Markets not paying attention to climate crisis, IMF says

Firms should be made to disclose exposure to global heating, report suggests

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Greenpeace activists hold protest on Amsterdam airport runway on 14 May. Photograph: Marten van Dijl/EPA

Equity markets have generally ignored the increasing number of natural disasters over the past 50 years and tougher rules are needed to make investors aware of the dangers posed by the climate crisis, the International Monetary Fund has said.

Companies should be forced to disclose their exposure to climate risk because a voluntary approach does not go far enough, the IMF said in a chapter from its latest global financial stability report (GFSR).

The Task Force on Climate Related Financial Disclosures, an initiative led by Mark Carney, the former Bank of England governor, outlines how companies should calculate and disclose their exposure to climate risk to investors.

The IMF, however, said in a GFSR published on Friday that climate risk should ultimately be made part of international reporting standards.

“An increasing number of firms have begun to voluntarily disclose climate change risk information, in line with the recommendations set out by the taskforce on climate-related financial disclosures” it said.

“However, going further by developing global mandatory disclosures on material climate change risks would be an important step to sustain financial stability. In the short term, mandatory climate change risk disclosure could be based on globally agreed principles. In the longer term, climate change risk disclosure standards could be incorporated into financial statements compliant with international financial reporting standards.”

The IMF functions as the global lender of last resort, bailing out countries in financial difficulty and issuing policy advice alongside its interventions. Its latest statement on the climate crisis expressed concerns that stock markets were ignoring the rise in global temperatures and its consequences.

Although stock markets fell sharply in the early stages of the Covid-19 pandemic, this followed their best year since 2009 and the immediate aftermath of the financial crisis. A global index of share prices rose by 24%, and the FTSE 100 climbed by 12% despite uncertainty over Brexit.

Last year was also marked by a series of severe weather-related events, including flooding in the US and bushfires in Australia, but the IMF said this was part of a trend for the number of disasters to increase “considerably” in the past few decades, from slightly more than 50 in the early 1980s to about 200 since 2000. It noted that Hurricane Kartrin devastated New Orleans in 2005, and Dominica suffered damage amounting to more than twice its GDP when Hurricane Maria struck in 2017.

The IMF said global temperatures were currently 1.1C above their pre-industrial level and were on course to rise by a total of 3C unless stronger action was taken.

“Climate change induced by this level of warming is, in turn, expected to adversely impact the world’s stock of natural assets, lead to a significant rise in sea level, and increase the frequency and severity of extreme weather event,” the

IMF said. “As the frequency and severity of climatic hazards rise, the resultant socioeconomic losses could be significantly higher than in recent history.”

Even so, according to the GFSR there had been little indication that investors had become more aware of the potential losses they could face if global temperatures continued to rise, with only a modest impact on stock markets, shares in banks and insurance companies from large disasters.

“While projections of climatic variables and their economic impact are subject to a high degree of uncertainty, aggregate equity valuations as of 2019 do not appear to reflect the predicted changes in physical risk under various climate change scenarios”, the IMF said. “This suggests that equity investors may not be paying sufficient attention to climate change risks.”

The IMF said that preventing global heating from causing a run on share prices was not the only reason to take action.

“Of course, strong policy actions to mitigate climate change would reduce greenhouse gas emissions and future physical risk in the first place, conferring benefits to mankind that extend well beyond the realm of financial stability. Yet, from a financial stability perspective, this transition to a lower-carbon economy needs to be carefully managed to avoid abrupt and unanticipated repricing of portfolios and economic dislocation.”