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His Royal Highness The Prince of Wales
Clarence House
London SW1A 1BA
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November 6, 2018

Sir,

It is with great pleasure that I write to you on the occasion of His Royal Highness's 70th birthday celebration. I wish Your Royal Highness a wonderful celebration with family and friends with many happy returns of the day! In fact, I write on the invitation of Ms. Jessica Fries of His Royal Highness's Accounting for Sustainability (A4S) Project, as I am regrettably unable to attend the A4S Summit in London next month. She, A4S, and I together have collaborated on an important three-year project on the topic of Climate Finance, the details of which she wanted me to share at the Summit. I am honored to do so by way of this letter. I hope Your Highness will come to see how proud I am about this collaborative project and how I give Your Royal Highness much credit for inspiring me to lead it.

My project was hatched in May 2015 with an invitation on behalf of Your Royal Highness from A4S and the University of Cambridge's Institute for Sustainability Leadership (CISL) to participate in a meeting of deans, programme directors, and heads of Finance and Accounting units of major business schools around the world. Our charge was to assess the implications of the environmental and social challenges of natural resource constraints, climate change, and resulting social conflicts for the financial system. Of special interest was the critical role that business schools play in research and development of new responses to these challenges. I was invited to attend as I was serving as the Executive Editor of *The Review of Financial Studies*, which is regarded as one of the world's top-tier peer-reviewed journals in the discipline of Finance. All assembled understood that the Review plays a critical role in promulgating the latest wisdom on financial science to the practitioner community of chief financial officers, chief investment officers, and others.

What came to pass during this memorable day of meetings was a healthy debate and discussion about why the journals, such as the Review, have failed to date to publish scholarship on the topic of Climate Finance. We answered rather defensively that we could not publish scholarship on a topic on which scholars are not delivering quality work. The discussion turned more constructively towards brainstorming new ideas on how to stoke scholarly interest in the topic. In fact, I took the criticism directed at me to heart. I knew an Editor is an important "gatekeeper" or "key influencer" so responsibility for this scholarship void did fall at least partly to me. I vowed to do something about it. Of particular importance for me was Your Royal Highness's speech to the assembly at the end of the day and the private words we spoke together at a reception at Clarence House to close out that day.

My first step was to determine what might be the structural problem that precludes scholars from pursuing research on Climate Finance. I judged that one important problem was that they perceived the research to be too risky to pursue. Indeed, scholars feel a safer route to publication success is to advance research on

topics with a proven track record with journals. I had to find a way to shift the risk from the scholars, particularly those younger and more agile, to advance a new domain of research on Climate Finance. In late 2014, I had learned about Registered Reports, an editorial process that was developed in the Cognitive Sciences to increase the transparency of research methods. The traditional editorial process, as Your Royal Highness understands, in scholarly journals is to receive completed papers and to draw anonymous reviewers to vet the manuscripts, typically across two or three rounds of revisions. The Registered Reports process, by contrast, invites scholars to submit for review proposals, not completed papers. Researchers propose an experiment, outline an empirical design, and define how the evidence could be interpreted when executed. Anonymous reviewers then vet the proposals on the scientific integrity of the design and not on whether the research findings are positive, negative, or non-existent. To my mind, the Registered Report format was an ideal fit because the truth about whether and how climate change affects financial markets, security pricing, property valuation, or market agent behaviors is too important to leave to the vagaries of the traditional review process. The only question was whether *The Review of Financial Studies* had enough sway to draw enough interest among scholars to participate in this novel and innovative editorial experiment in Finance or Economics.

Indeed, they responded! To my Spring 2017 Call for Proposals for new papers on Climate Finance, the Review received 106 submissions from research teams all over the world. Particularly gratifying was that most of the teams comprised younger scholars. Further, a good number of teams represented collaborations among financial economists and climatologists, so as to maximize potential research synergies. I assembled a Scientific Review Committee of experts for this call to help vet the proposals; it included four Nobel Laureates in Economics, who were delighted by my invitation to participate. This group whittled down the submissions to nine finalist proposals. The author teams were asked to defend their proposals before a plenary of scholars at Columbia University on November 30, 2017. I am grateful to my guest editors, Professors Jose Scheinkman and Harrison Hong of Columbia, with whom I collaborated on this project, and to the Norges Bank Investment Management (NBIM), whom the three of us approached to help underwrite financially the entire enterprise. Having successfully defended their proposals, each of the research teams were conferred by us, the editors, “in principle acceptances” from the Review, told to execute the proposed analysis, and to be prepared to report their findings in Fall of 2018 at a conference to be organized in London.

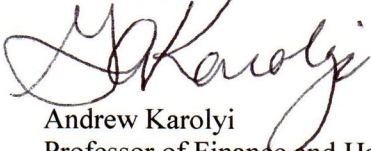
Last month, before an audience of 150 scholars and guests from around the world, these authors came to Claridge’s in Mayfair to present their findings. The conference was a grand success. The research topics ranged from how potential sea-level rise is affecting property valuations of coastal cities to how institutional investors are thinking about climate risk in constituting their portfolios. Some scholars are examining how extreme temperature fluctuations that affect the performance of plants and divisional operations of firms influence supply-side analysts who follow the firm’s shares. One intriguing study demonstrates that Google search volume related to words like “climate change” and “environmental risk” across different stock markets around the world is growing and spikes in such search volume is demonstrably linked to stock market returns and trading activity. Finally, one creative paper has shown how to assemble a hedge portfolio designed to manage climate change risk based on tracking of the amount of media coverage of climate change news.

I am proud to inform Your Highness that these nine papers will be completed after further revisions and published in *The Review of Financial Studies* in Spring 2019. It will constitute what I am boldly calling the first body of knowledge on the topic of Climate Finance. I believe that it will secure considerable attention from the thousands of scholars in Finance and will legitimize the topic as one that is important and worthy. I know for a fact that there are now many other scholars who are working on related topics to those we will have published that will foster even further understanding. Of course, I can say with confidence that this was part of my original design!

I hope Your Highness can sense the great satisfaction I feel in the success of this project to now. I hope further that Your Royal Highness can share in this sentiment by seeing the direct causal link between the A4S and CISL Forum I attended in 2015 with the successful outcome that we have experienced.

Allow me to close my letter by thanking His Royal Highness for the inspiration to do my part to advance scholarship on the important topic of Climate Finance and to extend once again my best wishes for a wonderful 70th birthday celebration with family and friends!

Sincerely yours,

A handwritten signature in cursive script, appearing to read 'A. Karolyi', written in black ink.

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