



FRENCH ENERGY TRANSITION LAW

GLOBAL INVESTOR BRIEFING

THE SIX PRINCIPLES

- 1** We will incorporate ESG issues into investment analysis and decision-making processes.
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4** We will promote acceptance and implementation of the Principles within the investment industry.
- 5** We will work together to enhance our effectiveness in implementing the Principles.
- 6** We will each report on our activities and progress towards implementing the Principles.



THANKS

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ABOUT MIROVA

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ABOUT IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is the investor voice on climate solutions in Europe - is a collaborative forum with 120 members, mainly mainstream investors, with over   13 trillion assets under management. Its mission is to provide investors with a common voice to encourage public policies, investment practices and corporate behaviour which address long-term risks and opportunities associated with climate change.

For more information visit www.iigcc.org

ABOUT IGCC

The Investor Group on Climate Change (IGCC) is a collaboration of more than 60 Australian and New Zealand institutional investors and advisors, managing over \$1 trillion and focussing on the impact that climate change has on the financial value of investments.

For more information visit www.igcc.org.au

CONTENTS

| | |
|---|----|
| FOREWORD | 4 |
| WHY THE LAW MATTERS AND GLOBAL RECOMMENDATIONS | 5 |
| ABOUT THE LAW | 6 |
| REQUIREMENTS OF ARTICLE 173 | 7 |
| IMPLEMENTATION DECREE: THE REQUIREMENTS FOR INSTITUTIONAL INVESTORS | 7 |
| MONITORING AND COMPLIANCE | 8 |
| REACTIONS FROM FRENCH INVESTORS | 9 |
| ENABLING FACTORS: WHAT MADE PASSING THE LAW POSSIBLE IN FRANCE? | 10 |
| EXPECTED IMPACT AND CHALLENGES | 13 |

FOREWORD

INVESTING IN THE TRANSITION TO A MORE SUSTAINABLE ECONOMY

At the end of 2015, the adoption of the Paris climate agreement moved the entire international community to commit to combating climate change.

At the same time, another major step forward was taken at the French national regulatory level, to encourage the financial community to also engage with sustainability issues, with the adoption of Article 173 of the law on energy transition and green growth. In requiring investors to disclose how they factor ESG criteria and carbon-related aspects into their investment policies, this inspirational and innovative law will enable better-informed choices and pave the way to driving investments towards more sustainable patterns.

As a responsible investor, Mirova commends the adoption of such regulations, not only in France but in all countries and especially at the European level in support of the Capital Markets Union.

An important challenge of the French Energy Transition Law relates to the way it will be implemented. What is at stake behind the methodological debate is the meaning and the concrete impact of the concept of portfolio decarbonisation. Does it mean minimising the carbon content of our funds, only keeping assets with low levels of induced carbon emissions? Or does it mean having a high level of assets that actually contribute to decarbonising our economy?

For Mirova, both aspects are important, but investing in the transition to a more sustainable environment is the most urgent need and is a concrete path to decarbonise our assets over the long term at a global level.

Last but not least, it is the best way to reconcile environmental and financial performance.

The French government will implement an assessment of best disclosure practices in 2018: let us hope that it will contribute to implementing ambitious and smart reporting guidelines that will enable and encourage the financial sector to make a positive contribution to the ambitions outlined in Paris.



Philippe Zaouati
Chief Executive Officer, Mirova

WHY THE LAW MATTERS AND GLOBAL RECOMMENDATIONS

The French Energy Transition for Green Growth Law (or Energy Transition Law), adopted in August 2015, marks a turning point in carbon reporting. It sets out a roadmap to mitigate climate change and diversify the energy mix. The law includes ambitious targets around reducing greenhouse gas (GHG) emissions and overall energy consumption, reducing the share of fossil fuels and nuclear power in favour of renewable energy and increasing the price of carbon.¹

Due to its pioneering nature, the Energy Transition Law has picked up interest across the globe.

The specific requirements of the legislation as well as the enabling factors which contributed to it becoming a reality in France are highlighted in this global investor briefing. It reveals that the legislation is flexible in its implementation, leaving investors to establish the most appropriate methodologies for themselves. This open-endedness has raised challenges, but it also gives the industry the freedom to shape the processes that will eventually become a norm for the industry in France.

While many investors in France have been engaged in responsible investment for some time and have many of the reporting tools in place, for others complying with the law will require much more time and resources.

And so the law has forced the issues of ESG integration and climate risk onto the agendas of all investors in France, regardless of previous engagement, and has raised the industry standard. Given the global momentum regarding climate change in the finance community, the law, what it stipulates, how investors in France have reacted to it and the building blocks that enabled such legislation to be passed, are relevant to investors worldwide.

RECOMMENDATIONS FOR POLICY MAKERS FOLLOWING THE FRENCH ENERGY TRANSITION LAW

Some early lessons can be drawn from the French Energy Transition Law and on how policy makers can work with industry even more efficiently with the development of similar regulation.

- An early dialogue with industry in policy discussions provides them with an opportunity for formal and informal feedback.

- Encourage and support voluntary industry action, for example disclosure of portfolio carbon footprint.
- Engage with civil society groups to establish their role in the implementation of regulation.

RECOMMENDATIONS FOR PRI SIGNATORIES FOLLOWING THE FRENCH ENERGY TRANSITION LAW

Investors who had a strong history of engagement with and action on ESG issues adopted the requirements of the law relatively quickly and easily. Signatories who wish to demonstrate leadership and readiness on these issues in advance of potential regulation in their own country should:

- Understand how they would respond to the French law;
- Monitor global policy developments to understand trends;
- Actively contribute to policy discussions through investor networks including through PRI and The Global Investor Coalition on Climate Change, a joint initiative of four regional climate change investor groups: IIGCC (Europe), INCR (North America), IGCC (Australia & New Zealand) and AIGCC (Asia);
- Take voluntary action in good practice risk management and reporting, for example through the Montréal Carbon Pledge or Portfolio Decarbonisation Coalition;
- Collaborate to drive up industry standards;
- Measure and prepare to disclose their emissions exposure.

The FSB Climate-related Financial Disclosures Taskforce, chaired by Michael Bloomberg and including PRI's Chair Martin Skancke, is considering the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures. It aims to develop voluntary, consistent, climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders. On 31 March, the taskforce published its [Phase I Report](#), setting out its scope, objectives and principles of disclosure, and opened a one-month public consultation. The taskforce's recommendations for voluntary corporate disclosures will be presented to the FSB by the end of 2016. More information is available here: <https://www.fsb-tcfd.org/>.

¹ http://www.developpement-durable.gouv.fr/IMG/pdf/14123-8-GB_loi-TE-mode-emploi_DEF_light.pdf

ABOUT THE FRENCH ENERGY TRANSITION LAW

Article 173 of the French Energy Transition Law came into force on 1 January 2016. It strengthened mandatory carbon disclosure requirements for listed companies and introduced carbon reporting for institutional investors, defined as asset owners and investment managers. Due to its forward-thinking measures for institutional investors, Article 173 is of interest to PRI signatories.

Following policy maker consultation with investors, the law was introduced on a comply or explain basis. Implementation is flexible to allow investors to determine the most appropriate reporting methodologies themselves.

DEBATE, DEVELOPMENT AND PUBLICATION OF THE LAW

| | |
|-----------------------------|--|
| November 2012 – July 2013 | National debate on energy transition |
| October 2014 | Draft legislation adopted by the National Assembly (lower house of the Parliament) and passed to the Senate for approval |
| October 2014 – July 2015 | Several readings in the two chambers of French Parliament, leading to Senate approval |
| 22 July 2015 | Law adopted by French Parliament |
| 18 August 2015 | Following approval by the Constitutional Court, the law was published in the Journal officiel de la République Française |
| August 2015 – December 2015 | Consultation and drafting process for implementation decree for Article 173 - this process included a formal consultation with investors and civil society groups, followed by a public consultation on the draft decree |
| 31 December 2015 | Implementation Decree for Article 173 was published |

In April 2016, Novethic published an interview with Denis Baupin. The article is titled 'Implications, First Steps and Impact', and it is available at <http://www.novethic.com/socially-reponsible-investment/corporate-social-responsibility/french-sri/sri-market.html>

REQUIREMENTS OF ARTICLE 173

The text of Article 173², released in August 2015, requires the following:

- 1. Listed companies** shall disclose in their annual report:
 - a. Financial risks related to the effects of climate change;
 - b. The measures adopted by the company to reduce them;
 - c. The consequences of climate change on the company's activities and of the use of goods and services it produces. (This is in addition to the reporting on the social and environmental consequences of the company's activity, which is already mandatory in France³.)
- 2. Banks and credit providers** shall disclose in their annual report:
 - a. The risk of excessive leverage (not carbon-specific) and the risks exposed by regular stress tests. (The government will submit a report to Parliament on the implementation of regular stress tests reflecting the risks associated with climate change by 31 December 2016.)
- 3. Institutional investors** shall disclose in their annual report:
 - a. Information on how ESG criteria are considered in their investment decisions;
 - b. How their policies align with the national strategy for energy and ecological transition.

IMPLEMENTATION DECREE: THE REQUIREMENTS FOR INSTITUTIONAL INVESTORS

Following the adoption of the law in August 2015, there was a consultation process to develop the implementation decree for Article 173. The decree provided guidance for reporting, but with little mandatory provision, it allowed for flexibility. Investors are able to report in a way that suits their portfolio, for example reflecting specific asset classes or subsidiaries. However they must provide information on the methodology used and justification of the approach.

First reporting due in 2017 – The information must be included in the investor's annual report and on their website. The first report, covering the period from 1 January 2016, must be published no later than 30 June 2017.

Comply or explain – Investors must report on a 'comply or explain' basis, meaning they have to provide an explanation if they do not comply with any of the requirements above. There is, however, no further guidance or agreement about the expectation of what would be a satisfactory explanation for non-compliance.

Smaller investors are exempt from detailed reporting – Smaller investors, defined as those with a total balance sheet (or belonging to a group with a total balance sheet) of less than €500m, only have to provide a general overview of how they integrate ESG factors.

A SUMMARY OF THE REQUIREMENTS FOR INSTITUTIONAL INVESTORS, AS SET OUT IN THE DECREE

- 1. Reporting on the integration of ESG criteria**, including:
 - a. The general approach with regards to the consideration of ESG issues in investment policy and risk management;
 - b. For an asset management company, the list and percentage share of funds (in assets under management) that integrate ESG criteria;
 - c. The methodology used for analysing the criteria and justification of that approach;
 - d. Information on the results of the analysis and actions taken.
- 2. Reporting on the integration of climate change-related risks**, including:
 - a. Both physical risks (exposure to physical impacts directly caused by climate change) and transition risks (exposure to the changes caused by the transition to a low-carbon economy);
 - b. An assessment of the contribution to meeting the international target of limiting global warming and to achieving the objectives of the French Low Carbon Strategy (which was adopted in November 2015 and includes sector-specific targets and carbon budgets).

² <https://www.legifrance.gouv.fr/eli/loi/2015/8/17/DEVX1413992L/jo#JORFARTI000031045547>, 17 August 2015

³ Grenelle II law 2010. For details see <https://www.capitalinstitute.org/sites/capitalinstitute.org/files/docs/Institut%20RSE%20The%20Grenelle%20II%20Act%20in%20France%20June%202012.pdf>

The decree suggests that analysis of risk exposure and contribution to the transition of the portfolio can include:

- The consequences of climate change and extreme weather events;
- Changes in the availability and price of natural resources;
- Policy risks related to the implementation of national and international climate targets;
- Funds invested in assets which contribute to the energy and ecological transition;
- Measures of past, current or future emissions of GHG, directly or indirectly associated with emitters included in the investment portfolio.

3. Reporting on the alignment of voluntary decarbonisation targets with national and international goals.

- a. Targets the investor sets itself to assess its contribution to achieving the national and global climate targets, and how these targets align with EU objectives and carbon budgets set by the national Low Carbon Strategy;⁴
- b. Actions to achieve these targets, including: changes in investment policy, divestment, and engagement. Institutional investors are encouraged to set quantitative sector targets in line with national and international targets, but this is not mandatory.

The original text of the decree is available online. https://www.legifrance.gouv.fr/jo_pdf.do?id=JORFTEXT000031740341 (dated 31 December 2015).

2° Investing Initiative have provided an English Translation of the decree. http://2degrees-investing.org/IMG/pdf/2ii_art173_decree_final_en.pdf

“Disclosure requirements by companies is a major change, especially in France, where traditionally, it is difficult for investors to file resolutions at shareholder AGMs. One of the expected consequences of the Energy Transition Law is an increased willingness of companies to discuss energy and environment-related topics with their shareholders, as they anticipate mandatory disclosure. This is an opportunity for investors to further engage with companies.”

Annie Degen

Special Advisor – Long Term Finance and UNEP FI Energy Efficiency Coordinator

MONITORING AND COMPLIANCE

The implementation decree does not cover the details of the enforcement of the law, leading to some ambiguity as to the extent to which the financial regulator (AMF) will take responsibility. The French government is yet to confirm whether it will publish a PPE (Programmation Pluriannuelle de l'Energie) to give direction on consumption scenarios. There is also no mention in the decree of third-party certification of the information provided in the annual reports. Therefore, there is no formal system for monitoring and ensuring compliance.

Interviews revealed an expectation that civil society, stakeholders and market demand will have a role to play in engaging and ensuring accountability for the additional information provided in the annual reports.

The government will publish a review of the implementation decree after two years (and before the end of December 2018). Following the review, there may be more guidance based on observed good practices. It is expected that investors will also help develop good practice case studies to support implementation of the law.

⁴ <http://www.gouvernement.fr/en/adoption-of-the-national-low-carbon-strategy-for-climate>

REACTIONS FROM FRENCH INVESTORS

Article 173 increases reporting requirements for investors far beyond previous legislation. Its combination of ESG and climate reporting requirements means the law also goes beyond the reporting frameworks of voluntary initiatives. However, with very few mandatory requirements in the law, the initial response from French investors has been to establish exactly what additional reporting will be required. This has involved mapping where existing datasets and reporting practices can be used, and where new data and methods for reporting will be required.

Not a challenge for investors with well-developed ESG practices

For investors with well-developed ESG practices, the law does not present much of a challenge. Since the Grenelle II law came into force in 2010, investment managers have been required to report on how they include ESG factors into their investment strategy and the management of their funds. As a result, they already have processes in place for data collection and reporting to cover many of the new requirements. In addition, some investors had signed up to voluntary pledges, for example the Montréal Carbon Pledge⁵, so had already developed methodologies for reporting on some of the law's requirements.

Contested by some investors

However, there was also a negative reaction when this law was announced. Initially, MPs contested the article, claiming that the indicative targets suggested by Article 173 violated the European Directive 2009/138/CE on the principle of

the freedom to invest. This appeal was not upheld by the Constitutional Council on the basis that it only contained requirements covering reporting, not investment decisions.⁶ Nonetheless, there have been concerns from investors about the additional work created by the law, particularly in the initial period of developing collection and reporting methodologies.

New collaboration and support has become available

Although investors have been establishing the exact requirements of the law for their business on an individual basis, some collaboration and support initiatives have emerged since the law's inception. These include:

- Working groups set up by the Ministry of Finance and Ministry of Ecology with investors, issuers, NGOs and service providers on developing best practice – the groups provide a platform for sharing progress and emerging methodologies between investors and other stakeholders;
- Professional associations (for example associations for institutional investors, asset managers and French SIF⁷), which have developed their own working groups to develop methodologies and more detailed frameworks.

⁵ <http://montrealpledge.org/>

⁶ https://www.legifrance.gouv.fr/affichTexteArticle.do;jsessionid=7DCA73F551593EE07D96572204515C97.tpdila21v_2?cidTexte=JORFTEXT000031047012&idArticle=JORFARTI000031047013&dateTexte=20150818&categorieLien=cid (French)

⁷ <http://www.frenchsif.org/isr/>

ENABLING FACTORS: WHAT MADE PASSING THE LAW POSSIBLE IN FRANCE?

For a law requiring such significant changes to be successfully implemented, a number of enabling factors need to come together to create favourable conditions. Five major factors that were present in France have been identified as enabling the implementation of the Energy Transition Law.

1) A STRONG REGULATORY ENVIRONMENT

France has a long history of extra-financial reporting regulation. In 2001, the law on new economic regulation required that listed companies report on measures taken regarding the environmental and social impact of their activities.⁸ The introduction of the 'Grenelle II' Act in 2010 strengthened and extended these reporting requirements to all companies with 500 or more employees. Article 224 of the 'Grenelle II' Act also required investment managers to report annually on how they integrate ESG criteria into their investment decisions. This regulatory precedent provided a strong base for the new law's extended requirements for both companies and investors.

2) WILLINGNESS OF FRENCH INVESTORS

The French government developed the content of Article 173 and the implementation decree in consultation with the investment community. France's well-developed responsible investment community had already demonstrated innovative approaches to ESG integration and climate risk. For example, in 2014 pension provider ERAFP partnered with Amundi to develop a methodology aimed at reducing the carbon footprint of their portfolio.⁹ Such innovation, as well as demonstrating the investment community's readiness for legislation, helped give policy makers confidence that an innovative approach could work.

Responsible investment in France can be traced back as early as 2001 with the creation of the French Responsible Investment Forum (FIR). In the following years, a number of voluntary initiatives emerged that highlighted the increased interest of investors in consideration of ESG factors and risks. These include:

- a) The UN-supported Principles for Responsible Investment (PRI) launched in 2006 and French investors were involved from its inception. As of March 2016, 141 French investors are PRI signatories.

- b) Portfolio Decarbonisation Coalition (PDC), launched in September 2014 by UNEP FI¹⁰, aims to reduce GHG emissions by mobilising a critical mass of investors committed to decarbonising their portfolios.¹¹ Amundi Asset Management, AP4 and CDP were co-founders of this initiative, and the current membership includes a number of French investors: Caisse des Dépôts, FRR, ERAFP, Humanis, BNP Paribas Investment Partners and Mirova.
- c) The Montréal Carbon Pledge, which was also launched in September 2014, created a network of PRI signatories committed to measuring and publicly disclosing the carbon footprint of their investment portfolios on an annual basis. To date, 14 French investors have signed up, out of a total of over 120 signatories, the most of any country except UK and Sweden.¹²
- d) Initiative Carbone 2020 (IC20) was launched in 2015 by five private equity companies, with the support of the PRI, to promote a long-term approach to reducing GHG emissions of their portfolio companies and securing sustainable performance. Signatories commit to measure their scope 1, 2 and 3 carbon footprint¹³ using estimation methodology, include climate issues in their investment process, and publish the carbon footprint of their portfolio companies in 2020.¹⁴

To add to the increasing emphasis on carbon footprints, in 2014 the French Environment and Energy Management Agency (ADEME) released a guide on how financial institutions can measure their carbon footprint.¹⁵

Interviews with investors have highlighted an increased awareness of the link between environmental factors and financial returns, leading to an increased openness to additional regulation. A recent paper by UNEP Inquiry and the Institute for Climate Economics¹⁶ on France's Financial Ecosystem considered the increasing demand in the country for extra-financial information. It identified the 2008 financial crisis as a factor leading to a restructuring of the market to increasingly account for ESG factors. Increased transparency, more depth of expertise and a more risk-and-profit-based focus followed, as investors became increasingly aware of the benefits and impacts of improved integration of ESG criteria.¹⁷

8 <https://www.globalreporting.org/SiteCollectionDocuments/GoFPara47PoliciesInitiatives-France.pdf>

9 <https://www.rafp.fr/en/article/combating-climate-change>

10 <http://www.unepfi.org/>

11 <http://unepfi.org/pdc/>

12 <http://montrealpledge.org/>. For list of signatories, see <http://montrealpledge.org/signatories/>

13 <http://www.ghgprotocol.org>

14 <http://www.eurazeo-pme.com/index.php/eng/content/download/1507/10638/version/4/file/Manifeste+UK+final.pdf>

15 <http://www.ademe.fr/actualites/manifestations/presentation-guide-methodologique-destination-emissions-ges-adapte-secteur-financier> (French)

16 <http://www.actu-environnement.com/media/pdf/news-25728-etude-cas-france.pdf>

17 <http://www.actu-environnement.com/media/pdf/news-25728-etude-cas-france.pdf>, p.23

On Climate Finance Day, 23 May 2015, the day on which the Energy Transition Law was announced, a number of investors announced further voluntary commitments they would be undertaking. AXA committed to divesting from all its remaining coal investments by the end of 2015 and triple their green investments by 2020¹⁸ and CDC committed to disclosing the carbon footprint of their portfolio.¹⁹ These announcements can be seen as a culmination of many discussions and collaborative efforts in the run up to COP21 in Paris in December.

3) GLOBAL MOMENTUM AND CIVIL SOCIETY SUPPORT IN FRANCE

The French Energy Transition Law was passed at a time of strong national and international pressure for action from the finance sector on climate change.

In 2011, the Carbon Tracker Initiative published its Unburnable Carbon report²⁰, which introduced the concept of the “carbon bubble”. The report, which argued that up to 80% of fossil fuel reserves may be “unburnable” if the world is to stay within its carbon budget, made clear the link between these reserves and investors.²¹

The international divestment movement, led by 350.org, calling for organisations, institutions and individuals to divest from fossil fuels, reinforced this message. This

movement shifted the debate into the public domain, and added a moral dimension, further increasing the pressure on investors. The US and Europe has seen notable divestment pledges: in 2015 the Norwegian Sovereign Wealth Fund committed to divesting from the coal sector.²² The Asset Owners Disclosure Project’s annual ranking²³ of the top 500 (by AuM) asset owners for their management of climate risk has also strengthened the focus on investors.²⁴

Paris-based think tanks such as 2° Investing Initiative²⁵, the Institute for Sustainable Development and International Relations (IDDRI)²⁶ and the Institute for Climate Economics (I4CE)²⁷ helped push the issue on the political agenda in France.

Strong civil society support can be seen as a key enabling condition for this law. With no regulator responsible for the law, civil society monitoring will be an important factor to ensure its success.

“Civil society and stakeholders should maintain peer pressure and engage around annual report information.”

Diane Strauss

Chief of Operations, 2° Investing Initiative

¹⁸ <http://www.theguardian.com/environment/2015/may/22/axa-divest-high-risk-coal-funds-due-threat-climate-change>

¹⁹ http://www.caissedesdepots.fr/sites/default/files/medias/cp_et_dp/CP_Climate_Finance_Day_EN.pdf

²⁰ <http://www.carbontracker.org/wp-content/uploads/2014/09/Unburnable-Carbon-Full-rev2-1.pdf>

²¹ <http://www.carbontracker.org/report/carbon-bubble/>

²² <http://www.theguardian.com/environment/2015/jun/05/norways-pension-fund-to-divest-8bn-from-coal-a-new-analysis-shows>

²³ <http://aodproject.net/>

²⁴ <http://aodproject.net/climate-ratings/asset-owners-disclosure-project-survey.html>

²⁵ <http://2degrees-investing.org/>

²⁶ <http://www.iddri.org/iddri/>

²⁷ <http://www.i4ce.org/home/>

4) POLITICAL FEASIBILITY

Learning on implications and impact during implementation of the law

The recent I4CE/UNEP paper finds that the French approach to integrating sustainability into its financial system is to encourage better disclosure, leading to adequate pricing of risk, while allowing individual institutions to develop their own tools and strategies.²⁸ This way, best practice methodologies emerge, which the government plans to highlight in its review of the implementation decree in 2018. This approach allows for pioneering legislation to be passed, with the awareness that much of the learning of the full implications and impact of the law will be done in the implementation stage.

France: “the nation of environmental excellence”

In his first major speech as President in September 2012, François Hollande set out his vision for France to become “the nation of environmental excellence”.²⁹ A National Environmental Conference held in 2012 saw the announcement of a number of climate and energy measures, for example continued support for renewables. A national debate on energy transition was held between November 2012 and July 2013 to determine the best way for the country to transition to a low carbon economy. The recommendations from this debate, along with the targets agreed during the National Environmental Conference in 2012 and 2013, formed the basis of the Energy Transition Law.³⁰

Publicly-sponsored SRI labels

The French government has also shown its commitment to providing investors with the information and confidence to invest in responsible investment products through the creation of publicly-sponsored SRI labels. In the aftermath of the 2014 conference on the financing of the energy

transition, the French government announced its intention to create an Energy and Ecological Transition for Climate label and an SRI label. These labels, launched in 2015, aim to provide investors with common ground and the means by which to comply with the Energy Transition Law’s requirements to demonstrate the alignment of their portfolio to national and international targets.

5) KEY POLITICAL EVENT: COP21, PARIS

COP21, the UN climate talks held in Paris in December 2015, was a major political event which brought together all the other enabling conditions for the French Energy Transition Law. The hosting of this event provided France with an opportunity to show international leadership in taking a broad approach to tackling climate change across all sectors.

In the run up to COP21, there was national and international focus on the role of the private sector in tackling climate change, with many French politicians pushing this agenda forward on a national level. It was understood that the level of finance that would be required for the transition to a low-carbon economy must come from the private financial sector.

This political pressure was supported by civil society and, to some degree, investors’ acceptance of the link between environmental and financial factors which made them more willing to act. The requirements of Article 173 can be seen as the results of discussions and enthusiasm for action across the country, with COP21 providing a focus and a deadline.

²⁸ <http://www.actu-environnement.com/media/pdf/news-25728-etude-cas-france.pdf>, p.25

²⁹ <http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/05/France.pdf>

³⁰ <http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/05/France.pdf>, p.3

EXPECTED IMPACT AND CHALLENGES

The law is expected to cause more analysis of climate risk and more reporting about exposure levels by investors. As yet, no official information has been provided about who will use the data or how the information will be used by the regulator.

Positive effects of the law can be observed, even at this early stage. Prior to this law, there was no requirement for asset owners to disclose their approach to the integration of ESG factors or climate risks. For smaller investors, these issues may not have been previously considered in detail. However, they are now on the agendas of the Boards of all institutional investors, who must understand the risks and opportunities of ESG factors in their investment portfolios. Interviewees have suggested that, in this way, the law is speeding up the learning process for the entire financial community, for which the concept of climate risk is still relatively new.

Due to the new reporting requirements, investors will require data from companies on their own approaches to environmental, social and governance factors. To meet their legal requirements, investors will need to ensure this data is of a certain standard, and therefore are likely to require greater disclosure of companies. In this way, the law can be seen to have an effect beyond the financial sector. The improved transparency and accountability this will bring will encourage progress to a low-carbon economy across all sectors.

“This law supports an entire ecosystem dedicated to the transition to a low-carbon economy.”

Timothée Jaulin
Associate, Amundi

The law is expected to also lead to the development of methodologies for reporting on climate risk and on the alignment of the portfolio to national and international targets, which would have been much less widespread without the legal requirements. This development of best practice methodologies, along with the reassurance that such measures as those in the Energy Transition Law can be successfully introduced, is likely to generate interest from other countries interested in pushing the responsible investment agenda further.

“Bolder national policies are critical to propel best practices in terms of the assessment of portfolio climate risk and impact. This drives a strong demand for new methodologies and tools that clarify the possible use and linkages with investment analysis.”

Samuel Mary
Senior Sustainability Research Analyst, Kepler Cheuvreux

Julie Raynaud
Senior Sustainability Research Analyst, Kepler Cheuvreux

In the aftermath of the COP21 agreement, climate change has been high on the agendas of the international finance community. At the G20 summit in December 2015, the Financial Stability Board (FSB) announced the establishment of a global task force on climate-related financial risks under the chairmanship of Michael Bloomberg.³¹ In March 2016, the Dutch central bank DNB announced the steps it is taking to monitor and mitigate climate risk, including a survey of the institutions it oversees to find evidence of a carbon bubble, and recommendations of a substantial increase in the price of carbon.³² Given the pioneering nature of the French Energy Transition Law, it will be of substantial interest to these and other international markets looking to take further action on climate change.

³¹ <https://www.fsb-tcfd.org/>

³² <http://www.dnb.nl/en/news/news-and-archive/dnbulletin-2016/dnb338533.jsp>

CHALLENGES

Interviewees identified two main types of challenge to the successful implementation of the law: organisational challenges and policy challenges.

ORGANISATIONAL CHALLENGES

For financial institutions, the first major organisational challenge is interpreting the law and establishing how exactly they will respond to it. Many institutions already report on some of the requirements, and so there will need to be a mapping process to determine what additional information is needed. This will also require organising the process for data collection and reporting, as well as the supporting structures. With regards to development of methodology, there are outstanding questions such as how their portfolio should align with a 2 °C target or a 1.5 °C target, as agreed to during the COP21 talks.

Service providers are developing methodologies to help investors to meet the reporting requirements. However, interviewees have called for these to be relevant to their investment decision process so that there is minimal additional demand on resources.

POLICY CHALLENGES

The major policy challenges are related to the broad scope and lack of official monitoring channels. There is uncertainty about the quality of the first reports in 2017: whether they

will show a progressive attitude, and in what format the information will be accessible to the public to help inform their investment decisions.

The freedom given by the law on exact carbon reporting methodology means that the data is unlikely to be comparable at first. A recent report analyses the different methodologies already developed to measure the carbon footprint of portfolios.³³ It highlights the problem for some methodologies of the lack of comparability, for example where different baseline years are used.

Additionally, different methodologies lead to different definitions of portfolio decarbonisation. It could mean lowering the carbon content of the portfolio, only having assets with low levels of carbon emissions (scope 1 & 2), or it could mean having a high level of assets that contribute to decarbonising the economy (also assessing scope 3 and avoided emissions). Investors have highlighted in interviews the need for the government to be aware of this for the law to be successful.

Investors have an open dialogue with the government, who will be monitoring progress closely. The official review of Article 173 in 2018 will review these challenges and whether they have been successfully overcome by investors, and may make changes accordingly.

³³ http://www.iigcc.org/files/publication-files/Carbon_Compass_final.pdf

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The Principles for Responsible Investment (PRI) Initiative

The PRI is a UN-supported international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Responsible investment is a process that must be tailored to fit each organisation's investment strategy, approach and resources. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

The PRI has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices.

More information: www.unpri.org



The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org



UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org

