173 SHADES OF REPORTING

THE FINAL SEASON

A novethic production

Article 173: a legal star with a limited audience

Article 173 of the 2015 *Energy and Ecological Transition Law* has had an unprecedented international career. It has become an incentive regulatory model designed to convince institutional investors that they need to assess their exposure to climate risks, rethink their investment strategy to finance a greener and more sustainable economy, and understand how to talk about it to their clients and beneficiaries. At least that was the intention of those who drafted this innovative piece of legislation, which is based on the *"comply or explain"* principle.

Five years later, what was its actual reach? Year after year, Novethic studied the so-called "173 reports" that were produced (or not) by the 100 largest French institutional investors. For this final season of "173 Shades of Reporting", Novethic has conducted a holistic analysis of this regulation, whose reach was more limited than needed to massively redirect financial flows towards a low-carbon economy.

The cast has been enriched with new regulations

Five years ago, Article 173 brought investors into the environmental and energy transition debate but since then, climate finance has developed alongside green finance, and the European Union launched its own strategy on sustainable finance. This has led to a new regulatory framework on reporting *(Disclosure)* and the EU Taxonomy - a reference list of sustainable activities - which will gradually unfold from 2021 onwards. The integration of ESG criteria and climate change converged as the Principles for Responsible Investment (PRI) now require from their signatories that they report according to TCFD (Task Force on Climate-related Financial Disclosures) standards on 2 out of the four pillars of this recognized framework.

In 2019, the French PACTE law created a new obligation that required insurers to offer at least one fund awarded with a sustainable label to life insurance policyholders. The AMF[1] and ACPR[2] regulators are working to standardize the scope for Environmental, Social and Governance (ESG) criteria and climate risk assessment methodologies. In November, ACPR released an initial report on coal policies adopted by the investors it oversees, and it is preparing pilot exercises for climate stress tests.

Although improved, climate reporting remains quite vague

As soon as Article 173 came into force, regulators hoped that market participants would work together to adopt the same methodologies for climate risk assessment and even consider an ESG dimension. Its implementing decree, released last minute on December 29th, 2015, did not make things easier due to its degree of complexity; which hinder its pedagogy amongst non-initiated players. Five years later, it is still difficult to aggregate data on investors' sustainable finance practices. This is evidenced by the French Sustainable Finance Observatory, which was launched in October 2020. This website - the result of a promise made to the French government by the Paris financial centre to create a tool to assess climate commitments since 2015 - does not provide an overview of progress made on responsible management, climate risk analysis, or the level of green financing. This is why Novethic's four-year "Article 173" reporting analysis of its panel of the 100 largest French institutional investors is valuable. This final season shows its evolution, the volumes of gradual divestments from brown assets, the amount of green financing, and the main tools for climate reporting. It also shows the significant and persisting lack of communication with non-expert savers. Increasingly concerned about putting their investments to use in support of the transition to a low-carbon economy, these investors have at best only technical and complex climate reports at their disposal. Accessibility and transparency are two areas where institutional investors still have a long way to go!

[1] French financial markets authority
[2] French supervisory authority of the banking and insurance sectors

Chronology of past and future regulations

2015

August

Article 173 of the Energy and Ecological Transition Law

It provides for increased transparency requirements for investors on the consideration of ESG criteria and climate risks.

2018

January

Publication of the report of the High-Level Expert Group on sustainable finance

March

Action Plan on sustainable finance

2019

March

Publication of the Disclosure Regulation on disclosures relating to sustainable investments and sustainability risks

November

Article 29 of the Energy-Climate Act

It renews the transparency obligations of Article 173 of the Energy and Ecological Transition Law, in accordance with the Disclosure Regulation.

2020

November

Announcement of a TCFD reporting obligation for insurers and company pension funds as of 2021

2021

March

Official coming into force of the Disclosure Regulation

By March at the latest

Publication of the decree implementing Article 29 of the Energy-Climate Act

2022

January

The PACTE law creates an obligation to distribute funds with all three labels (SRI, Greenfin or Finansol).

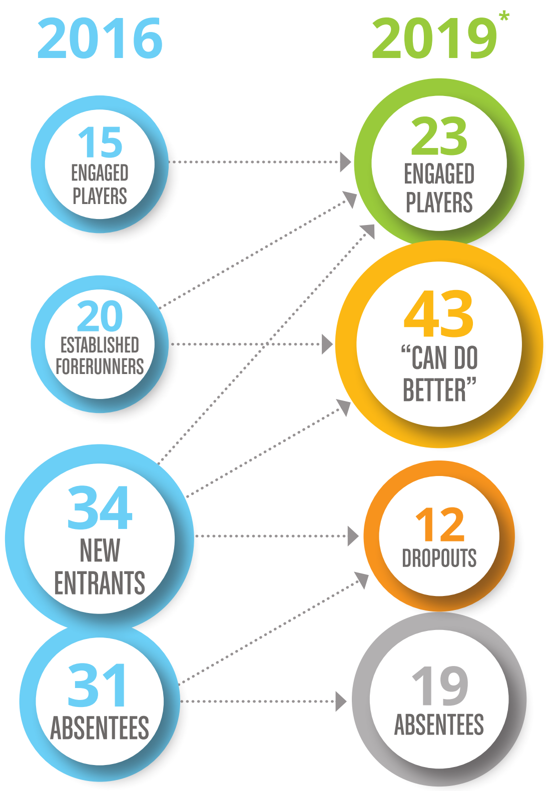
July

Publication of the first «Article 29» reports

Table

Spotlight on the 4 seasons of "173 shades of reporting"

Novethic created four categories for its first season of "173 Shades of Reporting": **engaged players**, for those who already had an advanced climate strategy and responsible investment practices; **established forerunners**, for those who already had a responsible investment policy; **new entrants** for those who started the process with Article 173; and finally, **absentees** for those who abstained from responding.
Having now reached the fourth season, it is clear that the transformative power of Article 173 remains limited.



Source: Novethic

The number of **engaged players** increased, and they continuously improved their climate reporting. They increased from 15 to 23, and 18 of them have adopted the TCFD climate risk reporting framework.

The **"can do better"** category is the one with the largest number of investors. Even if some of them have enriched their reports in four years, they testify to the limitations of Article 173, which has not really allowed them to appropriate the notions of climate risks and materiality of ESG dimensions.

The 12 **dropouts** form a new category, namely those who have at a point in time made a vague reporting effort to «check the box. Four of them even apply «comply or explain» to the letter, indicating that they do not take ESG criteria into account, which can be worrying for their clients and beneficiaries!

The number of **absentees** has decreased but not necessarily to the benefit of a strong mobilization on responsible investment.

* The total number of investors is no longer equal to 100, given mergers within the panel.

Global Asset Volume on 31/12/2019 managed by the panel of investors who participated in the FFA/Novethic surveys (€bn)	Total Assets	Percentage
Listed equity	**217**	9.7%
Bonds	**1,578**	70.3%
Including corporate bonds	722	32.2%
Including government bonds	699	31.1%
Including agency, supranational and local authority bonds	135	6.0%
Real estate	**146**	6.5%
Infrastructure	**25**	1.1%
Other	**279**	12.3%
TOTAL	2,245	

The data collected in the reports were supplemented by quantitative data provided by 21 insurers as part of the annual survey conducted by the French Insurance Federation (FFA) for the realization of its ESG-Climate barometer. 11 other institutional investors participated in the Novethic survey conducted in parallel.

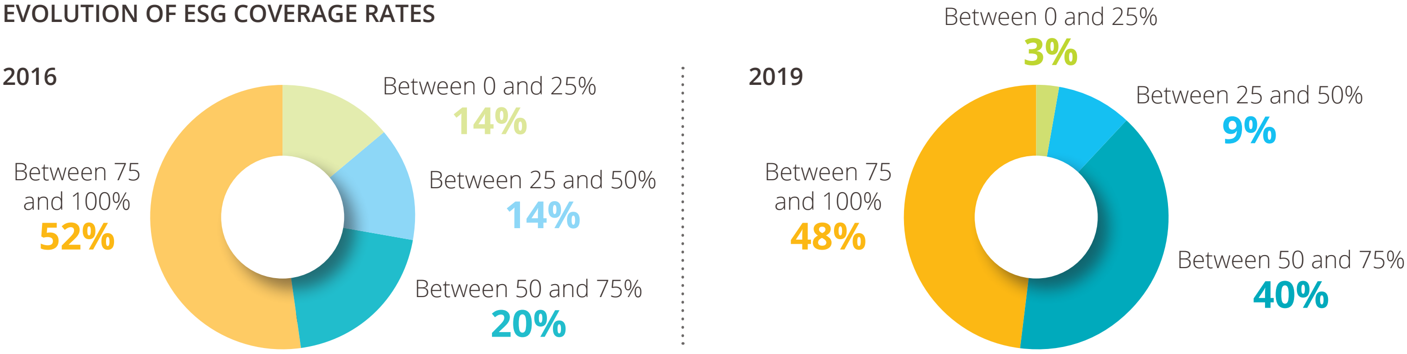
Reports identified and analyzed in this study: ACM*, AG2R La Mondiale*, AGIRC-ARRCO, AGPM, Allianz France*, APGIS, Apicil, Aviva*, Axa Groupe*, Banque de France, BNP Paribas Cardif*, Bpifrance*, Caisse des Dépôts*, CAMACTE, CAPSSA, CARAC*, CAVP, CCR, CNRACL, CNP Assurances*, Coface, Covéa*, Crédit Agricole Assurances*, Eovi Mcd, ERAFP*, FGDR, Fondation de France, FRR**, Garance, Generali*, Groupama*, Harmonie Mutuelle*, Helvetia, HSBC Assurances*, Ircantec*, IRCEM, Klesia, La France Mutualiste, La Mutuelle Générale, L'Auxiliaire, MACIF*, MACSF*, MAF, MAIF*, Malakoff Humanis, Matmut, Médicis, MGEN, MIF, Milleis Vie, Mutex, Mutuelle de Poitiers Assurances, Mutuelle Epargne Retraite, Natixis Assurances*, Neuflize Vie, OCIRP, Prepar Assurances, PRO BTP, SACRA, SCOR*, SHAM *, SMA*, SMACL, SOGECAP*, Suravenir*, Swiss Life France*, Thelem Assurances*, UMR*, Uniprévoyance, UNOFI

* Investors who participated in the Novethic (11 investors) or FFA (21 investors) survey.
** Participation to the survey only; report not released on the study's date of publication

The ESG prism keeps a single focal length: the volume of assets covered

Initially, Article 173 provided that reporting on ESG analysis should be the basis for the information provided by investors. The regulator was awaiting clarification on the nature of the criteria, methodologies and results of this analysis on Environmental, Social and Governance (ESG) aspects. This was to be the preferred means of addressing clients and beneficiaries for those who claim to be more or less responsible investors. Clients thus needed to better understand the social and environmental investment choices of the institutions to which they pay into. Four years later, it is clear that most of the communication is focused on increasing the coverage rate of ESG analysis.

EVOLUTION OF ESG COVERAGE RATES



The average coverage rate for Environmental Social and Governance (ESG) criteria analysis has steadily increased over the past four years. It now amounts to 73% of assets covered on average. But beyond ESG integration approaches (which tend to become more complex), some reports continue to summarize this integration with aggregate ESG rating statistics that illustrate the portfolio's "quality level". However, in its July 2019 "Enforcement record of the provisions of the Decree" focused on a qualified sample of investors, the French Directorate General of the Treasury (DG Trésor) found that investors "are increasingly considering the use of ESG criteria to complement traditional methods of financial risk management, and thus turning it into a source of strategic opportunities." While this is true for the most engaged players on the panel, others continue to view ESG criteria as a non-essential contribution and may even use them as follows: "with companies and returns equal, choice will be given to the one with the best ESG outcome".

Biodiversity and Sustainable Development Goals are still rare themes

Institutional investors struggle to more concretely demonstrate the impact of their responsible investment strategy. The use of the United Nations Sustainable Development Goals, or the 17 priorities for 2030 that include health and poverty reduction, remains rare. They appear almost exclusively in the most engaged investors' reports.

36 MENTIONS OF BIODIVERSITY: 16 times via the ESG criteria grid, 13 times via the formulation of a strategy or commitments, 11 times in connection with a specific investment vehicle, five times via a participation in a collective initiative, four times as a theme of shareholder engagement, five times via amounts invested or projects financed, etc. and four times in general among the risks or major themes that are emerging.

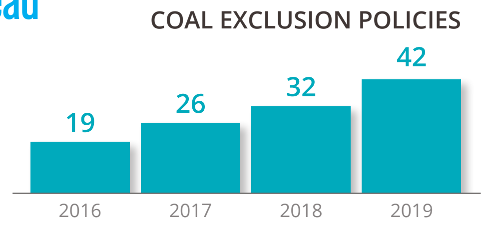
Takeaway

The final season of 173 shades of reporting completes a cycle, opened in 2015 by the Paris Agreement, which has enabled some of the major institutional investors to integrate the concept of climate risks and the importance of investing in green assets for the sound management of their long-term assets. On the other hand, it did not trigger a more global movement. While the COVID-19 crisis highlights the need to move from climate finance based on the Paris Agreement to finance also targeting the SDGs that encompass all ESG dimensions, it is clear that the main French institutional investors are not very prepared for it.

Fossil fuel exclusions: a gradual rallying

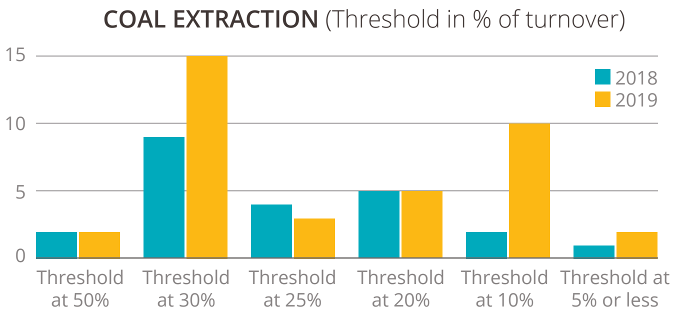
Saying 'no' to coal is becoming more direct and widespread

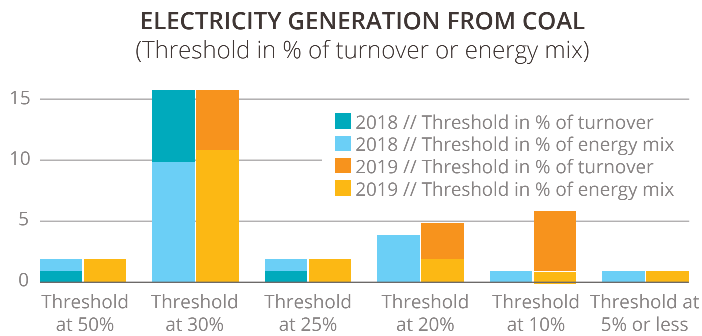
In four years, the number of coal exclusion policies within the panel has more than doubled, but in ways that vary greatly. Half of the investors who have adopted a coal exclusion apply it to their entire stock, while the other half reserve coal exclusions for new investments.



Exclusion lists and threshold raising

Each actor is free to define from what percentage of coal activity it decides to exclude a company, but investors are gradually converging towards the 30% threshold; both for coal mining and its use in electricity generation. Until this year, this was the same threshold applied by the NGO Urgewald for its Global Coal Exit List (GCEL), which is referenced by investors. In line with the GCEL approach, eight investors also use an absolute threshold for extraction (10 to 100 million tonnes extracted per year) and five use a threshold for electricity generation capacity (5 or 10 GW). A dozen investors also say they rely on the "Coal Plant Developers" list for their exclusion policy, which is composed of the 120 companies most involved in the construction of new coal plants.





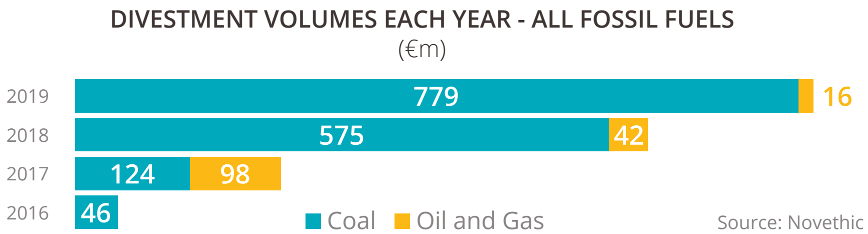
Source: Novethic

Of all the institutional investors combined, a dozen reports already indicate an increase in thresholds from 2020.

Exclusions due to climate incompatibility diversify

10 investors on the panel are expanding their exclusion policy to include fossil fuels other than coal alone; both in direct management (8) and delegated management (2).
Five of these investors specifically target oil sands, along with three other policies aimed at unconventional fossil fuels in general, without providing more details. One investor excludes specialized companies in the oil and gas sector (as defined by stock market indices) as well as majors whose investments are incompatible with a 2°C strategy. A final investor excludes only controversial oil and gas companies.

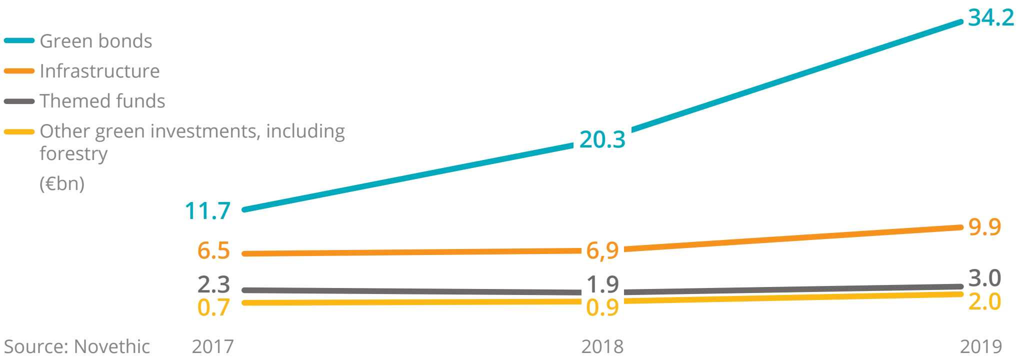
Nearly €800 million in sold brown assets in 2019



Since 2016, more than €1.5 billion of coal-related assets have been sold by investors who have gradually applied fossil fuel exclusion policies, whose thresholds they regularly raise.

Green financing: green bonds retain the lead role

The steady increase in green financing is primarily explained by a significant investment in green bonds, which are close to 1.5% of the panel's assets. The second most important vehicle was infrastructure, which grew by 40% in one year.



Source: Novethic

Source: Novethic

Focus on green bonds: With +€14 billion in 2019, they now account for more than 2% of the panel's bond portfolios on average, or as much as 9% for two investors.
Some combine this approach with their exclusion policies, with one investor declaring that they no longer invest in energy sector bonds unless they are green bonds.

Focus on infrastructure: To identify green infrastructure, investors rely on the Greenfin label taxonomy, whether for direct investments, specialized green funds, or the green share of diversified funds.

The Greenfin label gets the spotlight: AUM invested in Greenfin-labeled funds amounted to **€1.02bn**, compared to €715M last year. This amount is divided between infrastructure funds (68%) and listed funds (32%).

Forests, gaining significance in the "Other" category: Certified forests are an asset class that is growing in importance (approx. €350 million), with standardized criteria yet to be defined but within a sector that has seen its first Greenfin labels emerge. A handful of investors also reported on the amounts invested in "sustainable bonds"; a catch-all category that does not always refer to a taxonomy. Lastly, the "Other" category also includes investments in specialized funds on soil decontamination and the circular economy.

Green real estate still focuses on labels: Nearly €40 billion worth of green real estate was reported by the investors on the panel, even if this designation meets non-standard criteria. The vast majority of investors continue to rely on quantifying labeled buildings. However, a recent statistical analysis by OID (the French Green Building Observatory) - based on the EU Taxonomy - showed that there was no clear correlation between these labels and the comparative energy performance of real estate properties. Therefore, one investor reported that "the EU Taxonomy is much stricter than market practices".

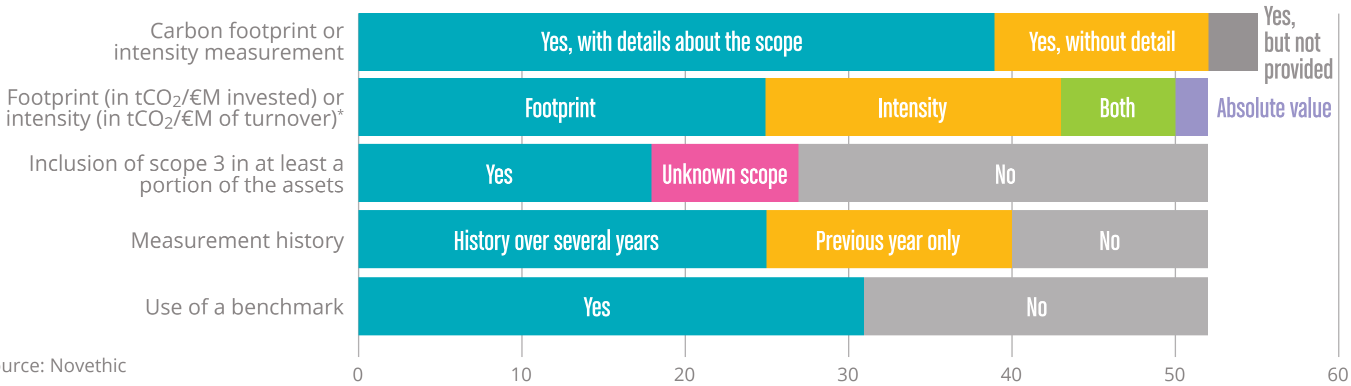
THE EU TAXONOMY WILL SOON INFLUENCE THE CALCULATION OF THE PORTFOLIOS' GREEN SHARE

Around 30 investors continue to measure a green share by identifying the volume of their equity and corporate bond portfolios invested in sectors or technologies related to the energy transition. Some twenty reports point to the upcoming arrival of the EU Taxonomy, and with it the need to refine the current definitions for this green share. Seven investors started the evaluation work primarily by relying on a provider (*I Care & Consult* or *Trucost*). Three investors also conducted a preliminary analysis using different methodologies, and shared lessons learned. NACE sectoral code identification, the application of the 100 gCO_2/kWh "taxonomy threshold" to energy portfolios, and the identification of assets under real estate and infrastructure portfolios aligned with the EU Taxonomy were also used.

From carbon footprint to climate trajectory indicators

The reports published in 2020 make it possible to identify 55 carbon footprint or intensity measurements, seven fewer than last year due to “dropouts” or postponed publication of “Article 173 reports”. After a 4-year exercise, there is no real consensus on which approaches, and metrics, should be given priority. Between footprints expressed in tCO_2/€M invested and intensities expressed in tCO_2/€M turnover or tCO_2/€M GDP for government bonds, the composite description of a French institutional investor’s portfolio carbon footprint remains difficult to determine.

COMPOSITE DESCRIPTION OF CARBON FOOTPRINT OR INTENSITY MEASUREMENTS



Source: Novethic

* Equity and bond portfolios combined. For government bonds, measurements are expressed mainly in carbon intensity (21), well ahead of carbon footprint measurements (4) or double measurements (4).

Portfolios gradually screened with the help of “Science-Based Targets”

Institutional investors are trying to overcome the difficulties in interpreting carbon footprint results by relying on data and lists of companies involved in the «Science-Based Targets» initiative (SBTi)[1]. This framework is a lever for companies to set emission reduction targets that are aligned with climate science; per 1.5°C or 2°C scenarios. The information published by SBTi enables investors to monitor the progress of the major companies involved, and it feeds the “portfolio 2°C alignment” assessment methodologies of several suppliers (see next page).
More than 1000 companies are referenced on SBTi, which distinguishes between those whose objectives are already validated by the SBTi Scientific Committee (almost half have a “target set”) and those who are developing their objectives (“committed”).
23 investors rely on this methodological framework for their Article 173 reports.

SCIENCE BASED TARGETS

Usage Type of SBTi Data and Company Lists	Number of Investors
Portfolio carbon intensity projected trajectory, whether or not translated into implicit warming T°C (See *I Care & Consult*, *ISS ESG*, and *S&P Trucost* methodologies next page)	12
Shading of brown share depending on whether or not companies have a SBT	8
SBTi progress factored in rating grids for issuers	3
Exemption from coal exclusion for companies exhibiting a validated SBT objective	2
In support of a dialogue and shareholder engagement policy	2
Participation in SBTi-FI (ongoing workstream designed to help financial institutions set a SBT adapted to the specificities of issues related to asset portfolios)	2

Two investors also report using data from the Transition Pathway Initiative - led by the London Financial Center - a sector-wide assessment tool for the transition of companies to a low-carbon economy. The former says it is used as part of its shareholder dialogue with an issuer in the oil sector. The latter uses it to study the vulnerability of its portfolio given the transition, and the level of companies preparedness.

[1] Initiative led by the CDP, Global Compact, WRI (World Resources Institute) and WWF

A star is born : portfolio temperature

The most advanced investors are now focusing on modeling emission trajectories across their portfolios. This is one of the reasons for the strong interest for "portfolio temperatures", as extrapolated from these trajectories. Despite methodologies being a work-in-progress, 25 investors (compared to 18 in 2018) disclosed the use of such methodologies, for a total of 30 measures when also taking into account those dedicated to government bond portfolios (six in total) and double measures on the same portfolio using two different methodologies (three cases of this observed). This French popularity of the "Implied Temperature Rise" metric motivated its selection by the TCFD in October 2020 as a "metric for consideration" in a consultation on forward-looking metrics to be disclosed by financial institutions.

In this context of methodological agitation, the French Ministry for the Ecological Transition and WWF France participated in a technical review which was published in July 2020 in a report entitled "The Alignment Cookbook", in partnership with Institut Louis Bachelier and I4CE. Their work is presented in the summary table below.

Portfolios with varying degrees of warming: The complexity of the methodological work leads to extremely varied portfolio temperatures, but it must **be noted that they all exceed the Paris Agreement objective since they range from 2.1 to 4.3°C.**

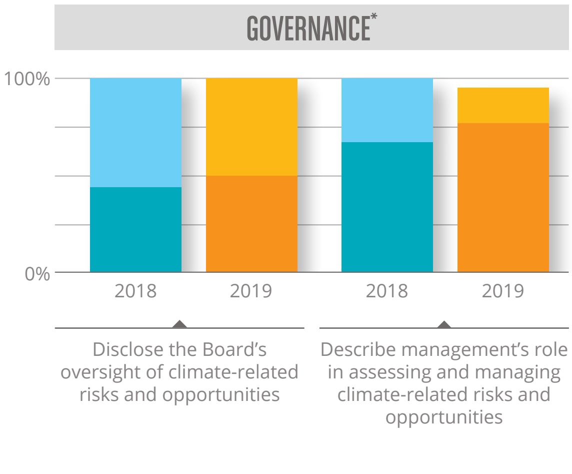
	Provider	Carbone 4	I Care & Consult	ISS ESG	MSCI Carbon Delta (update in progress)	S&P Trucost
	Number of measures	4	5	1	4	6
Step 1: Evaluation of portfolio climate performance	Scope	Scope 1 and 2 + scope 3 emissions for key sectors	Scope 1 and 2 + scope 3 emissions for key sectors	Scope 1 + scope 3 emissions for oil and gas	Scope 1 and 2 + scope 3 emissions for key sectors	Scope 1 and 2 + scope 3 emissions for oil, gas, and automotive sectors
	Consideration of "green" products and services	By modeling avoided emissions	Specific trajectories for "enabling" products & services	No	Indirectly, through low-carbon revenue forecasting	No
	Estimation of forward-looking climate performance of companies	Qualitative score taking into account multiple data points	Combination of emission reduction targets and historical trends	Combination of emission reduction targets and historical trends	Fixed carbon intensity; except low-carbon turnover forecast	Combination of emission reduction targets, historical trends, and asset-level datasets
Step 2: Choice of 2°C scenario	Scenario and associated T°C pathway	IEA ETP[1]	IEA ETP[1]	IEA ETP[1]	CDN and UNEP Emissions Gap Report[2]	IEA ETP[1] and IPCC
Step 3: Deriving micro-level T°C benchmarks	Type of benchmark	Score	Physical intensity[3]	Economic intensity[3]	Economic intensity[3]	Physical and economic intensity[3]
	Allocation[4] of available carbon budget	Sector-agnostic convergence	Company-specific convergence	Company-specific convergence	Sector-specific convergence	Company-specific convergence; overall contraction
Step 4: Alignment and Implied Temperature Assessment	Timescale	Undefined	2010-2050	2018-2050	2030	2012-2025 (5-year projection)
	Type of alignment[5]	As a measure of a point-in-time performance gap	By assessment of the allocated carbon budget over(under)shoot, cumulatively over the period	By assessment of the allocated carbon budget over(under)shoot, cumulatively over the period	As a measure of a point-in-time performance gap	By assessment of the allocated carbon budget over(under)shoot, cumulatively over the period

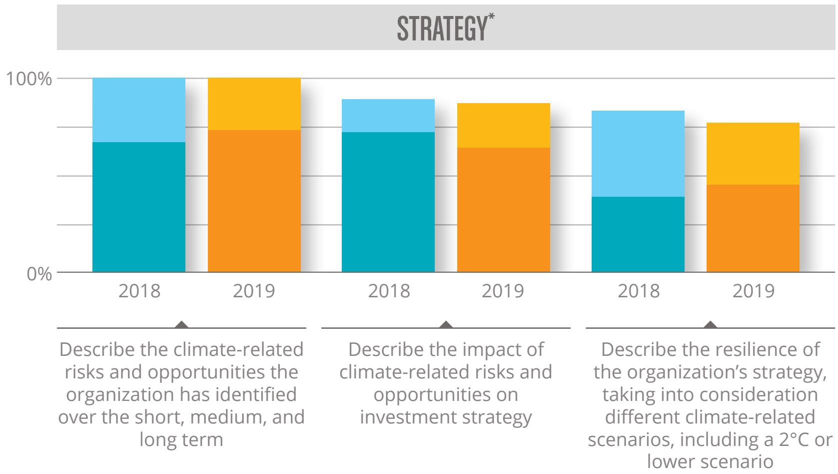
Source: The Alignment Cookbook, Institut Louis Bachelier, July 2020. Adaptation: Novethic

[1] The International Energy Agency's "Energy Technology Perspective" Scenarios.
[2] Nationally Determined Contributions (NDCs) by States under the Paris Agreement and the United Nations Environment Programme report on the gap between 2019 emission reduction needs and prospects.
[3] Physical intensity expressed in tCO_2/unit of production; economic intensity expressed in tCO_2/€M turnover.
[4] By convergence: based on the hypothesis that the carbon intensity of companies operating in the same sector (same unit of production) should converge at a certain time horizon. By contraction: based on the hypothesis that all companies decarbonize and/or expand their green production at the same rate without taking into account their past efforts.
[5] Methodologies can be based on "dynamic alignment" (when comparing the evolution of a portfolio's performance with the expected evolution of its 2°C benchmark over a defined period) or "static alignment" (when measuring the gap between the climate performance of a portfolio and that of its 2°C benchmark at a specific point in time). These cumulated or static gaps can be translated into an implied temperature rise metric, regardless of the approach.

Climate risk analysis under the TCFD framework is being further developed

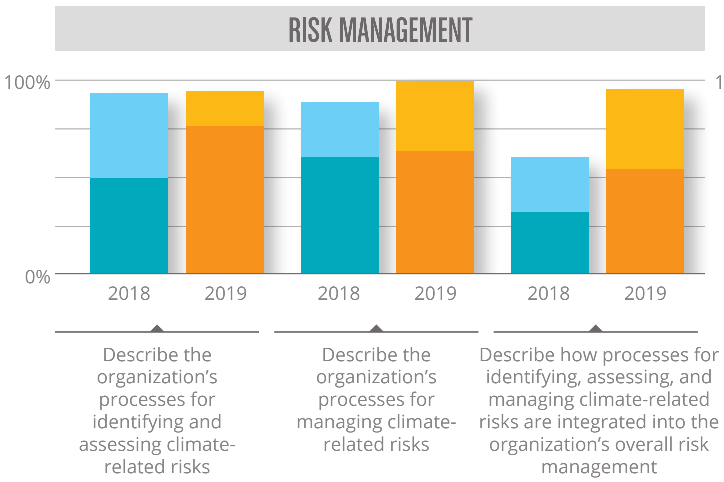
Climate reporting of the most engaged investors is improving as they follow TCFD recommendations. This year, there are 22 investors on the panel to highlight them in their Article 173 reporting exercise, with ten investors even providing a TCFD cross-reference table. From 2018 to 2019, the quality of the information published has progressed on all points, except on strategy description, which is still in its infancy in the new reports included in this sub-panel. The most interesting progress is on the description of the integration of climate risk identification and assessment into an overall risk management strategy, including the implementation of management rules specifically targeting issuers identified as the most at risk in a climate analysis.

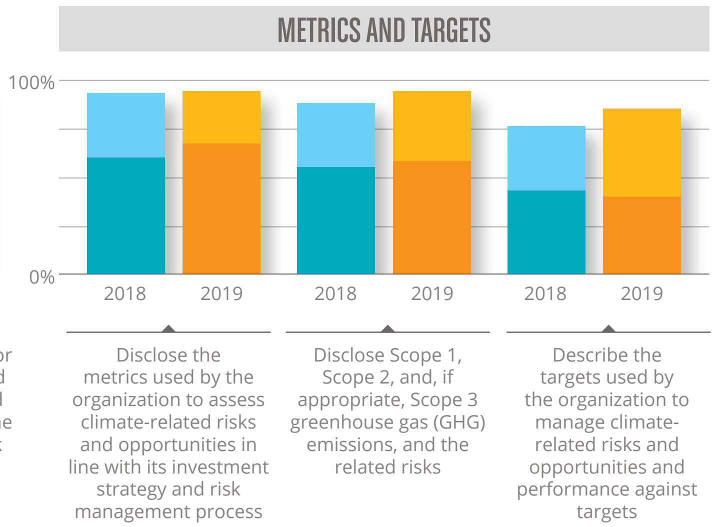




*Pillars on which it is obligatory to report from this year for PRI signatories.

Recommendation followed
Recommendation partially followed





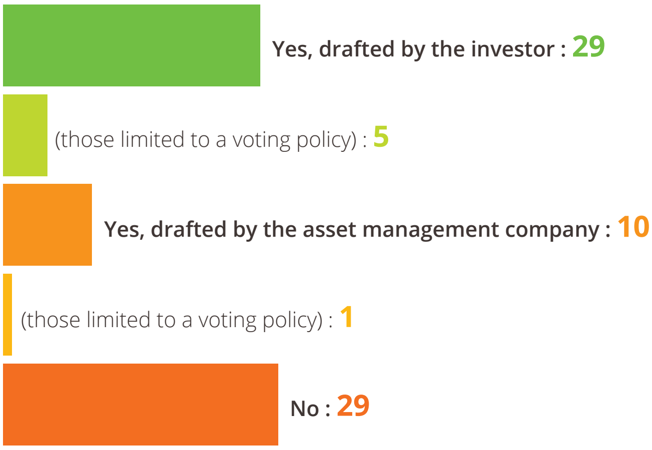
Risk quantification makes a breakthrough

Physical and transition risk analysis methodologies, the results of which are expressed in the form of risk scores, continue to dominate the panel. Nevertheless, among the investors who state that they rely on the TCFD framework, twelve publish a metric for quantifying their exposure to climate risks. It is mainly transition risks that are quantified, either through the impact of a sharp rise in the price of a ton of CO_2 (carbon tax) on the profits of portfolio companies that are not prepared for it (7 measures), or through the modelling of the costs of conversion to a low-carbon model (2 measures). Four investors use a methodology that provides a «value at risk» integrating both physical and transition risks. Two other investors have chosen to use the initial climate stress test scenarios developed by the Banks of England and the Netherlands.

Shareholder engagement: a further effort still required!

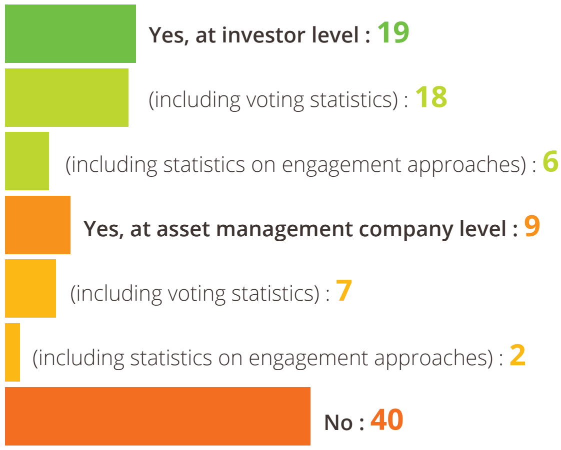
An ESG engagement strategy was one of the elements requested in Article 173 from the outset. The implementing decree specifies that it is a matter of presenting the engagement, and voting policies carried out, as well as the results from implementing these policies. In the case of delegated management, the requirements are similar.
The analysis of the 68 investors who published a so-called "Article 173 report" reveals limited consideration of these transparency obligations, particularly concerning track record.

Engagement policy



Less than a third of the panel comply with transparency obligations on engagement policy. However, the level of detail varies widely, with 18 investors specifying these policies in dedicated documents or pages.
Of the 29 investors who abstain, only 8 state that they have plans to implement a policy and 5 provide an explanation, according to which they generally state that they do not hold any shares directly. However, they do not explain why they do not develop an engagement or voting policy for proxy asset management companies, as provided for in Article 173.

Report on engagement policy



Only 28 investors publish a report on the enforcement of their engagement or voting policy. This report is essentially a summary of statistics on the exercise of voting rights. These statistics generally include a thematic breakdown of opposition votes to resolutions presented at Shareholders' Meetings. However, data on the number of companies subject to more direct dialogue and engagement initiatives are three times rarer.
Only a handful of investors distinguish themselves by presenting case studies on shareholder engagement themes (climate, environment and the integration of ESG criteria into governance).

The PACTE law, adopted in 2019 and applicable from 2020, should boost shareholder engagement in France. It creates a new obligation for insurance, reinsurance, and supplementary pension fund companies to develop and publish a more specific and comprehensive shareholder engagement policy, including dialogue with investee companies, collaboration with other shareholders, communication with relevant stakeholders and conflict of interest prevention and management.

Climate Action 100+

14 institutional investors joined the Climate Action 100+ initiative. Launched in 2017, Climate Action 100+ has allowed itself five years to bring the world's largest emitters to drastically reduce their emissions to comply with the Paris Agreement. A quarter of Total's shareholders joined the initiative which succeeded in reorienting the oil major's energy transition strategy in 2020.

For more information: see the study conducted by Novethic (in French)
Shareholder Engagement: Responsible Investors faced with 2020 General Assembly Dilemmas

CONCLUSION

Clients and beneficiaries are still playing walk-on roles

The drafters of Article 173 hoped that it would usher in a new mode of informing clients and beneficiaries that would clarify the ESG direction of asset management and the environmental and social impact of responsible investment practices. While climate reports have become increasingly technical to meet the expectations of experts, four reporting seasons have not really allowed this client dialogue to take place. Main achievement: the increased marketing of Sustainable Finance Units of Account (UA) in the context of life insurance, although it must also be attributed to the 2019 PACTE law.
It has created an obligation to distribute funds with at least one sustainable finance label (SRI, Greenfin or Finansol) from 2020, and extended the obligation to offer funds with all three labels from 2022. This recent legislation is already having a measurable impact as the total volume of units of account with sustainable characteristics has been multiplied by almost 4 and now represents almost 23 billion euros, of which 22.5 billion euros for SRI funds and 1.2 billion euros for Greenfin labeled funds. This represents more than 6% of the global outstanding amount in Units of Accounts, which amounts to 361 billion euros, at the end of 2019.

UNITS OF ACCOUNT: THE IMPACT OF THE PACTE LAW!

	AuM at 31/12/2019 (€bn)	Net inflows in 2019 (€bn)	Average number of UA referenced at end of 2019	Progression
ISR labeled Units of Account	22.5	2.8	55.6	x 4.5
Greefin labeled Units of Account	1.2	0.5	2.9	x 2.5
Finansol labeled Units of Account	0.7	0.3	3.3	x 2.9
Total volume of UA meeting PACTE law criteria	**22.7***	**2.3***	**56.4**	**x 3.9**

Source: FFA Survey

* Adjusted figures taking into account double labelling

Article 29 of the Energy-Climate Act: a new leading role

Adopted in November 2019, the Energy-Climate Act replaced the 2015 law. It is now Article 29 that institutional investors will have to respect by following the "comply or explain" principle. It states that companies and financial actors "will have to present their green investments and explain how their environmental policy is implemented. They will have to publish information on their website about their policies on the integration of sustainability risks in their investment decision-making processes (risk associated with climate change, biodiversity) and on principal adverse impacts of their investment decisions on sustainability factors". The decree implementing Article 29 should be published no later than 10 March 2021, to take into consideration the timetable and other developments related to the European Action Plan on Sustainable Finance and the "Disclosure" Regulation.

The four seasons of its predecessor, Article 173, foreshadow the limits of this new regulation. The absence of frameworks and methodologies defined by the regulator are likely to maintain the extreme diversity of reporting quality, unless Europe follows the British example. The United Kingdom has just announced that it wants to make TCFD reporting mandatory for companies and investors as early as 2021, while New Zealand expects to do so by 2023.

173 SHADES OF REPORTING

THE FINAL SEASON

A study by Novethic's sustainable finance research team
Led by Nicolas Redon
supervised by Anne-Catherine Husson-Traore
with the contribution of Fabrice Ishimwe,
Julie Nicolas and Juliette Durand.

The Caisse des Dépôts Group's sustainable transformation accelerator. As an expert in sustainable finance, a reference media for the responsible economy, and now an expertise accelerator, Novethic combines approaches to provide financial actors, companies, and their employees with the keys to a sustainable transformation. Research, fund analysis, market statistics...our sustainable finance team strives to strengthen the transparency, reliability, and positive impact of responsible investments and management solutions.

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