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## NGFS scenarios: Scope, design limitations and gaps

**Sebastian Werner**<sup>1</sup>, Alex Pui<sup>2,3</sup>, and Motoshi Tomita<sup>4</sup>

<sup>1</sup>Citigroup, United Kingdom

<sup>2</sup>University of New South Wales, Australia

<sup>3</sup>Marsh, Japan

<sup>4</sup>Central Research Institute of Electric Power Industry, Japan

There has been increasing focus on climate risk disclosure within the industry, evidenced by a shift from guidance (TCFD) to standards (ISSB) based approach. However, surveys show that climate scenario modelling remains challenging, with high complexity and lack of expertise cited as key reasons.

While there are global scenarios such as NGFS to support practitioners by providing key analytical foundations and parameters, concerns have been raised regarding the robustness of physical and transition risk assessment methodologies, and hence the fitness for such scenarios. Given that the primary aim of climate scenario analysis at an entity level is to inform prudent risk management and business strategy, it is instructive to explore fundamental questions and context around the design of these scenarios, leading to an improved interpretation of end results.

To this end, we aim to critically review the fourth iteration of NGFS scenarios that have recently been released, with a particular focus on 3 areas: First, the evolution of scenarios since the first vintage in 2020. Secondly, the design limitations of IAMs which do not feature frictions that could allow for mispricing and price bubbles. Thirdly, we discuss how the scenario design could benefit from incorporating uncertainty into its variable projections.