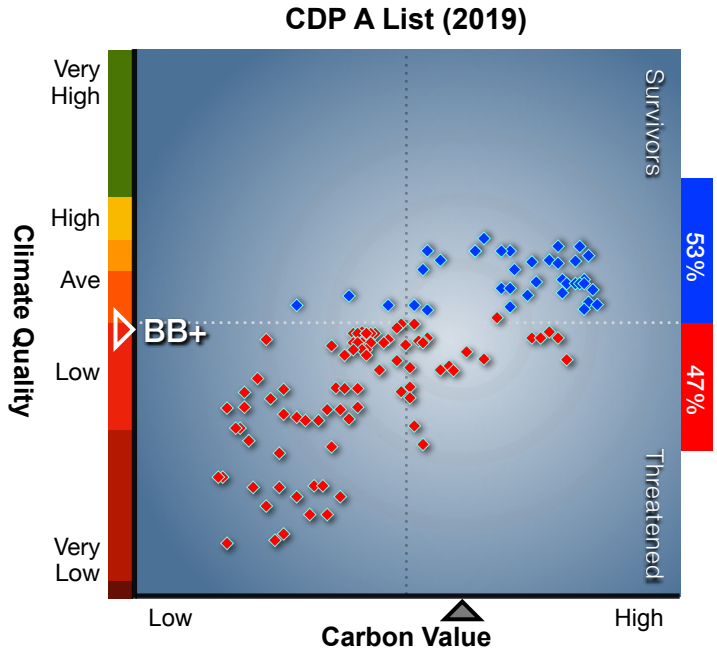
Key Climate Characteristics:

- The overall climate rating for ESGU is BB+, vulnerable & low quality
- 48% of the fund's market capitalisation is threatened
- Climate ratings for the 317 ESGU constituents range from high to very low.

The Easier Levels climate rating in the Net-Zero Scenario however is A, Balanced, which is high climate quality.

The UBS Climate Aware World Equity Fund[4] tilts “company exposures based on… expected contributions towards climate change”. This fund appears to have a high a climate rating in Net-Zero however climate investors beware. A material proportion of the top 10 holdings are threatened in the Overshoot Scenario with one quarter of the market cap on the red list, and a further 13% near threatened. Based on sectoral weighting estimates (before tilts) the fund would have a BBB+ climate rating in Net-Zero, at the Least Concern level. However UBS will have tilted the constituent weightings most likely toward higher climate quality companies probably yielding a much higher climate rating from Easier Levels than BBB+.

Investors might expect a very high climate rating for a portfolio of CDP A List companies — as the undisputed world champion of corporate climate data. The Easier Levels climate rating for this portfolio is A+ (Balanced) in the Net-Zero Scenario however in Overshoot our rating is BB+ (Vulnerable), which is only a marginal improvement on our world rating.



Key Climate Characteristics:

- The Easier Levels climate rating for CDP A List companies is BB+, vulnerable, low quality
- 47% of the A List market capitalisation is threatened
- Climate ratings for the 122 companies comprising CDP’s 2019 A List range from high to very low.

The oversized influence of Alphabet, Apple and Microsoft increases the A List portfolio’s climate rating — as the trillion dollar club skews weightings. With this portfolio, climate investors may capture some upside potential of Net-Zero but may not sufficiently hedge the downside risks of Overshoot. To arrive at the A List, CDP ranks companies on non-financial factors, some immaterial to firm value, and seemingly biased towards the Net-Zero Scenario. Many A List companies are in the threatened level while other highly rated companies are not yet involved.

Given recent communications we can expect new climate funds from BlackRock and others soon. When they become available it will be interesting to see the innovations and check the new funds’ climate ratings.

[4] Climate rating not yet determinable for this fund as detailed holdings are unavailable; Fund size GBP 1.66 billion (Sedol: BYVGL78) “Invests in constituents of the FTSE Developed Index”

Uses of Climate Ratings

Climate ratings are useful for company management, auditors and beyond.

Company Management

Climate ratings provide a useful starting point for companies to position for climate adaptation and for the net-zero transformation. The rating system is designed to correlate climate ratings with shifts in firm value. By understanding the metrics driving these neutral/unbiased climate ratings, virtually all firms can improve their ratings and enhance shareholder value. Climate ratings and the underpinning climate metrics can be combined with financial fundamentals to forecast climate-related financial impacts and run stress tests for materiality.

From a corporate investor relations perspective, climate investors may begin to tilt their investments toward survivors (companies in the upper half) and away from threatened companies. It's conceivable that investors with higher climate sensitivity may even prefer to avoid red listed companies in their portfolios entirely and instead weight more highly rated, sustainable companies. As part of this, investors' expectations of scenario outcomes will likely influence their investment decisions.

From a corporate government relations perspective, emerging intergovernmental climate policy influences climate ratings and the likelihood of various scenario outcomes. Governments are yet to enact effective global decarbonisation measures, and are pricing carbon well below the mitigation price, perhaps unintentionally signalling to markets that adaptation costs are lower than mitigation. In contrast, the Net-Zero Scenario could eventuate for example if, in the next few years, the global price of carbon rises to the (very high) mitigation price.

Climate ratings are useful for designing climate-related financial disclosures. Firms can expect increasing volatility due to climate impacts and need to understand their potential materiality to prepare disclosures.

Critically endangered companies will need restructuring or liquidation plans and providers of essential services may rely on Governments for survival. Government interventions may contain low-carbon transitioning caveats. In extremes, financial statements would not be prepared on a going concern basis.

Auditors

Audit firms can use climate ratings to identify threatened companies where additional climate disclosures in financial statements may be required or where the going concern assumption may no longer be appropriate. Companies may need to impair assets or remeasure fair values, or disclose revenue impacts for example. The occurrence of unexpected climate impacts could unravel the relevance of financial statements prepared with insufficient consideration of emerging climate risks.

The COVID-19 pandemic testing of the going concern principle is a useful precursor. Physical climate impacts are similarly random and far-reaching in location, timing and materiality, and Government interventions and market and technology shifts may also be. When a company has potentially stranded assets (such as oil reserves), is it still a going concern, and does outdated legislation on reserve disclosure still apply? Companies benefit from extending the audit scope to cover non-financial climate disclosures as well such as the verification of emission statements.

The following table describes some of the potential applications of climate ratings:

Examples of Potential Uses of Climate Ratings

	Both Scenarios	Overshoot Scenario	Net-Zero Scenario
Company Management	Benchmark climate quality against other companies in the industry and beyond	Understand applicability of adaptation risk to the firm and prepare for increasing physical climate risks, including increasing asset resilience and service continuity as applicable	Understand applicability of climate mitigation risk to the firm and prepare for increasing carbon costs
	Apply the SASB and TCFD frameworks to evaluate climate-related financial impacts, and integrate into annual reporting disclosures	…specifically, model and disclose potential range of material financial impacts driven by for example physical climate impacts	…specifically, model and disclose range of potentially material financial impacts driven by for example very high carbon prices
	Increase Easier Levels climate ratings by integrating business strategy with effective climate mitigation and adaptation strategies	Minimise impact of downside adaptation risks which can manifest randomly	Go net-zero wherever viable by measuring, reducing and offsetting emissions, and by valuing carbon in decisions. Develop products and services enabling the low/ zero carbon economy
	For some firms with very low climate value, hedge via low-carbon capital investments	Increase capital expenditure to augment resilience of fixed assets, prioritised based on risk levels	High carbon companies such as those with fossil fuel reserves should prepare for and disclose potentially stranded assets
Auditors	Identify degrees of climate risk for audit clients to help determine likelihood of financial statement impacts, the need for climate-related financial disclosures, and scrutiny on adherence with the going concern principle	Clients included in the Red List of Threatened Companies may deserve extra scrutiny, particularly those with material fixed assets and physical supply chains at risk with B climate ratings or lower	Clients included in the Red List of Threatened Companies, particularly those with higher carbon intensity (across all emission scopes 1,2 & 3), deserve additional scrutiny
Investment Advisors & Portfolio Construction Specialists	Consider integrating climate ratings with fundamentals to aid in portfolio construction and in advising customers on their investment choices	Some clients may prefer to weight this scenario's climate ratings more highly if they expect Overshoot to prevail, or if they consider adaptation risks overstated	Some clients may prefer to weight this scenario's climate ratings more highly if they expect or prefer the world to achieve Net-Zero, or are ethical climate investors
	Consider potential to de-risk portfolio climate risk, by rebalancing/tilting constituent weightings to raise the climate rating, and by divesting threatened companies on the Red List	…specifically, consider decreasing holdings of threatened firms that have low climate ratings including for example those with fixed assets and physical supply chains at risk	…specifically, consider increasing holdings of survivors such as high carbon value firms, and decreasing holdings of threatened firms for example holders of potentially stranded assets
	Consider offering funds with higher climate ratings by integrating climate ratings and metrics to rebalance or disaggregate funds or by creating new funds	…specifically, design funds with expected higher relative performance hedging for this scenario, tailored to climate investors' styles with a bias for adaptation	…specifically, design funds with expected higher relative performance hedging for this scenario, tailored to climate investors' styles with a bias towards going net-zero
Investors	Investors should consult their investment advisors for any use of climate ratings	…sharing preferences and expectations of likelihood of outcomes with your advisor	…sharing preferences and expectations of likelihood of outcomes with your advisor

In conclusion, companies can all be more sustainable and I hope this letter inspires you to action. As a CEO you have a vital role in the world in leading on sustainability. We all need to understand and respond to the interconnectedness between our actions and the environment in which we live, and we all want biodiversity to thrive — especially on our watch.

Our vision is **every step in harmony with nature**. We can help your company reach new heights, or Easier Levels! We know what it takes for you to develop winning climate strategies and climate-related disclosures. Easier Levels climate ratings are the starting point, and the value is sustainably created from there. Our mission is to **help customers discover value in the next step**.

I am launching Easier Levels Limited today, on Earth Day 2020! As the Founder and CEO, I am very pleased to introduce our new business to you to engage with you on the next step and help you create sustainable value.

Sincerely,

Grant Bremner
Founder & CEO, Easier Levels Limited

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