

GREEN FINANCE: INVESTMENT STRATEGIES to ADDRESS CLIMATE CHANGE

Fall 2022

Class is once a week, Thursdays 3:35-6:05 p.m.

**On-campus class instruction in the Map Room
Canvas is the LMS**

Professor Marc Mihaly

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Description and Learning Outcomes

Description

The theme of this course is follow the money to find the solutions to the twin crises of climate disruption and biodiversity loss. The world is facing an urgent need to decarbonize the global economy as rapidly as possible and no later than 2050 to avoid the worst consequences of climate disruption. The International Renewable Energy Agency (IRENA) estimates that the global transition to a low-carbon future will require \$131 trillion in infrastructure investment by 2050.

Likewise, the destruction and degradation of entire ecosystems must be arrested to avoid the loss of up to one million species this century. Respected scientists like Harvard's EO Wilson recommend setting aside half of earth's land and water resources to conserve enough habitat to prevent mass extinctions.

Sustainable or "Green" finance is the financing of investment in all financial sectors that integrate environmental, social and governance (ESG) criteria into the investment decisions and embed sustainability into risk management for encouraging the development of a more durable and just economy. As ESG becomes more mainstream in private governance and begins to have balance sheet implications, investors are raising challenging questions on how ESG performance is assessed, managed, and reported. ESG factors are critical in the assessment of the risks to insurer's assets and liabilities including physical risk, regulatory risk, reputational risk, and liability risk. For banks, ESG risks exert an influence on banks' creditworthiness and collateral values. Banks can then incorporate environmental outcomes in risk and pricing assessments.

Institutional investors can incorporate ESG factors in portfolio selection and management to identifying risks and opportunities.

There are many different instruments being developed and tested to “green” the financial sector. These include Green Banks, Green Bonds, Portfolio Impact Analysis for Banks, Securities Law Disclosure Requirements, and many more.

Learning Outcomes for the Course

Upon completion students should be able to:

- Explain the financial and social risks of climate disruption and biodiversity loss
- Explain the roles of financial institutions that are key to the transitions needed to avoid a climate and biodiversity catastrophe
- Describe how green banks, green bonds, and other innovative financing schemes work to achieve a just transition.
- Assess the role of ESG (Environment & Social Governance) programs in the private sector.
- Assess the need for regulations to require disclosure of climate and biodiversity risks and regulate “greenwashing.”
- Assess the role of insurance regulation in addressing the climate and biodiversity crises

Grading

70% of the grade is based on a policy paper (\approx 25-30 pages) addressing the issues covered in the course; 30% is based on class participation including the questions for discussion described below.

Course Material

All materials are or will be posted on TWEN or Canvas (to be determined which) for discussion based on the readings.

Course Requirements

- Read the materials and participate in the class. Class participation accounts for 30 percent the grade in the class.
- Develop and complete a policy paper on a topic developed according to this schedule:
 - September 28: Submit proposed topic
 - October 12: Finalize topic
 - October 26: Submit an outline for feedback

- November 16 Submit a draft for feedback
- December 7 Submit final paper

Class Schedule and Assignments

Note: After the introductory classes, for each subsequent class students will be assigned to post two questions based on the readings for discussion in the class.

Week 1: Introduction to Finance Concepts and Green Finance **(Class Session Thursday, September 1)**

Week 2: Natural Capital (Class Session Thursday, September 8)

- Class session will be by video. Marc will send out the link via email

Week 3: Financial Risks of Climate Disruption (Class Session Thursday, September 15)

- Meetings with Marc to discuss paper topics

Week 4: The Divestment/Reinvestment Movement (Class Session on Thursday, September 22)

- Meetings to discuss paper topics

Week 5: Environmental and Social Governance (ESG) (Class Session on Thursday, September 29)

- Proposed topic due by or before noon Wednesday, September 28.

Week 6: Green Finance Taxonomy (Class Session on Thursday, October 6).

- Meetings to discuss proposed topic.

Week 7: Disclosure Requirements (Class Session on Thursday, October 13).

- *Final paper proposal due by or before noon Wednesday, October 12.*

Week 8: Disclosure Requirements 2 with guest lecturer (Class Session on Thursday, October 20)

- Research for the paper; work on detailed outline.

Week 9: Greenwashing (Class Session on Thursday, October 27)

- *Detailed outline of paper due by or before noon on Wednesday, October 26.*

Week 10: Fiduciary Obligations of Money Managers (Class Session on Thursday, November 3)

- Work on draft of paper

Week 11: Banking Regulation (Class Session on Thursday, November 10)

- Work on draft of paper

Week 12: Green Banks and Green Bonds (Class Session on Thursday, November 17)

- *Draft of paper due by or before noon on Wednesday, November 16.*
- Meetings with Marc about drafts

Thanksgiving Break Thursday, November 24-25

Week 13: Insurance Regulation (Class Session on Thursday, December 1)

- Meetings about draft

Week 14: Tort Liability for Loss and Damage (Class Session on December 8)

- *Final paper due by or before noon on Wednesday, December 7.*

