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Sustainability and Climate Risk

GARP SCR

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QUESTION NO: 1

A European bank surveyed its most prominent clients to assess interest in sustainability-linked loans (SLLs) and green loans. The survey came after a recent study showed higher profitability rates of SLLs and green products than classical banking products. After positive feedback, the bank decides to introduce SLLs and green loans. The bank's sustainability loan officer writes a new loan product guideline for corporate clients that explains SLLs and green loans.

How will the bank officer describe these loan types?

- A. Green loans can be applied more broadly on the corporate loan market than SLLs since there are no predetermined performance targets for SLLs.
- B. SLLs require external review, while green loans require external review if the loan information is not publicly available.
- C. SLLs incentivize borrowers through margins, while green loans focus on the purpose of the loan.
- D. Market participants are unable to structure a loan to meet both the characteristics of a green loan and an SLL.

ANSWER: C

Explanation:

SLLs incentivize borrowers through margins, while green loans focus on the purpose of the loan. This captures the fundamental distinction in the applicable loan-market principles. A sustainability-linked loan is a general-purpose facility whose economic characteristics—commonly the interest margin—are linked to the borrower's achievement of predetermined, material, and ambitious sustainability performance targets. The pricing mechanism may reward improved performance or impose a higher cost when targets are missed, creating a financial incentive to meet the agreed sustainability objectives. The loan proceeds themselves are not required to be allocated to a specific green project.

A green loan, in contrast, is a use-of-proceeds instrument. Its proceeds must be applied exclusively to finance or refinance eligible green projects, with processes for project evaluation and selection, management of proceeds, and reporting. Thus, the defining feature is the environmental purpose and allocation of the financing, rather than a margin adjustment based on borrower-level performance targets. These concepts are set out in the Loan Market Association's [Green Loan Principles](#) and [Sustainability-Linked Loan Principles](#).

QUESTION NO: 2

A sustainability analyst at a global commercial bank researches trends surrounding the green loan market in China to develop a new business strategy. The analyst finds green loans are gaining popularity in various sectors due to environmental and financial benefits. If the analyst recommends the addition of green loans to the business strategy, what China market trend most likely supports this decision?

- A. Green loans outperform all other sustainable and traditional loan types.
- B. Green loans are primarily issued in the clean transport and clean energy sectors.
- C. Green loans are riskier for larger banks but less risky for smaller banks.
- D. Green loans are mostly concentrated in the real estate sector.

ANSWER: B

Explanation:

Green loans are primarily issued in the clean transport and clean energy sectors. This reflects the development of China's green-credit market, where lending has been directed toward activities that support the transition to a lower-carbon economy, including renewable-energy generation, energy conservation, pollution control, and green transportation infrastructure. Clean energy requires substantial up-front capital investment in long-lived assets such as wind, solar, grids, and storage, making bank lending an important source of transition finance. Similarly, transport projects such as rail, electric vehicles, and associated infrastructure can be financed through dedicated green lending when they meet applicable green-finance eligibility criteria.

For a global commercial bank, this sectoral concentration is a commercially relevant signal: it identifies sizable, policy-supported areas in which client demand, project pipelines, and environmental-finance expertise can be developed. China's green-finance framework has helped channel credit toward qualifying green activities, and the country's green-loan balance has expanded rapidly. The [People's Bank of China's English publications](#) provide information on the evolution of green finance, while the [Climate Bonds Initiative's China sustainable-debt market report](#) describes the importance of low-carbon energy and transport financing in China's sustainable-finance market.

QUESTION NO: 3

A technology company announces a goal of increasing recycling programs by 30% and reducing company carbon emissions by 50% by 2040. A climate risk analyst at the company develops a sustainability framework and identifies ways to measure company-level transition and physical risks.

Which of the following should the analyst use to measure company-level transition risk?

- A. Corporate alignment scores
- B. Carbon intensity calculations
- C. ESG score comparisons
- D. Facility-level location

ANSWER: A

Explanation:

Corporate alignment scores are the appropriate measure of company-level transition risk because they assess whether a company's strategy, capital allocation, operations, and emissions trajectory are consistent with an external climate pathway or temperature objective, such as a net-zero or Paris-aligned pathway. Transition risk arises as policy, technology, markets, and stakeholder expectations shift toward a lower-carbon economy. An alignment score translates those shifts into a forward-looking assessment of the degree to which the company may need to change its business model and emissions profile to remain aligned with climate goals. For a technology company with a stated long-term emissions-reduction target, this approach can assess the credibility and sufficiency of that target relative to relevant sectoral decarbonization pathways, rather than merely recording a current operational metric. This makes corporate alignment scores especially useful for a sustainability framework designed to identify and monitor company-level transition exposure over time. The TCFD framework highlights the importance of assessing climate-related risks and opportunities through strategy, metrics, and targets, including forward-looking resilience considerations. The Science Based Targets initiative also provides a widely used basis for evaluating corporate target alignment with climate science. See the [TCFD Recommendations](#) and the [Science Based Targets initiative](#).

QUESTION NO: 4

In response to a survey showing consumers consider sustainability a key factor in purchasing decisions, a group of cosmetics companies announce a collaboration to develop an environmental impact assessment and sustainability framework for cosmetics products. The framework enables customers to evaluate the environmental impact of products they purchase. The framework draft includes definitions of climate, green, and sustainable finance.

Which of the following definitions is appropriate for the proposed framework?

- A. Green finance refers exclusively to financial flows relating to climate change such as mitigation or adaptation.
- B. Green finance refers to sustainable finance focused on environmental risks and opportunities.
- C. Sustainable finance refers to public sector funding of projects relating to ESG and sustainable development.
- D. Climate finance is a subset of green finance and broadly refers to any financial transaction that considers climate issues.

ANSWER: B

Explanation:

“Green finance refers to sustainable finance focused on environmental risks and opportunities” is the appropriate definition because green finance is generally understood as the environmental component of the broader sustainable-finance field. It directs capital allocation, lending, investment, insurance, and related financial decisions toward environmental objectives and toward identifying, managing, or financing environmental risks and opportunities. These objectives can include climate-change mitigation and adaptation, but also extend to areas such as pollution prevention, biodiversity, ecosystem protection, resource efficiency, water management, and the transition to a circular economy.

This hierarchy is important for a cosmetics-sector framework. A product’s environmental effects may arise from more than greenhouse-gas emissions: ingredient sourcing, land use, packaging, water consumption, waste, and impacts on ecosystems can all be material. Using green finance as an environmentally focused subset of sustainable finance therefore provides a definition broad enough to support meaningful environmental assessment while retaining the conceptual distinction between environmental considerations and the wider environmental, social, and governance scope of sustainable finance. The Network for Greening the Financial System discusses the role of green and sustainable finance in addressing environmental risks and supporting the transition to a sustainable economy: [NGFS](#). The European Commission also describes sustainable finance as incorporating environmental and social considerations into investment decision-making: [European Commission—Sustainable Finance](#).

QUESTION NO: 5

A global electronics manufacturer experiences severe flooding in one of its key locations. Company senior management will mitigate supply chain risk and adhere to environmental standards by issuing a bond. The bond proceeds will simultaneously address floodwater contaminated by industrial chemicals and assist communities experiencing deterioration of health conditions due to waterborne diseases.

Which bond is the company likely to issue?

- A. Green bond
- B. Sustainability-linked bond
- C. Social bond
- D. Sustainability bond

ANSWER: D

Explanation:

Sustainability bond is correct because the stated use of proceeds has both environmental and social purposes. Remediating floodwater contaminated with industrial chemicals is an environmental objective: it supports pollution prevention and control, water-quality protection, and environmental remediation. Directing proceeds to communities whose health has deteriorated because of waterborne disease is also a social objective, as it supports access to essential services such as clean water, sanitation, and healthcare, while helping vulnerable communities affected by a climate-related disaster.

The International Capital Market Association’s Sustainability Bond Guidelines define sustainability bonds as instruments whose proceeds are exclusively applied to a combination of green and social projects. The issuer should clearly identify eligible projects, manage and track allocation of proceeds, report on their use, and communicate relevant environmental and social impacts. In this case, a single financing program can fund the cleanup of chemical-contaminated floodwater and measures that protect community health, matching the combined-project purpose of a sustainability bond. This classification concerns the use of proceeds, allowing the manufacturer to align the financing with environmental standards while addressing community impacts that may also reduce disruption across its supply chain. See the [ICMA Sustainability Bond Guidelines](#) and ICMA’s [Green Bond Principles](#).

QUESTION NO: 6

The Commissioners of Insurance for a state in the western United States recommends all insurers now report annually on climate change, using TCFD guidance.

Which of the following sectors do the commissioners correctly identify as encompassing the full scope of the TCFD recommendations?

- A. Asset managers and owners, endowments, foundations, and additional financial and non-financial organizations
- B. Asset managers and owners, endowments, foundations, and additional financial sector representatives
- C. Institutional Investors Group-based benchmarking and GRI-derived data on climate change
- D. Energy, transportation, materials and buildings, agriculture, land and forestry companies

ANSWER: A

Explanation:

Asset managers and owners, endowments, foundations, and additional financial and non-financial organizations correctly reflects the broad organizational reach of the TCFD framework. The TCFD designed its recommendations to be usable across sectors and jurisdictions, rather than as a disclosure model limited solely to insurers or to a narrow group of financial-market participants. Its core recommendations address governance, strategy, risk management, and metrics and targets—subjects that are relevant to organizations that allocate capital, own assets, provide financial services, or operate in climate-exposed non-financial industries. Asset owners include institutions such as pension funds, endowments, and foundations, whose investment decisions can be materially affected by climate-related risks and opportunities. Including both financial and non-financial organizations is important because climate risk can arise through investment portfolios, lending and underwriting activities, operations, supply chains, physical assets, and transition exposure. This breadth is consistent with the TCFD's objective of improving decision-useful climate-related financial disclosures throughout the economy and enabling investors, lenders, insurers, and other stakeholders to assess climate-related financial implications consistently. The Financial Stability Board's TCFD materials describe the framework and its cross-sector application in its [TCFD status report](#); the California Department of Insurance provides information on its [Climate Risk Disclosure Survey](#).

QUESTION NO: 7

Senior management of a sportswear manufacturer will issue a bond to optimize company capital structure, while providing investors with an opportunity to contribute to positive transformation of the fashion industry. Management prefers a bond with a high rate of issuance, and the company sustainability team researches various green and sustainable finance instruments and issuance information over the past 5 years. The team recommends a bond that globally posted the highest growth in issuance between 2019 and 2020.

Which bond did the team recommend?

- A. Climate bond
- B. Green bond
- C. Sustainability bond
- D. Social bond

ANSWER: D

Explanation:

Social bond is correct because it experienced the largest global year-on-year increase in issuance from 2019 to 2020. The COVID-19 pandemic created an urgent need for financing directed toward social outcomes, including access to essential health services, employment support, affordable housing, food security, and assistance for vulnerable populations. Issuers used social bonds to earmark proceeds for these eligible social projects, and the market expanded sharply in response. Climate Bonds Initiative market data report that social bond issuance rose from approximately USD 16.3 billion in 2019 to USD 147.7 billion in 2020. This represents growth of more than eight times the preceding year's issuance, far exceeding the growth rate of the broader labeled green and sustainable finance bond categories over that period. The instrument therefore meets the stated selection criterion of the highest issuance growth between the two years. For a sportswear manufacturer, a social bond could also support credible projects with social benefits across its operations and value chain, provided the use-of-proceeds framework, project evaluation, management of proceeds, and reporting are aligned with recognized market principles. See the [Climate Bonds Initiative's Global State of the Market 2020 report](#) and the [ICMA Social Bond Principles](#).

QUESTION NO: 8

An international hotel chain reviews progress on sustainability goals in preparation for an Earth Day marketing campaign. A sustainability director suggests the hotel highlight how its energy and food sustainability initiatives align with UN SDG targets.

Which of the following correctly describes an SDG target that the hotel could align with?

- A. By 2030 double the rate of energy efficiency improvements.
- B. By 2050 double the share of renewables in the energy mix.
- C. By 2050 reduce per capita food waste by half.
- D. By 2030 reduce GHG emissions to half of 2000 levels.

ANSWER: A

Explanation:

By 2030 double the rate of energy efficiency improvements. accurately reflects Sustainable Development Goal 7, target 7.3. The UN target is to “double the global rate of improvement in energy efficiency” by 2030. Energy efficiency is directly relevant to an international hotel chain because hotel operations commonly consume substantial energy for guest-room heating and cooling, water heating, lighting, kitchens, laundry, and building systems. The hotel could credibly align relevant initiatives—such as retrofitting buildings, installing efficient HVAC equipment, improving building controls, and reducing energy use per occupied room—with this target, provided that its campaign statements are supported by measurable performance data and clearly stated methodology.

The target concerns the *rate of improvement* in energy efficiency, rather than requiring every individual organization to double its absolute energy efficiency level. Nonetheless, a hotel can demonstrate a meaningful contribution by tracking efficiency improvements over time and connecting its operational targets to SDG 7.3. The official UN SDG target text appears on the [United Nations SDG 7 page](#). Further indicator context is available through the [UN metadata for indicator 7.3.1](#).

QUESTION NO: 9

A multi-industry consortium convenes risk managers from across the globe to discuss climate impacts on global trade and economic growth. A climate modeler leads a discussion on macro-level physical changes in the Earth’s atmosphere and highlights two climatic trends that demonstrate an inverse relationship in recent decades.

What two trends does the modeler highlight?

- A. Atmospheric aerosol levels and forced variability events
- B. Radiative forcing and Arctic sea ice extent
- C. Norther and Southern hemisphere temperatures
- D. Atmospheric water vapor and global temperature

ANSWER: B

Explanation:

Radiative forcing and Arctic sea ice extent is correct because the sustained increase in net positive radiative forcing from human activity has occurred alongside a substantial decline in Arctic sea ice extent. Radiative forcing measures the change in Earth’s energy balance caused by a driver such as rising greenhouse-gas concentrations. Positive forcing means that the climate system retains more energy than it emits to space, producing warming. As Arctic air and ocean temperatures rise, sea ice melts more extensively during summer and the long-term extent of ice decreases. This relationship is also reinforced by the ice-albedo feedback: bright sea ice reflects a large share of incoming solar radiation, whereas the darker ocean exposed after melting absorbs more solar energy, promoting further warming and ice loss. The IPCC concludes that human influence has warmed the atmosphere, ocean, and land, and that Arctic sea-ice extent has declined since satellite

observations began. NASA's climate indicators likewise document the long-term downward trend in Arctic sea ice and its connection to a warming climate. See the [IPCC AR6 Synthesis Report](#) and NASA's [Arctic sea ice indicator](#).

QUESTION NO: 10

Which of the following greenhouse gases (GHGs) has the longest lifetime in the atmosphere?

- A. Methane
- B. Carbon dioxide
- C. Fluorinated gas

ANSWER: C

Explanation:

Fluorinated gas is correct because this category includes highly persistent synthetic GHGs whose atmospheric lifetimes can extend from decades to many thousands of years, depending on the compound. Examples include sulfur hexafluoride, certain perfluorocarbons, and nitrogen trifluoride. These gases are removed from the atmosphere extremely slowly because they are chemically stable and generally have no substantial natural sinks. This persistence means emissions can continue contributing to radiative forcing long after their release, and many fluorinated gases also have very high global-warming potentials. The U.S. Environmental Protection Agency notes that fluorinated gases are often emitted in smaller quantities than other GHGs but can be especially potent and long-lived; it identifies sulfur hexafluoride as having an atmospheric lifetime of approximately 3,200 years. The Intergovernmental Panel on Climate Change likewise reports very long lifetimes for several fluorinated compounds, including some perfluorocarbons with lifetimes measured in millennia or longer. Therefore, among the listed GHG categories, fluorinated gas best represents the longest-lived atmospheric greenhouse gases. See the [U.S. EPA overview of greenhouse gases](#) and the [IPCC AR6 Working Group I discussion of atmospheric composition and lifetimes](#).

QUESTION NO: 11

An international development bank publishes an annual index that evaluates climate risk at a regional level. The index consists of several economic, policy, and physical risk components. For the upcoming index publication, the bank identifies new components that reflect the ability of companies and local infrastructure to incorporate clean and renewable energy sources into electric grids and transport systems. Which of the following risk components will the bank most likely identify?

- A. Hazard
- B. Exposure
- C. Vulnerability
- D. Policy

ANSWER: C

Explanation:

Vulnerability is the appropriate component because it captures the degree to which a region's economic systems, firms, and critical infrastructure are susceptible to climate-related disruption and how limited their capacity may be to adapt or adjust. The capacity to incorporate clean and renewable energy into electricity grids and transport systems is a meaningful indicator of this adaptive and transition-related capacity. A region with infrastructure and companies able to accommodate renewable generation, electrification, storage, and related technologies is better positioned to manage the effects of the low-carbon transition and reduce dependence on emissions-intensive assets. Conversely, limited ability to make these changes can leave local systems more sensitive to transition pressures and climate-related stresses. This framing is consistent with the IPCC's definition of vulnerability as a propensity or predisposition to be adversely affected, including sensitivity and lack of capacity to cope and adapt. It also fits the GARP SCR curriculum's treatment of climate risk as involving both physical and transition dimensions, with resilience and adaptive capacity being important to risk assessment. See the [IPCC AR6 glossary](#) and [GARP's Sustainability and Climate Risk certificate overview](#).

QUESTION NO: 12

A risk consultant begins an engagement for a development agency. The engagement focuses on identifying policies that address climate change impacts. The consultant drafts an action plan that incorporates a roadmap of effective climate policies to present to senior directors at a strategic meeting. The plan includes an introductory summary of the backdrop and effectiveness of historical and current climate policies.

How should the consultant describe the context of climate policy evolution?

- A. As global mean annual temperatures rose significantly in the 1980s, scientific consensus around human influence on climate solidified, leading to the formation of the IPCC.
- B. After the World Climate Summit, global climate policy legally required countries responsible for the greatest share of cumulative emissions to cut back emissions the most.
- C. Evidence from the past two decades has accumulated that warming levels will lead to tipping points, supporting an international consensus and policies around a goal of limiting warming to 2.5°C.
- D. The first attempts to create international climate policies and accords focused on emissions reductions occurred in the 1970s, as anthropogenic GHG emissions were globally recognized as fact by scientists.

ANSWER: A

Explanation:

As global mean annual temperatures rose significantly in the 1980s, scientific consensus around human influence on climate solidified, leading to the formation of the IPCC. This is the most accurate high-level description of the period in which modern international climate governance emerged. Scientific concern had developed over preceding decades, but the increasingly visible warming of the 1980s, together with advances in climate science and international scientific meetings, made coordinated assessment and policy discussion more urgent. In 1988, the World Meteorological Organization and the United Nations Environment Programme established the Intergovernmental Panel on Climate Change to provide governments with regular, objective assessments of climate science, impacts, risks, adaptation, and mitigation options. The IPCC did not make policy itself; rather, its assessments created a common authoritative evidence base that supported subsequent international climate-policy negotiations and agreements. For an action-plan introduction, this framing appropriately connects observed climatic change, the maturation of scientific understanding of anthropogenic influence, and the institutional foundation for global climate-policy evolution. The IPCC's own history describes its establishment in 1988 and its role in assessing climate-change knowledge for policymakers; the United Nations Framework Convention on Climate Change also situates the late 1980s as a key period in the development of coordinated international action. See the [IPCC history](#) and the [UNFCCC history of the Convention](#).

QUESTION NO: 13

A consumer-products company promotes several products as “carbon neutral.” A regulator alleges that the company cannot substantiate the claims because the underlying emissions data and offset methodology are unreliable. The company faces possible fines, litigation, and costs to revise marketing materials.

Which transition-risk category is most directly represented by this scenario?

- A. Technology risk
- B. Policy and legal risk
- C. Acute physical risk
- D. Resource-efficiency opportunity

ANSWER: B

Explanation:

Policy and legal risk is correct because the immediate exposure arises from regulatory enforcement, potential litigation, and obligations associated with misleading or unsupported environmental claims. Reputational damage may also follow, but

it is not the primary risk described. Transition risk can arise through policy, legal, technology, market, and reputational channels; legal actions and changing requirements for environmental claims fall within the policy and legal category.

QUESTION NO: 14

A recent sustainability report revealed the pension fund of a small European nation is heavily invested in sectors with poor sustainability records. In response to pensioner and other stakeholder requests, the fund joins the PRI.

What strategy must the fund incorporate to comply with the PRI?

- A. Divest from energy companies involved in fossil fuel extraction.
- B. Request disclosure from investee firms on ESG issues.
- C. Standardize reporting frameworks across investment sectors.
- D. Invest passively in companies with strong environmental performance.

ANSWER: B

Explanation:

Request disclosure from investee firms on ESG issues. is correct because becoming a PRI signatory entails commitment to the PRI's six Principles for Responsible Investment. In particular, the third principle states that signatories will seek appropriate disclosure on environmental, social, and governance issues by the entities in which they invest. The associated actions include asking companies to report according to recognized ESG reporting frameworks, requesting integration of ESG issues into annual reporting, and supporting shareholder initiatives that promote ESG transparency. For a pension fund with holdings in sectors facing material sustainability concerns, requesting relevant, decision-useful ESG information is an ownership and stewardship practice that enables the fund to assess risks, monitor investee-company performance, and engage more effectively. The PRI is principles-based rather than a prescriptive rulebook requiring a single asset-allocation outcome. Its framework expects signatories to implement the principles in a manner consistent with their fiduciary duties and investment context, while publicly reporting on their responsible-investment activities. Accordingly, obtaining ESG disclosure from investee firms is an explicit PRI commitment and a necessary component of alignment with the initiative. See the PRI's [Principles for Responsible Investment](#) and its [signatory responsibilities](#).