CLIMATE BRIEF N°62

Is financial regulation in France in line with the Paris Agreement?

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Authors: Julie **Evain** | Michel **Cardona**

SUMMARY

The French regulatory framework has some key strengths, especially in relation to the EU and German frameworks already analysed[1]. The lead France has taken is mainly explained by the implementation of Article 173-VI for issues of transparency, the more recent but high level of awareness among regulators and supervisors, and a financial centre dynamic, with public action that seeks to align with a "two degree" pathway and an organisation, Finance for Tomorrow, that brings together all financial centre actors.

But for some issues, France is lagging behind, or practices are only just beginning to change. In particular, this is the case for the supervision of asset managers, accounting standards or education and training in green and sustainable finance.

Finally, for many subjects, such as fiduciary duties, prudential regulation or the establishment of a taxonomy, France has adopted a relatively wait-and-see approach with regard to the European level. France does not wish to begin codifying practices that are likely to evolve in the short or medium term with the introduction of new EU standards. This position is justifiable, but some room for manoeuvre may exist in certain areas.

Introduction

Since the Paris Agreement and its Article 2.1.c, which calls for "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development", private financial actors are beginning to mobilise in favour of greener finance. Recent years have seen an increase in initiatives, with the development of green financial products, the emergence of climate transparency practices, divestment in carbon-intensive sectors, analysis of climate risks, etc. However, these initiatives are in their infancy and are not always based on a solid understanding of the objectives and pathways to achieve the transition to a low-carbon economy. Hence the need for financial actors to operate within a regulatory framework and for clear public incentives that are fully consistent with the transition pathways.

The public authorities, whether the French government, the European Union or the different national regulators and supervisors, have gradually gained awareness of the need for change in the framework that currently regulates these financial actors. In France, there are five regulatory and supervisory bodies: the Ministry of Economy and Finance, the Banque de France (Bank of France), the Autorité de Contrôle Prudentiel et de Résolution (ACPR - Prudential Supervision and Resolution Authority) and the Autorité des Marchés Financiers (AMF - Financial Markets Authority), as well as the Ministère de la Transition Ecologique et Solidaire (MTES - Ministry for the Ecological and Inclusive Transition) for provisions under Article 173-VI. The regulators and supervisors currently favour two approaches: the mobilisation of additional flows towards transition assets and the integration by financial actors of the financial risks posed to the economy by climate change.

To mobilise additional flows, the public authorities favour climate transparency, which is supposed to make actors more aware of the impact of their investments. Through a reputational or commercial competition rationale, transparency is meant to incite financial actors to adapt their asset allocation strategy in line with the transition. Changes to the transparency framework for financial actors began in France with the Grenelle II Law, but the major stimulus was the implementation of Article 173-VI in 2015. However, this approach covers only some parts of financial activities and the challenges today concern these gaps, as well as the definition of clearer methodologies or the degree of transparency.

The integration of climate risks is an approach that is currently emerging, especially under the impetus of the regulators and supervisors. If climate change poses risks[2] to financial actors and threatens the stability of the system, then these risks must be taken into account and this will automatically lead to changes in the allocation of financing in favour of a low-carbon, resilient economy. However, as demonstrated repeatedly[3], climate risks and their importance tend to be poorly understood or underestimated by financial actors. Hence the importance of a regulatory framework that guarantees the full integration of these new types of risks in all spheres of financial activity, with appropriate time horizons. To help or even oblige the different financial professions to measure, analyse and manage these risks, proper regulation is needed.

Beyond the regulatory aspect and the practices of regulators and supervisors, attention should also be paid to the environment in which the actors in a financial centre operate. To what extent is this a support, are there relevant structures to enable the development of innovations (new methods, new products, etc)? Public support is essential for the emergence of tools to enable the shift in finance: new research projects, new skills, innovative companies, etc.

To understand all of these issues and to analyse the alignment of the French regulatory framework with the Paris Agreement, I4CE and Frankfurt School-UNEP Centre joined forces within the Finance fit for Paris project. The goal of this analysis is to compare an "ideal world" that is fully compatible with the Paris Agreement and to determine how France scores on this scale. The analysis sheds light on the strong points of the French framework, and identifies its weaknesses as well as the areas in which France has a more wait-and-see approach with regard to EU regulation.

1 See the other analyses (European Union, Germany and Netherlands) on the website http://3fp-tracker.com/

2 Carney, "Breaking the Tragedy of the Horizon – Climate Change and Financial Stability" 2015. In this speech, Mark Carney defines three types of climate risks: transition risks, physical risks and liability risks.

3 For example: Hubert, Evain, and Nicol, "Getting Started on Physical Climate Risk Analysis in Finance".

1. TRANSPARENCY AND DISCLOSURE

NOTE  **4.8/10**

KEY MESSAGES

- **Disclosure:** France is ahead of other countries thanks to Article 173-VI, but is penalised by the fact that it is behind on the integration of climate risks and stranded assets in national accounting standards.
- **Fiduciary duties:** France still has a wait-and-see approach with regard to possible changes to EU directives.
- **Consumer transparency:** Despite the existence of two public labels, efforts are still needed in this area. Positive developments are nevertheless expected with the implementation of the PACTE law.

Transparency and disclosure are essential to redirect financial flows towards a low-carbon economy. To ensure investors adapt their asset allocations, they must be able to integrate into their investment decisions data on the climate risks or impacts of economic activities. However, to encourage them to conduct such analyses and to progress, transparency may be a suitable tool.

Scoring for this dimension is comprised of three areas: the disclosure framework, fiduciary duties and consumer transparency.

A. Disclosure framework: France, a pioneer of disclosure, is lagging behind on accounting rules…

France is one of the leaders in climate disclosure for financial actors. This dynamic first emerged with the introduction of Article 224 of the Grenelle II Law[4] of 2010, and was subsequently consolidated by Article 173-VI[5] in 2015. France chose to follow this approach during the transposition of the EU Non-Financial Reporting Directive (NFR), since it introduced an explicit reference to climate change in disclosure on governance issues.

Disclosure obligations cover governance issues through the NFR, and strategy and risk management through Article 173-VI. The decree issued pursuant to this Article specifies the metrics expected[6] and the targets are explicitly set out, in reference to the French National Low-Carbon Strategy.

The evaluation report on Article 173 currently being drawn up by the Directorate General of the Treasury, AMF, ACPR and MTES should provide additional clarification for financial actors.

Where IPOs and stock exchange listings are concerned, the obligation of transparency on ESG criteria[7] was also introduced by the Grenelle II Law, and was consolidated with the transposition of the NFR in two areas: a materiality of risk approach and the search for more useful information for stakeholders and companies.

Although France is a global leader in terms of disclosure, it is heavily penalised in our evaluation by the fact that it is behind on the integration of climate risks and stranded assets in French accounting standards[8]. However, there are a number of academic initiatives[9] to bring about change that have given rise to an ongoing experiment.

B. Fiduciary duties: France still has a wait-and-see approach with regard to possible changes to EU directives

Fiduciary responsibility is a concept that belongs more to the Anglo-Saxon tradition, yet it can be a powerful tool for integrating climate issues into financial management. Indeed, fiduciary duty, or the obligation to give priority to defending a client's interests, is now primarily interpreted in terms of profitability. This understanding of the defence of a client's interests could be extended to climate change mitigation and to non-participation in climate destabilisation. This change in the understanding of fiduciary duty could lead to lawsuits.

In the context of this study, fiduciary duties cover the following issues: investment policy transparency, the existence of a shareholder engagement policy, asset manager responsibility, executive remuneration policy, ESG risk management and customer centricity. With the exception of transparency on the integration of ESG risks, for which France is ahead since Article 173-VI, French standards are aligned with EU directives, which at the very least integrate these issues.

C. Consumer information: changes expected

Informing consumers about the climate impacts of their investments may lead them to adapt products in favour of more sustainable investments. In this respect, French regulations stem from transpositions of EU directives, but future changes with the PACTE law should provide savers with information about the ESG impacts of their life insurance products and enable them to opt for SRI[10] or GreenFin (former TEEC)[11] labelled products. The existence of these public labels, which are a French initiative, is a more effective guarantee of the quality and transparency of fund allocation.

However, there is still considerable room for improvement in this field, especially in terms of changes to the readability of consumer information and to the roles of financial advisors and account managers.

4 This Article introduced an obligation to disclose ESG risks for financial and non-financial companies with more than 500 employees, as well as specific provisions for asset managers.

5 This Article introduced an obligation to disclose ESG for all institutional investors, as well as to disclose climate risk integration and the contribution to climate change mitigation for companies with more than 500 million euros of assets under management.

6 - integration of social, environmental and governance (ESG) criteria and the methods implemented to contribute to the energy and ecological transition;
- integration of exposure to climate risks, and especially to transition risks and physical risks, as well as measurement of greenhouse gas emissions associated with assets held;
- contribution to limiting global warming, through the definition of objectives that are aligned with the National Low-Carbon Strategy (SNBC).

7 Environmental, social, governance.

8 Where accounting standards are concerned, the analysis covers only national accounting and not IFRS standards.

9 For example, the CARE model developed by Jacques Richard and Alexandre Rambaud.

10 Socially Responsible Investing label aimed at ESG criteria funds.

11 Energy and Ecological Transition for the Climate label aimed at funds specialising in green investment.

2. SUPERVISION, RISK MANAGEMENT AND FINANCIAL STABILITY

NOTE  **5.4/10**

KEY MESSAGES

- **Authority positioning**: French regulators and supervisors have became more aware of climate issues and are mobilising internally as well as within the Network for Greening the Financial System (NGFS).
- **Regulation and supervision of banks and insurance companies:** Good supervision practices are emerging, with a slight lead for bank supervision. However, climate risks are not currently integrated into prudential regulation and climate stress tests are still in the research stage.
- **Regulation and supervision of asset managers and investment funds:** With the exception of the transparency obligations set out in Article 173-VI, the supervision of these actors is still struggling to integrate climate issues. The dominant approach is that of monitoring compliance with customer promise in the context of SRI funds.

Since the crisis in 2008, the oversight role played by the central banks and supervisors has been strengthened in order to prevent a new financial crisis caused by a systemic risk and to guarantee that financial institutions identify and manage their financial risks correctly. Until recently, the risks posed to these financial institutions by climate change had not been identified as a priority by supervisors and regulators, compared to other emerging risks such as cyber risk. However, since the speech by Mark Carney in 2015[12], and especially since the creation of the *Network for Greening the Financial System*[13] in December 2017, more than 30 central banks and supervisory authorities have begun to mobilise to more effectively integrate climate issues into their risk monitoring tools, including stress tests. Over and above risks, the commitment of these central bankers also concerns the mobilisation of additional flows for the low-carbon transition.

A. French regulators and supervisors are ahead thanks to their new awareness and their mobilisation

In this mobilisation process for the greening of the financial system, the French regulatory and supervisory bodies have shown different levels of commitment. Although MTES has been involved for a long time, the Banque de France and ACPR mobilised upstream for the creation of the NGFS, whereas the Directorate General of the Treasury and AMF have taken a more wait-and-see approach. Nevertheless, at MTES and for the four institutions that have become aware of the importance of climate issues more recently, this has led to the reorganisation of internal teams and the opening of specific positions. Climate risks have also been recognised as a supervision priority[14]. This growing sensitivity to climate issues also translates into the desire to raise awareness among financial actors, which requires strong public stances on the impact of climate change[15] and the publication of different information and evaluation reports on the subject[16][17].

B. Banking and insurance supervision is beginning to evolve to integrate climate risks

1. *Emerging practices to integrate climate risks into the supervision dialogue with banks and insurance companies…*

ACPR is the institution in charge of the supervision of banks and insurance companies, and is thus the key actor for analysing changes in the integration of climate risks. Its mobilisation on the subject has primarily translated, after work to prepare the report published in collaboration with the Directorate General of the Treasury and the Banque de France in early 2017, into the submission in summer 2018 of a questionnaire on climate risks to banks and insurance companies. The answers to this questionnaire were supplemented by bilateral discussions. The whole process gave rise to two reports published in April 2019 on the state of exposure of banks and insurance companies and the development of their risk management processes.

This inclusion of climate risks in the supervision dialogue has had a significant impact, in terms of the signal effect it has had for banks and insurance companies. These institutions know that they can no longer ignore this risk or leave it to be addressed by the CSR department alone. This signal effect also informs banks and insurance companies that they must prepare for future changes in supervision and regulation and develop their risk management processes. With this in mind, ACPR provides examples of good practice in its reports and has set up two working groups with banks on governance and scenario analysis issues.

However, this process of integrating climate risks into bank and insurance supervision varies considerably depending on the type of actors and the type of risks. Indeed, this may seem paradoxical in view of the level of sensitivity of actors, but bank supervision is slightly ahead of insurance supervision, especially on governance issues. Likewise, although the transition risk seems to be well understood by the supervisor, the same cannot be said of the physical risk. ACPR considers that French bank and insurance company exposures are primarily situated in areas not considered to be particularly vulnerable (Europe and United States). This judgement is based on a study with a very low level of granularity (country level analysis without taking account of sectors of activity). Moreover, ACPR does not question the approach adopted by the majority of insurers, which too often see the physical risks on their liabilities commitments solely as the direct impacts of natural disasters, without taking account of either the chronic effects of climate change or the impact of this change on the future frequency and intensity of extreme climate events.

2. *… But as yet no major changes for prudential regulation and stress tests*

This adaptation of supervisor practices has not yet extended to minimum capital requirements or to stress tests. Although the Banque de France has announced that it is working on a future climate stress test, these developments will be underway for several months to come and the first exercise will probably not be conducted before 2020. Indeed, modelling the different types of impact and propagation channels in a macroeconomic scenario is a complex task. To overcome this difficulty, initial exercises favouring more fragmented approaches (on a specific sector or

12 "Mark Carney: Breaking the Tragedy of the Horizon - Climate Change and Financial Stability".

13 Network for Greening the Financial System, "Publication of the Mandates of the NGFS Technical Workstreams and Expansion of the NGFS Membership".

14 ACPR and AMF have classed climate risks as one of their monitoring priorities since 2018.

15 Villeroy de Galhau, "La Finance Verte – Une Nouvelle Frontière pour le XXIe Siècle".

16 ACPR, "Les groupes bancaires français face au risque climatique", 2019.

17 ACPR, "Les assureurs français face au risque de changement climatique", 2019.

a specific risk) could be a first step forward. In addition to methodological barriers, stress tests are currently conducted with short time horizons, which makes it impossible to grasp the full scope of climate risks. Although they are beginning to materialise today[18], their impacts will be more substantial in the medium and long term.

As regards minimum capital requirements, set out in pillar 1 of the Basel Accords, the French regulators cannot act without coordination at least at the European level.

In the current framework, the only potential room for manoeuvre could therefore be at the level of pillar 2, during the prudential monitoring process conducted in dialogue with each banking establishment. Discussions are needed to determine whether the supervisor would be capable of using measurement instruments that are sufficiently robust to quantify exposure to climate risks and to use these findings during this prudential monitoring procedure.

For these two types of instruments, there are still many methodological barriers to overcome, especially in terms of a good understanding of what climate risks cover, their propagation mechanisms and the zones and sectors exposed. The NGFS research efforts, supported by the Banque de France and ACPR, could eventually provide an initial response.

C. The supervision of asset managers is still behind on the integration of climate issues

Although the Banque de France and ACPR were among the first European supervisors to address climate issues, the Autorité des Marchés Financiers acknowledged them later on. At present, Article 173-VI nevertheless enables AMF to check that information on climate risks for asset managers is actually made public, or that its absence is justified. The dominant approach is still that of compliance with customer promise. Thus, for these climate aspects, AMF only monitors funds that claim to be implementing a responsible investment policy, to ensure they are actually taking steps to achieve this. It published two reports on these practices in 2016[19] and 2017[20].

Although there is currently no specific AMF incentive to integrate climate risks or ESG risks into all funds, its role could change with the PACTE law. Moreover, AMF is working to close this gap, since it made sustainable finance one of its eight priorities in December 2018. In its roadmap, it details its different fields of action for sustainable finance (support, supervision and education) and notes its conviction that the regulator has an important role to play in encouraging and accelerating change. Finally, AMF has joined the *International Organization of Securities Commissions* (IOSCO) working group on sustainable finance launched after the NGFS and coordinated by the Swedish market authority.

3. ENABLING ENVIRONMENT

NOTE  **6.7 /10**

KEY MESSAGES

- **Strong state support for transition companies:** the many support mechanisms for green companies and projects and their scope are an important element of public action for green finance, which helps to develop and structure this market and to create demand for private green finance.
- **Consistency of public action in its investment policy:** public investors have recently made commitments to align their portfolios with a two degrees pathway. Public actors have also used different forms of action (shareholder engagement, transparency, bond issuance, etc.) with a view to serving as a model and defining standards and good practice.
- **Public action in favour of education and awareness raising on green finance:** while tools exist such as public labels for investment funds or initiatives within research institutes to integrate climate issues, there is still a lot to be done on education and awareness raising for the general public and finance students.
- **Expectations at the EU level for a common taxonomy of green activities:** although there is a first French taxonomy initiative (used for the GreenFin label standard), France is waiting for the conclusion of EU negotiations on this taxonomy.
- **Public-private initiative for a green financial centre:** the dynamism of Finance for Tomorrow in structuring and increasing the visibility of French expertise on green finance makes Paris one of the world leaders in green financial centres.

To fully understand the context in which French financial actors operate, it is important to look beyond financial regulations. When tackling climate issues, awareness of the importance of these issues is essential, and implies access to training and information on these subjects. In addition to awareness, the existence of tools[21], support[22] for financing or models upon which to build greatly facilitates the integration of climate issues.

This is why public action is essential and it can take different forms. For this analysis, the following key forms of action were selected: the existence of an incentive policy to support the development of green products or activities, the coherence of public investment policy, support for public education on green finance and the definition of a common taxonomy. Added to public action is the evaluation of private actor mobilisation to create a dynamic and an enabling environment.

18 Garric, "Les catastrophes climatiques ont coûté au moins 80 milliards d'euros en 2018", December 2018.

19 AMF, "Rapport sur la Responsabilité Sociale, Sociétale et Environnementale - Vers une Convergence des Informations Financières et Extra-Financières ?", November 2016.

20 AMF, "Rapport sur l'investissement Responsable dans La Gestion Collective.", December 2017.

21 These tools can take different forms such as labels, the existence of market standards, a common definition of green activities, methodologies, etc.

22 Through subsidies, tax exemptions, equity participations, etc.

A. An active support policy for transition companies

The evolution of the financial world will also require a profound change in the real economy. To support the development of green activities and their financing, public action can also create targeted, time-limited incentives such as tax reductions, subsidies, loans, guarantees, etc. This type of mechanism helps to build trust among private actors in the development of a new market and to reduce their perception of risk. This also sends a signal to actors about state priorities and the sectors that will receive support in the coming years.

France has deployed a wide range of support mechanisms, which are implemented by the Caisse des Dépôts, BPIFrance, ADEME and the Agence Française de Développement (French Development Agency) and coordinated by two key mechanisms: the Programme d'Investissements d'Avenir (PIA - Future Investments Programme) and the Grand Plan d'Investissement (Major Investment Plan). In November 2018, the Caisse des Dépôts and BPIFrance announced their intention to mobilise 16 billion euros by 2020 to finance the ecological and energy transition.

B. Public action in favour of exemplarity

The state's desire to lead by example as an investor has two objectives: coherence with the commitments signed for the climate, but also the establishment of good practice to attempt to influence the private sector.

1. The alignment of public investment policy with a two degree pathway

For a long time, the integration of climate risks was limited to simply introducing cross-compliance criteria into public procurement, but without examining the impacts of public investment.

Since the signing of the Paris Agreement and further to warnings by environmental NGOs, the state and the public institutions concerned have recognised that their investment policies were not consistent with the commitment to stay on a two degree warming pathway. However, having acknowledged this, it was necessary to implement aligned policies corresponding to the nature of each of these institutions. This process is recent and is not yet fully developed.

The three major public investment institutions, namely the Caisse des Dépôts, BPIFrance and the Agence Française de Développement, committed specifically to aligning all of their financial activities with a two degree pathway[23]. This commitment was strengthened in 2017, during the signing of the public investors charter, which added to these three institutions the other public investors, namely the Fonds de Réserve des Retraites (FRR – Pension Reserve Fund) and the Etablissement de Retraites Additionnelles de la Fonction Publique (ERAFP - Public Service Additional Pension Scheme). Their commitments also included provisions on climate transparency and shareholder engagement. Beyond their action, the importance of this commitment lies in the signal it sends to the market and in the practices it initiates, to encourage private actors to follow suit.

Having made this commitment, it was necessary to address the issue of methodologies to measure the "level of alignment" of a project, a management or loan policy, or an institution. One year later, the five signatories of the public investors charter as well as the Agence des Participations de l'Etat (State Holdings Agency) chose to use the ACT tool[24] developed jointly by ADEME and the Climate Disclosure Project.

23 The Caisse des Dépots and BPIFrance made a first commitment in 2015, which was renewed and strengthened in 2018. AFD committed in 2017 to aligning all of its portfolios with a two degree pathway.

24 Developed by ADEME and CDP, the ACT tool (Assessing Low-Carbon Transition) is used to evaluate the climate strategies of companies against the demands of a low-carbon world. This methodology provides a score based on three criteria: performance, overall coherence and trend.

Despite these different commitments and a desire for coherence of public action, the alignment process is in its early stages and a lot of work still needs to be done in terms of research, developing internal processes and training teams to achieve a public investment policy that is fully aligned with the Paris Agreement. However, the lessons learned from this alignment process and the methodological results can subsequently serve as inspiration for the private sector.

2. A single institution to finance the transition

Contrary to some countries, such as Germany with KfW[25], France does not have a single institution in charge of financing the transition. Some people believe that the creation or grouping of activities of different financiers under one institution could, however, facilitate financing. This is the proposal made in the report *France Transition*[26] by Pascal Canfin and Philippe Zaouati.

3. Green bond issuance to structure practices and grow the market

France has been a pioneer in green bonds, since the first green bond issued by the Ile de France region in 2012. This was followed by different green bonds issued by the authorities and by the sovereign issuance in 2017. France has also been a pioneer in disclosure practices, since with this sovereign issuance, the state undertook to publish three reports, including an impact report, thereby creating a precedent on the market[27]. To guarantee the quality of this report, the state also appointed the Conseil de l'OAT Verte (Green Sovereign Bond Council), bringing together independent experts.

Together, these practices create a voluntary quality standard that private issuers can choose to use as inspiration. This is particularly relevant given that the green bonds market suffers from a lack of transparency on the real impact of projects financed and on guarantees of the "green quality" of projects[28].

4. The Banque de France policy on climate transparency

After being the first Central Bank to commit to a public charter on the implementation of a responsible investment policy for some of its portfolios[29], the Banque de France was also the first to publish a report providing transparency on its climate policy for these same portfolios.

This report follows the recommendations of both Article 173-VI and the TCFD[30]. It goes beyond simple disclosure on the carbon footprint of investments and transparency on ESG criteria that underpin the responsible investment policy.

It contains more prospective information such as an analysis of exposure to transition risks and physical risks – transparency that is mandatory under Article 173-VI, but often poorly applied, if at all, by investors. It also provides information on the alignment pathway of portfolios. All of these practices, which are innovative for a central bank, are fundamental in the sense that they pave the way for other central banks, when this transparency seemed unachievable, or even unrealistic just a few years ago. Moreover, they enable the development of methodologies for indicators that are only just emerging.

25 KfW (Kreditanstalt für Wiederaufbau, Credit Institute for Reconstruction) proposes long-term preferential loans for companies, authorities and households in Germany and abroad. It is the institution that centralises financing for the energy and ecological transition.

26 Canfin and Zaouati, "Pour la création de France Transition", December 2018.

27 CGDD, "Étude d'impact du Crédit d'impôt pour la Transition Énergétique (CITE)", November 2018.

28 Schishlov, Nicol, and Cochran, "Environmental Integrity of Green Bonds: Stakes, Status and next Steps", February 2018.

29 The portfolios concerned are own funds and funds backed by pensions liabilities. They do not include the Banque de France monetary policy.

30 TCFD, "Final Report - Recommendations of the Task Force on Climate-Related Financial Disclosures".

C. Education and training, a major gap in the development of green finance

One of the main weaknesses of the financial centre, despite the different warnings issued[31], is still research and training in finance. Although the French financial landscape as a whole has evolved in recent years, research and training programmes in finance have not yet taken the measure of this change and pay little or no attention to climate issues. Only a few initiatives, such as the creation of dedicated chairs[32], the work of the Louis Bachelier[33] Institute and the creation of special research awards are worth noting. Within the universities that provide courses in finance, the options are still very limited and focus primarily on socially responsible investment. There is no specific education at the primary and secondary levels.

However, the issue of education is not limited to initial and ongoing training, but can also be extended to general consumer education. Here again, France is behind in relation to some of its European neighbours. Although there are two labels (GreenFin, former TEEC, and SRI) that are intended to inform consumers in their choices, these are not well known. More generally, and as indicated by AMF[34], French people have a low level of financial education, and know even less about green finance or savings. However, consumer demand is there[35][36], and the issue of consumer information is expected to evolve (*see part 1 above*).

31 Lemmet and Ducret, “Pour une Stratégie Française de la Finance Verte”, November 2017.

32 Sustainable Finance and Responsible Investment Chair created in 2007, Climate Economics Chair created in 2010 and Energy and Prosperity Chair created in 2015.

33 ILB launched in September 2018 a new transversal research program : “the Green & Sustainable Finance Transversal Program”.

34 “L’éducation financière à l’ère du digital”, AMF Scientific Advisory Board, Conference of 20 June 2016.

35 IFOP, Vigeo Eiris, and FIR, “Les Français et la Finance Responsable - Sondage Ifop pour Vigeo Eiris et le FIR”, September 2018.

36 IFOP and WWF, “La prise en compte de la question du changement climatique en matière d’épargne”, November 2017.

D. Taxonomy: expectations at the European level

To facilitate the policy on public support for the transition, the existence of a national taxonomy should make it possible to classify green activities and to underpin them with a support policy in order to cover all aspects of the transition and to more effectively track financing flows. Although there is a taxonomy within the GreenFin (former TEEC) label[37], it is only aimed at green funds and focuses primarily on so-called “dark green” activities.

E. The Paris financial centre, driven by a strong dynamic in favour of green finance

Among the world’s different financial centres, Paris has rapidly distinguished itself as a green centre, first through its responsible investment tradition, then through its dynamism in terms of green bonds, and finally by structuring this ecosystem within the Finance for Tomorrow organisation. This initiative, launched in 2017, is led by private actors (issuers, banks, portfolio management companies, consulting firms, insurance companies, etc.), public actors (ministries, Banque de France, etc.) and research actors (academic research centres and think tanks). The goal of Finance for Tomorrow is to promote green finance and the expertise of the Paris centre. Activities are organised between nine working groups, on subjects such as climate risks, research, or fintech for the transition, among others.

To conserve its dynamism and its visibility as a green financial centre, Paris must nevertheless continue to innovate and to stand out for the quality of the practices employed by its actors, because competition with other European centres such as London and Frankfurt, and henceforth with other international centres, remains fierce.

37 MTES, “Label « Transition Énergétique et Écologique pour le Climat » Référentiel”, April 2019.

EVALUATION METHOD

In order to conduct the evaluation, I4CE and Frankfurt School-UNEP Centre built on a tool developed jointly by WWF-Germany and Frankfurt School-UNEP Centre: the Finance fit for Paris (3FP) Tracker. This tool is based on two key objectives of financial regulation: transparency and financial stability. A third dimension is added to these, which assesses the relevance of public policies in the creation of an enabling environment for financing the low-carbon transition. Each of these three dimensions accounts for one third of the overall score. They are then broken down into different sub-dimensions covering all French financial actors (banks, insurance companies, asset managers, public investors, etc.).

The scores range from 0 to 10, with 0 representing the absence of rules or initiatives in a field, while 10 represents an “ideal world” in which sustainability and long-term challenges are fully integrated into regulation.

For example, to evaluate public action on financial stability, one of the scores concerns the supervision of bank governance and strategy. A 0 corresponds to the absence of public action to incite banks to demonstrate that their board anticipates all climate risks. A 4 corresponds to initial practices developed by the public authorities or to voluntary initiatives, and a 7 corresponds to the existence of regulatory guidelines, while a 10 corresponds to an “ideal world” with compulsory regulation of the way in which banks must demonstrate that their board anticipates these risks.

Future regulatory changes are taken into account when they are already at an advanced stage, but with a lower weighting than existing regulations.

In order to inform the evaluation by I4CE and Frankfurt School-UNEP Centre, interviews were conducted with all of the regulatory and supervisory bodies. The preliminary results were presented during a workshop bringing together the public authorities, NGOs and researchers in order to clarify and finalise the evaluations.

Summary of the evaluation

FRANCE
COMBINED RATING: 5.6 /10

	Notes /10
TRANSPARENCY AND DISCLOSURE	**4.8**
Common disclosure framework	**5.0**
Disclosure on governance	6
Disclosure on strategy	7
Disclosure on risk management	8
Disclosure on metrics targets	6
Adapt accounting standards	3
Accounting for stranded asset risk	0
Investors' fiduciary duties	**5.2**
Investment evaluation transparency	6
Shareholder responsibility for governance and strategy	5
Asset manager responsibility	7
Executive remuneration policy	5
ESG risk management	6
Customer/beneficiary centricity	2
Consumer transparency	**4.2**
Packaged Retail and Insurance-based In-vestment Products (PRIIPs)	3
Investment advisor duties	3
Retail fund transparency	4
Green labels/ standards	7
SUPERVISION, RISK MANAGEMENT AND SYSTEM STABILITY	**5.4**
Supervisory authority positioning	**7**
Regulatory body's/bodies' awareness to climate risk integration	8
Climate change and systemic risk	6
Regulation/Supervision of banks	**5.2**
Supervision of bank governance/strategy reflecting climate change related risk	6
Minimum requirements for bank risk management (in the context of the supervisory review process) include ESG/climate risks and a long-term perspective	5
Scope of supervisory reports of the regulator (risk profile for banks) during the annual supervisory review process covers ESG/climate risks and a long-term perspective	5
Banking stress tests consider climate risks and a long-term perspective	5
Capital requirements reflect ESG/climate risks and a long-term perspective	5
Regulation/Supervision of insurance companies	**4.4**
Supervision of insurance governance reflecting climate change related risk	4
Minimum requirements for insurance risk management include ESG/climate risks and a long-term perspective	5
Scope of supervisory review of the insurance company covers ESG/climate risks and a long-term perspective	6
Insurance stress tests consider ESG/climate risks and a long-term perspective	3
Capital requirements reflect ESG/climate risks and a long-term perspective	4
Regulation/Supervision asset managers and investment funds	**5**
Requirements for organisation, capital requirements and risk management include ESG/climate risks and a long-term perspective	5
ENABLING ENVIRONMENT	**6.7**
Green public-private initiatives of financial centres	**7**
Supporting green finance with public incentives	**7**
There are subsidies for sustainable investments / fiscal policy / taxation of products that reflect ESG criteria	7
The Government provides financing instruments for climate change related investments	7
2-Degree Consistency of Public sector acting	**7.2**
Government reflects climate change related risks in its investment strategy	8
Green public financial institution	6
Government agencies issue Green Bonds	9
Central banks disclosure on climate-related risks	6
Public capacity building and awareness raising on green finance	**7**
Providing free green label certifications	8
Consumer education on green finance is integrated in curricula (schools, universities, general public education)	6
Established and maintained common taxonomy	**5**

Conclusion

For all three dimensions, France is in the lead in relation to the European and German frameworks already analysed[38]. This lead is mainly attributable to three factors:

- the implementation of Article 173-VI since the Energy Transition for Green Growth Act of 2015 for transparency issues;
- the more recent but high level of awareness among regulators and supervisors and the emergence of supervision practices that integrate climate issues through dialogue with insurers and banks;
- a strong financial centre dynamic, with public action that is consistent with a two degree pathway, and an organisation, Finance for Tomorrow, that brings together the majority of financial centre actors.

However, this dynamic, which positions France as one of the leaders among the European countries, remains heterogenous. The lead taken and progress made tend to be concentrated in the three areas previously listed, whereas for others, France is lagging behind or practices are only just beginning to emerge. This is the case in particular for the supervision of asset managers, accounting standards, or education and training in green and sustainable finance. For these different subjects, several factors can explain this lag. First, interviews conducted have revealed that growing awareness among the public authorities is an essential factor in the desire to develop new practices, yet this awareness varies considerably from one sector to another. Second, methodologies and technical barriers can also be an impediment.

Finally, for many subjects such as fiduciary duties, prudential regulation or the establishment of a taxonomy, France has adopted a relatively wait-and-see approach with regard to the European level. This position is perhaps understandable, given that France does not wish to begin codifying practices that are likely to evolve rapidly with the introduction of new European standards. However, in some cases, and especially for supervision, the current EU regulatory framework could enable the integration of climate issues, by adapting existing tools such as stress tests or the dialogue conducted during the monitoring procedure known as pillar 2. But this implies that the supervisor must first be able to build on robust tools to measure exposure to climate risks.

In conclusion, this exercise reveals that while France is one of the leaders on green finance thanks to the mobilisation of public actors, a strong financial centre dynamic and structures that support green finance, there is still a long way to go to achieve a regulatory framework that is fully compatible with the Paris Agreement. The progress made in some areas should not conceal the efforts still required on education within the public sphere and on laws and standards to fully integrate climate issues.

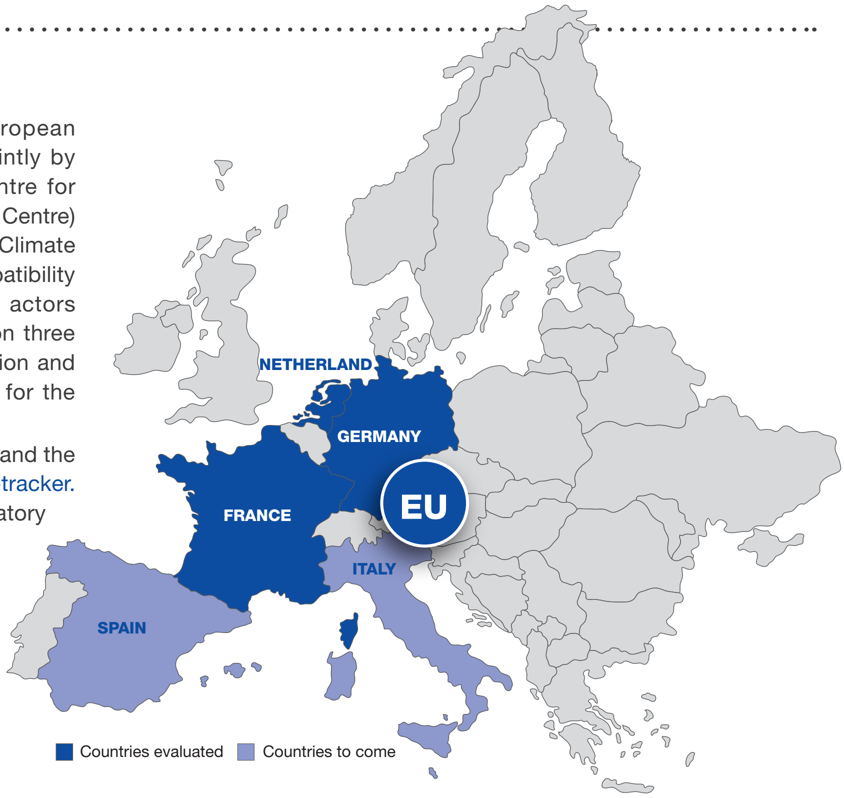
38 See the other analyses (European Union, Germany and Netherlands, on the website http://3fp-tracker.org/

3fP, finance fit for Paris

The results of this analysis are part of a European project 3fP «Finance fit for Paris» developed jointly by the Frankfurt School - UNEP Collaborating Centre for Climate & Sustainable Energy Finance (FS-UNEP Centre) and WWF Germany, supported by the European Climate Foundation. This project aims to analyse the compatibility between the regulatory frameworks of financial actors and the Paris Agreement. The analysis focuses on three dimensions: transparency and reporting; supervision and financial stability; and the enabling environment for the development of green finance.

For France, the evaluation is co-executed by I4CE and the FS-UNEP Centre. The 3fP-Tracker site (www.3fp-tracker.com) currently includes assessments for the regulatory frameworks of the EU, France, the Netherlands and Germany. Spain and Italy will be the next countries to be analysed.

These assessments will be updated annually to take into account changes in the various regulations and practices of the financial markets.



3fP finance fit for Paris

Frankfurt School
FS-UNEP Collaborating Centre
for Climate & Sustainable Energy Finance

I4CE - Institute for Climate Economics 20-22 rue des Petits Hôtels, 75010 Paris
www.i4ce.org | contact@i4ce.org | @I4CE_

Association régie par la loi du 1er juillet 1901. R.C.S. Paris 520 399 478
SIREN 500 201 983 00011 P APE 9499 Z

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Création-réalisation : SophieBerlioz.fr