COUNTRY EVALUATION | AS OF NOVEMBER 2020

FRANCE

TRANSPARENCY (Dimension)
Common disclosure framework (Sub-dimension)

1. Disclosure on governance

SCORE 8/10

The French regulation regarding disclosure of extra-financial by issuers reporting mainly follows the requirements of the EU Directive 2014/95/EU (Non-financial reporting directive or NFRD). It is integrated into the French Commercial Code and exceeds the minimum requirements by also including unlisted companies with a balance sheet of at least 100 million Euros or a net turnover of at least 40 million Euros; by adopting a more extensive approach in terms of scope of ESG indicators (anti-corruption; food waste; etc.) and by requiring extra-financial information to be published in the management report, within 8 months of the end of the financial year, and available on the company's website for 5 years minimum.

As an addition to the NFRD, the European Commission issued non-binding guidelines (Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01) in June 2019, which will provide further guidance to companies on how to disclose climate change related information, in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) and the climate change related metrics developed under the new EU taxonomy. Based on the TEG's draft report, it divides its recommendations into two types: 1. should consider and 2. may consider. To achieve a non-binding character, the much stricter type "should", proposed by the TEG, was not adopted. Type 1 recommendations on governance include: 1. Describe the role of the board in overseeing climate-related risks, opportunities and impacts. 2. Describe the role of the top management in assessing and managing climate-related risks, opportunities and impacts. Type 2 recommendations include: Describe whether, how and at what levels (in particular board and management) the company has access to expertise on climate-related issues, either from its own internal capacity and/or from external sources.

The French transposition of the Directive imposes to insert in the management report a Declaration de performance extra-financière (Non-financial performance Statement) including climate related information. Thus Article 225-102-1 of the Commercial Code reads: "the declaration comprises in particular information regarding the consequences of climate change on the corporate activities and on the use of the goods and services that it produces..."

In November 2019, the AMF published a report on social and environmental responsibility of listed companies highlighting good practices and useful examples based on a sample of French listed companies to help issuers with the preparation of their non financial performance statement that complies with the provision of the Commercial Code. In its roadmap 2020 on sustainable finance, the AMF set as target to contribute to the definition of a framework of extra-reporting disclosure that will allow improved quality and greater comparison.

The French Treasury and Patrick de Cambourg, president of the national accounting standard setter, submitted a report on corporate extra-financial information, extensively covering climate-related information, to the French Minister of Economy and Finance at the end of June 2019. This report makes proposals for the next European Commission's mandate in order to give the necessary public legitimacy to the principles and standards for drawing up extra-financial reporting, so that it would evolve towards a status comparable to that of financial information.

In 2020, following the European Commission's European Green Deal, the AMF has positioned itself in favor of a revision of the extra-financial directive.

SFDR: In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in the investment decision-making process and insurance advice. European supervisory authorities are currently developing further guidance to the SFRD through regulatory technical standards (RTS), which will cover the content, methodology and presentation of ESG disclosures both at entity level and at product level. The first RTS "on sustainability indicators in relation to adverse impacts on the climate and other environment-related adverse impacts" was to be developed originally by December 2020 but was due to the Covid-19 pandemic postponed to a later stage in 2021.

Furthermore, the article 29 of the Energy-Climate Law voted in November 2019 and that will enter into force by March 2021 requires financial institutions to disclose how the voting rights attached to the financial instruments resulting from these choices are exercised.

2. Disclosure on strategy **SCORE 8/10**

As of november 2020, the Article 173-VI of the 2015 Law of Energy Transition and Green Growth states the requirements in terms of disclosure on strategy. Implemented through Article L. 533-22-1 of French Financial and Monetary Code, it requires "information on how their investment decision-making process takes social, environmental and governance criteria into consideration". The Ministry of Finance and the Ministry of Ecological and Inclusive Transition released a report in June 2019 to take stock of the application of Art. 173, partly based on information collected by AMF and ACPR but also on a qualitative analysis of the reports of the 48 largest financial actors within the scope of Article 173 The reports also lists examples of good practices. . An observatory of disclosure practices is expected to be launched by the Ademe, under the supervision of both ministries, AMF and ACPR, and will publish an annual report on disclosure practices of all actors. All companies are required to follow this regulation. So far, Article 173 has a particular focus on climate change related impacts on business operations. The article introduces a reference to long-term objectives and to the Stratégie Nationale Bas Carbone (Low-Carbon National Strategy).
The Energy-Climate Law voted in November 2019 enacted the transposition of the European Non-Financial Reporting Directive and will enter into force by March 2021. The article 29 of this law will replace the article 173. The French regulation goes beyond the European framework as it also requires disclosure on biodiversity-related criteria and what are the means implemented to contribute to the energy and ecological transition (incl. investment criteria, methodologies…) .

A special focus will be put on ensuring the transparency and the quality of the methodologies applied, as the transparency was considered insufficient in the stock-take report as stated by the AMF 2020 Roadmap on sustainable finance. In March 2020, the AMF for example has issued recommendations on the information to be provided by collective investment schemes integrating extra-financial approaches.

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3. Disclosure on risk management **SCORE 8/10**

Article 224 of the Grenelle II Law of July 10, 2010, had introduced disclosure on ESG risks for financial and non-financial companies (above 500 employees) and had specific requirements for asset managers.

Article 173-VI of the 2015 Law of Energy Transition and Green Growth requires some categories of FIs to publish "information on how their risk management - process takes social, environmental and governance criteria into consideration". The Ministry of Finance and the Ministry of Ecological and Inclusive Transition released a report in July 2019 to take stock of Art. 173 application, based on information collected by AMF and ACPR. An observatory of disclosure practices is expected to be launched by Ademe, under the supervision of both ministries, AMF and ACPR, and will publish an annual report on supervisory practices of all actors.

The article requires some categories of FIs to identify and report on climate change related risks and to integrate findings into the risk management. The disclosure includes qualitative and quantitative aspects.

Best practice from the current implementation of the Article could be used to further specific requirements in order to ensure transparency and comparability in disclosed information.
As of November 2020, financial entities covered by article 173-VI with balance sheets over €500m, and portfolio management companies of assets over €500 millions under management must also disclose information on how ESG criteria - and climate-related ones, especially– are taken into consideration in their risk management policies.

The Energy-Climate Law voted in November 2019 will enter into force by March 2021 and will enhance the regulation on disclosure related to sustainable investments and sustainability risks. The application of the article 29 of the law will lead to an extension of the Article 173-VI to credit institutions and finance and investment companies for their portfolio management activities. France goes beyond the EU legislation and obliges regulated institutions to disclose "information on the risks associated with climate change as well as risks related to biodiversity."

Furthermore, the AMF has issued in March 2020 recommendations on the information related to the consideration of extra-financial criteria that may be communicated by French collective investments and foreign UCITS authorized for marketing in France. This recommendations are applicable since July 2020.

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4. Disclosure on metrics and targets **SCORE 8/10**

Initial disclosure requirements were in place before 2014/2015 with the 2001 Law on New Economic Regulation and the 2010-2012 Law on National Commitment for Environment ("Grenelle II). They helped develop a good track-record at French corporates.

Article 173-VI requires "information on how their investment decision-making process takes social, environmental and governance criteria into consideration and requires specific disclosure on the financial risks related to climate change and measures taken to implement a low-carbon strategy. Entities have to refer to indicative targets that it sets within this framework, specifying how it appreciates the consistency of their investment strategies regarding long term climate goals and the French Low-carbon National Strategy (Stratégie nationale bas-carbone). France is presently in the process of transposing the regulation on disclosure related to sustainable investments and sustainability risks. France will go beyond the EU legislation to keep the mandatory disclosure of transition and physical risks, and alignment on long term climate goals.

Applicable by March 2021, the article 29 of the Energy-Climate Law will require financial institutions and investment firms to specify the "criteria and methodologies used in relation to sustainability risks and impact and how they are applied. as well as how their activities and targets are contributing to national environmental objectives.

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5. Adapt accounting standards **SCORE 3/10**

French GAAP does not yet require accounting on climate change related impacts and does not provide respective guidelines.

However, research is currently being undertaken in France. In 2015, a new accounting model was designed by academics (the model CARE/The triple depreciation line). This model is being currently developed and experimented. In a report published in March 2017 ("Toward a sustainable bio-economy) the French Economic, Social and Environmental Council – CESE recommended to experiment this method in order to assess its potential value. Starting March 2019, the CARE methodology is being tested by 10 companies in the South of France with the MTES (Ministère de la Transition Ecologique) and ADEME (Agence de l'Environnement et de la Maitrise de l'Energie) support.

The research is going on with the setting as of January 1st 2019 of a Research Chair "Environmental Accounting with AgroTech Paris and Paris Dauphine University and the support of the French Association of Chartered Accountants. There is also a public debate emerging among practioners on this issue (e.g. a conference was organized at the French National Assembly on February 7th, 2019 at the initiative of 2 MPs on "Accounting at the service of environmental and social transition).

In addition, in June 2019, the Chairman of the Autorité des Normes Comptables (the French Accounting Standards body) released a report on the design of international standards for non-financial reporting.

6. Accounting for stranded assets risk **SCORE 0/10**

French GAAP does not require accounting for stranded asset risks.

TRANSPARENCY **(Dimension)**

Investors' fiduciary duties (Sub-dimension)

1. Investment evaluation transparency **SCORE 8/10**

The Shareholder Rights Directive II requires institutional investors and asset managers to draw up and publish a Shareholder Engagement Policy. France has translated the Directive into French law in May 2019, with Art 66 of Law PACTE.

The Shareholder Engagement Policy must comply with transparency requirements with respect to ESG and includes information obligations on climate change related aspects. The directive does not exactly specify what information the policy must contain in this context and to which level of granularity.

In its 2017 report on Socially responsible investment (SRI) in collective investment schemes, the AMF identified several good practices in relation to shareholder engagement (e.g. disclosure of asset management companies' votes on resolutions presented during general meetings or disclosure on the content and impact of discussions held with companies in portfolios).

In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. SFDR introduces new transparency and periodic reporting requirements for investment management firms at both product and manager level. The requirements at the product level are of particular importance for this indicator.

Disclosures will also include pre-contractual information on the result of the assessment of likely impacts of sustainability risks on the return of the financial products they advise on. Respective regulatory technical standards (RTS) were to be developed originally by December 2020, but were due to the Covid-19 pandemic postponed to a later stage in 2021.

2. Shareholder responsibility for governance and strategy **SCORE 5/10**

a The Shareholder Rights Directive II outlines the new shareholder‘s responsibility. France has translated the Directive into French law in May 2019, with Art 66 of Law PACTE.

If the concept of long-term shareholder engagement was already defined by the first Shareholder Rights Directive, the new Directive extends the scope of market players subjects to regulation and also defines new responsibilities for them (such as the requirement of establishing an engagement policy)

It refers to the UN Principles for Responsible Investment and outlines the necessity from a shift from short termism to a long-term investment horizon.

3. Asset manager responsibility **SCORE 8/10**

The Shareholder Rights Directive II (SRD II) outlines the duties of asset managers, cover non-financial aspects, and introduces a mid to long-term perspective. France has translated the Directive into French law in May 2019, with Law PACTE.

However, it is not stipulated on which time horizon non-financial aspects have to be taken into account. Climate change related aspects are not outlined in detail.

Pension: Institutions for occupational retirement provision (IORPs): IORP II/ Directive 2016/2341 allows IORPs to take into account the potential long-term impact of investment decisions on climate change related factors. IORP II explicitly states the reflection of climate change related aspects in multiple areas such as risk management, governance, potential member information. France has translated the Directive into French law in May 2019, with art 67 of Law PACTE. . France does not exceed the minimum requirements of the Directive.

In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. SFDR introduces new transparency and periodic reporting requirements for investment management firms at both product and manager level. The requirements at the firm level are of particular importance for this indicator.

4. Executive remuneration policy **SCORE 6/10**

The Shareholder Rights Directive II requires companies to disclose the principles of executive’ remuneration policy and also indicates how the remuneration policy contribute to “the company’s business strategy and long term interests and sustainability. It provides the option but does not require that these aspects form part of the factors to be included in the remuneration. The Directive has come into force in French law in May 2019, in Law PACTE.

France has translated the Shareholder Rights Directive II beyond its minimum requirements in the domain of wage transparency. Thus the PACTE Law makes compulsory for listed companies the yearly publication of a fairness ratio which measures the gap between executive compensations and employees’ average and median wage

In addition, the future EU regulation on sustainability disclosure will require financial market participants to disclose the consistency between their remuneration policy and the integration of ESG risks into their investment decision process

The new Sustainable Finance Disclosure Regulation (SFDR) requires financial market participants and financial advisors to include in their remuneration policies "information on how those policies are consistent with the integration of sustainability risks" (SFDR; Art. 5). They shall also publish that information on their websites.

5. Climate change-related risk management **SCORE 7/10**

Pension: IORP II makes climate change related risk assessment mandatory for pension funds and related products. The implementation of IORP II has been in place since May 2019.. Insurance: Solvency II: Requires insurers to take future developments into account including new business plans or the possibility of catastrophic events which might affect their financial standing. The Own Risk and Solvency Assessment (ORSA) is a new tool designed to assist with this. However, it does not outline climate change related factors explicitly. The Solvency II Directive has been integrated into French law since 2015.

Asset managers: Article 173-IV of the 2015 Law of Energy Transition and Green Growth requires asset managers to disclose their policy regarding the incorporation of ESG criteria in their risk policy using a "comply or explain" approach. The article 29 of the Energy-Climate Law will further define the requirements for transition and physical climate risks as well as risks resulting from changes in biodiversity.

Institutions falling under the SFDR: In November 2019 the EU adopted the Regulation (EU) 2019/2088 on sustainability-related disclosure in the financial sector (SFDR), which will come into effect in March 2021. The SFDR requires financial market participants and financial advisors to disclose policies on the integration of sustainability risks in investment decision-making process and in insurance advice. These policies shall be published on their websites. Moreover, financial market participants shall include descriptions of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available.

TRANSPARENCY **(Dimension)**
Consumer transparency (Sub-dimension)

1. Packaged Retail and Insurance-based Investment Products (PRIIPs) **SCORE 4/10**

Under the new EU Regulation on PRIPPS, French consumers receive information on financial products through the key information document (KID). Climate change is (if at all) an implicit consideration in this document. Regulation for specified Sustainable Funds requires the disclosure of an ESG policy.

AMF is in charge of ensuring the conformity of commercial documentation for ESG funds and of the readability of ESG information for investors. A targeted approach for each fund is favored to ensure a clear and non-misleading information is provided to retail investors in order to prevent general ESG communication from being mis-used for all funds.

In its 2017 SRI report, AMF has published good practices regarding the marketing of sustainable funds to retail investors and invited asset managers to be more educational in their communication with non-professional investors. It also noted that a growing number of asset managers explain the impact of ESG methodology in their marketing material for investors. AMF also made specific recommendations regarding investment funds based on climate-related indexes. In July 2019, a report provided examples of good practices following a series of short on-site inspections conducted in late 2018/early 2019 and focusing on responsible investment. In November 2019, AMF published a report that provides further analysis on responsible investment and is expected to provide additional guidance regarding the quality of the information provided by investment funds.

2. Investment advisor duties **SCORE 4/10**

In 2003, AMF introduced the status of Financial Investment Advisor" in order to enhance investor protection through a better regulation and supervision of these players in financial product distribution.

A FIA delivers investment advice which is defined as providing personalized recommendations to third parties, either at their request or at the initiative of the company providing the advice, concerning one or several transactions in financial instruments or one or more of the units mentioned at Article L.229-7 of the Environment Code". Following the entry into force of MIF2, the regime now includes a number of rules similar to those applying to service providers.

AMF has reinforced its professional certification process, mandatory for investment services providers, , integrating further topics around sustainable finance, extra-financial information, green finance, climate risks, low-carbon indices and labels.

3. Retail fund transparency incl. labels **SCORE 8/10**

According to article 29 of the Energy-Climate Law, listed UCITs must disclose information regarding the nature of ESG criteria used, the ESG analysis methodology and results, and the way they are incorporated into the investment process. The information can be disclosed for each UCI or by a group of UCIs according to their typology.

In May 2018, the Commission published its proposal to amend the benchmark regulation,

in accordance with the Action Plan on Financing Sustainable Growth. In July 2020 the EC adopted new rules setting out minimum technical requirements of the methodology of EU climate benchmarks. Benchmark administrators now must describe how ESG factors are reflected in each benchmark (and its methodology) they provide and publish them.

However, information is in practice not tailored for final retail clients. Regarding smaller funds, the assessment could not identify any relevant regulation that requires retail funds to disclose ESG or climate change related information.

In September 2019, the AMF conducted a qualitative study of consumers to review investors' perceptions of the interest, clarity and usefulness of the documents provided by investment funds marketed as "responsible or "SRI , to evaluate their information needs and the levers for a better understanding of SRI products.

Before that, in its 2017 SRI report, AMF has made several recommendations regarding the marketing of SRI funds (e.g. to publish a document modelled on the European Transparency Code or to adhere to a charter, code or label governing ESG criteria). It also recommended that sustainable funds marketed to retail investors take steps to obtain the public ISR (SRI) label to avoid confusion for retail customers.

More recently, AMF has updated its policy on the marketing of complex financial instruments to take into consideration the development of ESG-themes and has issued a guide on carbon offsetting for collective investment schemes which includes recommendations on disclosure toward investors.

AMF is expected to issue a report by the end of the year that might provide further views on its supervisory expectations regarding the extra-financial information provided by the funds.

In France, two public labels have the aim of certifying sustainable financial products.

In 2015, the Ministry of the Environment, Energy and Marine Affairs created the Energy and Ecological Transition for the Climate (TEEC) Label to guarantee quality and transparency of certified fund relative to their contribution to funding the energy and ecological transition. It has three main objectives: highlight investment funds that finance the green economy; encourage the creation of new green funds; and favor company reporting on the green share of their activities.

The funds can only finance dark green activities that are listed by the Ministry and are impact-oriented. The label certifies the existence of an ESG approach, but is not climate-specific. The label evolved in June 2019 to become the Greenfin label.

Initially used in the private sector, the ISR label (Socially Responsible Investment label) was introduced by the Ministry of Finance and has the goal to increase the visibility of ISR products among savers in France and Europe.

Retail investors do not commonly use both labels; however, a common communication platform is under development to help promote and articulate these two labels.

With the enforcement of the PACTE legislation, a presentation in the annual information should be sent to life insurance subscribers of the environmental and social impact integration policy in the management of the euro fund of the contract, as well as amounts invested in labeled funds.

4. Green products standards **SCORE 5/10**

Also, with the PACTE legislation, insurers will have, from 2020, an obligation to offer in all life-insurance unit-linked contracts products that are labelled either ISR or Greenfin. From 2022, they should offer both products, along with a third, “inclusive and social economy label (Finansol label). To improve coherence between financial actors, AMF has asked to be an observing member of both label committees..

1. Awareness creation to climate change related risk incl. systemic risk

SCORE 8/10

All regulatory and supervisory bodies (AMF, ACPR, BdF and DGTrésor) have acknowledged a growing awareness to climate risks' importance since COP 21, the introduction of Article 173 and the first Climate Finance Day. This awareness has translated in climate risks becoming a supervisory priority for AMF, ACPR and Banque de France, DG Trésor, to internal re-organization, with the opening of supplementary specific positions, the development of supplementary expertise and the participation to many national, European and international working groups. Banque de France's governor has made several speeches to raise awareness on climate issues and climate risks within the French and international financial communities. Banque de France and ACPR, along with seven other central banks / supervisors have launched the NGFS (December 2017) and have been very active participation in the different workstreams of the NGFS; moreover, Banque de France provides the secretariat of the NGFS (7 staff involved) which also testifies the importance of climate issues for Banque de France.

Following its 2017 SRI report which provided a first assessment of the Article 173 implementation by asset managers as well as recommendations and good practices, AMF published in November 2018 its "Roadmap for sustainable finance" stressing the importance of climate change for companies, investors and financial markets as a whole and highlighting the role of the regulator. As mentioned above, AMF will release two new reports respectively on sustainable investments and on corporate social responsibility. At the international level, AMF is a member of the steering group of the IOSCO Sustainable Finance Network launch in late 2018, and a member of the ESMA's Coordination Network on Sustainability.

Since the PACTE legislation, the AMF mandate has been expanded to include a specific mission related to climate change. AMF ensures the quality of the information provided by asset managers for the management of collective investment regarding their investing strategy and risk management related to climate change. In July 2019, the AMF launched a Climate and Sustainable Finance Commission, which gathers professionals and independent experts to contribute to AMF's missions regarding climate and sustainable finance issues. The Commission will work in close coordination with the ACPR's Commission (see above) with regard to the monitoring and assessment of the climate-related commitments of the French financial sector.

An internal training plan is in place within the AMF on climate, ESG and SRI issues and a dedicated Task Force, involving most directorates of the AMF, is in place. This evolution is in line with the future evolution of European agencies' mandates after the Commission Action Plan for Sustainable Finance.

2. Provision of data, standard scenarios and methods: **SCORE 6/10**

The first statement of Banque de France on climate risk as a systemic threat appeared in the Governor's speech in November 2015, and was confirmed by his speech of April 2018, Green Finance – A New Frontier for the 21st Century. In this speech, he explains the potential macroprudential effects of climate risks.

In the 2015 law on Transition, article 173-V requires supervisors to work on the implementation of climate stress-tests.

Moreover, Banque de France is actively engaged in the NGFS workstream dealing with macroprudential risks. Some initial internal research has been conducted since March 2018 at the ACPR and at the Banque de France's Financial Stability Department, in particular to integrate climate change in macroeconomic models and develop climate stress tests for banks. Workshops with external experts are being carried out to explore relevant transition narratives for stress testing banks and insurance.

The Ministry of Finance, with contributions from Banque de France and ACPR, has published a report on the exposure of French banks to climate risks in 2017. ACPR has published a note in June 2018 on the exposure of insurers to climate-risks. The ACPR has continued to engage with banks and insurance on climate-related risks and has been deeply involved with Banque de France in the NGFS workstreams. Two reports came out in April 2019 on climate risks for banks and insurance companies, and ACPR took stock of the positive evolution of climate risks integration. ACPR recommends to go further in this integration, and to adapt the governance bodies. As a follow-up to these reports, two task forces with banks representative respectively related to the governance of climate-change risks and scenario analysis were set up. Similar task forces were set up with insurance representatives. In October 2019, the ACPR launched a Climate and Sustainable Finance Commission, with professionals and independent experts, to advise the ACPR on sustainable finance matters and to follow-up on banks' commitments on climate-related actions. Future perspectives: in parallel with the NGFS works and publications, Banque de France and ACPR are very likely to evolve towards more recommendations in terms of methodology to assess climate risks.

The ACPR is also running a pilot project on the assessment of financial institutions' exposure to climate risks. Results are expected in the beginning of 2021.

DG Trésor and Banque de France also contributes to many other projects related to climate risks, but not specifically on systemic risks. At this stage, AMF has focused its efforts on supervision rather than on research.

1. Requirements for bank governance/strategy **SCORE 6/10**

Within its July 2018 questionnaire to banks, ACPR had a question on the board‘s implication towards climate issues and the global climate strategy of the bank. There is no specific regulation on this issue but ACPR is engaging with banks rather to measure how practices have recently evolved in order to prepare a new public report after the 2017 one. This report came out in April 2019 and highlights gaps in banks' governance bodies. On this basis, ACPR decided to create a working group [launched in April] with banks in order to identify best practices. Within this group, governance issues will be tackled in order to determine how key bodies should be informed on climate risks, how to strategically roll out a strategy and define key indicators.

Regarding strategy, DG Trésor has put in place in July 2019 a framework to track the commitments taken by French financial actors in the past few years, in particular regarding divestment of fossil activities. In addition, following the Minister's commitment at the 2018 Paris Climate Finance Day, the representatives of the financial sector published a statement on July 2nd 2019 with strengthened commitments toward firms engaged in the coal sector notably in terms of shareholder engagement. The Ministry of Economy and Finance will be reconvening by mid-2020 with financial actors, in order to assess their divestment strategies from coal.

In July 2019, the ACPR announced the inception of a Climate and Sustainable Finance Commission, with professionals and independent experts, to advise the ACPR on sustainable finance matters and to follow-up on banks' commitments on climate-related actions. The Commission was launched in October 2019.

France is presently in the process of transposing the regulation on disclosure related to sustainable investments and sustainability risks. This transposition will lead to an extension of the Article 173-VI to credit institutions and finance and investment companies for their portfolio management activities. France will go beyond the EU legislation to keep the mandatory disclosure of transition and physical climate risks and will extend it to biodiversity risks.

2. Minimum requirements for bank risk management **SCORE 6/10**

Banque de France/ACPR acknowledge that climate-related risks are a source of financial risk. It is therefore within the mandates of Central Banks and Supervisors to ensure the financial system is resilient to these risks.

Integration in banks‘ minimum capital requirements and formal guidance to explain how the integration should work do not exist. ACPR and Banque de France both indicated that they were waiting for European evolutions on this matter since the banking prudential regulation is strictly harmonized at the European level.

However, the discussion carried out by ACPR with banks that have resulted in the publication of a report in April 2019 and the launch of working groups with banks is a way for the French supervisor, in the absence of regulation, to provide soft recommendation to banks on the way climate related risks should be better addressed.

3. Bank stress tests **SCORE 6/10**

The ACPR is running a pilot project on the assessment of financial institutions' exposure to climate risks. Results are expected in the beginning of 2021.

However, since 2015 Article 173-V has been requiring supervisors to work on the implementation of climate stress tests, and Francois Villeroy de Galhau announced in 2018 Banque de France's will to "develop forward-looking carbon stress tests for both insurance companies and banks". Banque de France and ACPR are working together to develop narratives to select the scenarios to be used to carry out these tests. Current mandatory stress tests are conducted with a 3 years horizon, but the ACPR indicates that their aim is to expand further this horizon for climate-related risks.

4. Bank capital requirements **SCORE 4/10**

With current EU CRD/CRR regulation there is no specific treatment of either "green" or "brown" assets. A long-term perspective is not encouraged.

Several research projects are underway: Banque de France will participate in future NGFS works on the characteristics of green and brown assets in terms of default probabilities, and ADEME has launched a research project on the probabilities of loan default in third party financing for energy renovation.

SYSTEM STABILITY (Dimension)

Regulation/Supervision of insurance companies (Sub-dimension)

1. Requirements for insurance governance/strategy **SCORE 5/10**

Solvency II and the transposition decree n° 2015-513, Art. R. 352-18 refer to the required governance including an adequate and effective risk management system.

There is no detailed definition and thus no explicit reference to the scope of risks or specific reference to climate change related risks; however, this very general definition should lead insurance companies to integrate climate-related risks as long as they are deemed material to the company. There is no specific guidance for an appropriate long-term perspective. However, France with other countries are pressing the European Commission to obtain an amendment to the implementation text of the Solvency directive to alleviate the existing constraints on long term insurance investments in order to incite them to invest in long term projects (this would create a new class of stocks held in the long term with reduced capital requirement so as to facilitate the investment of insurance companies in European).

The ACPR 2018 questionnaire towards insurance companies includes 33 questions but none on the involvement of corporate governance bodies in addressing climate risks. The questionnaire only features the integration of climate issues in operational, risks and CSR departments. However, ACPR did question insurance companies on governance during bilateral interviews.
Based on these questionnaire and interviews, ACPR has published a report on insurance practices. In this report, ACPR highlights gaps in governance bodies which is a soft way to raise awareness of insurance companies on this issue.

Two working groups have been established in May 2019 with the insurance industry to deal with the governance of climate-related risks and the design of scenarios.

Regarding governance, DG Trésor has put in place in July 2019 a framework to track the commitments taken by French financial actors in the past few years, in particular regarding divestment of fossil activities. In addition, following the Minister's commitment at the 2018 Paris Climate Finance Day, the representatives of the financial sector have published a statement on July 2nd, 2019 with strengthened commitments toward firms engaged in the coal sector notably in terms of shareholder engagement

The Ministry of Economy and Finance will be reconvening by mid-2020 with financial actors, in order to assess their divestment strategies from coal.

2. Minimum requirements for insurance risk management **SCORE 5/10**

Based on Solvency II, the transposition decree 2015-513 takes a comprehensive approach that all actual or potential risk exposure of insurers that is material needs to be covered. This does implicitly include climate change related risk while not explicitly mentioning it nor giving guidance on methodology how to include it in insurance risk management and risk metrics. ACPR indicates that climate risks could be integrated in internal models of insurance companies, as the regulation allows it. However, so far it has not been done.

The report published by the ACPR on the climate-related risks of insurance has provided insights on the various ways for insurance companies of assessing climate-related risks.

As for banks, two working groups have been established with the industry to deal with the governance of climate-related risks and the design of scenarios.

3. Insurance company stress-tests **SCORE 6/10**

Supervisors according to the EIOPA rulebook can request stress tests in insurance companies.

Based on decree 2015-513, ACPR comprehensive risk approach, it is an option to include material climate related risks even though there is no explicit documentation available. So far, no climate related risks stress test has been conducted.

Francois Villeroy de Galhau announced in 2018 that Banque de France would develop forward-looking carbon stress tests for both insurance companies and banks. Banque de France, within the NGFS is also working on how to integrate climate risks within stress tests. Some initial works have started within insurance companies specialized in agriculture.

The ACPR is also running a pilot project on the assessment of financial institutions' exposure to climate risks. Results are expected in the beginning of 2021.

5. Insurance capital requirements **SCORE 4/10**

Solvency II and Decree 2015-513 take a comprehensive risk perspective. There is currently neither an explicit reference to brown or green assets in Solvency II nor Delegated Regulation 2015/35/EU. A long-term perspective is not encouraged.

However, France with other countries are pressing the European Commission to obtain an amendment to the implementation text of the Solvency directive to alleviate the existing constraints on long term insurance investments in order to incite them to invest in long term projects.

1. Requirements for governance **SCORE 6/10**

Asset management companies managing more than 500 million euros of assets are subject to Article 173-VI and should report on climate-related risks. In 2018, in the context of the report issued by the Ministry of Finance, the Ministry of Ecological and Inclusive Transition, ACPR and AMF released a report in July 2019 to take stock of Art. 173 application. The AMF ensured that all the asset management companies subject to this obligation published the report provided for in the Monetary and Financial Code at asset manager level.

So far, the AMF has focused its efforts on the supervision of funds presenting extra-financial characteristics, including notably SRI and climate funds, to ensure the proportionality between the communication on the extra-financial characteristics described and their effectiveness. This work included short thematic on-site inspections at 5 asset managers focusing on SRI policy, and the publication of a report on the stock-take of this controls and good practices to put in place.

In July 2019, the AMF launched a Climate and Sustainable Finance Commission, with professionals and independent experts, to contribute to AMF's missions regarding climate issues.

DG Trésor has put in place in July 2019 a framework to track the commitments taken by French financial actors in the past few years, in particular regarding divestment of fossil activities. In addition, following the Minister's commitment at the 2018 Paris Climate Finance Day, the representatives of the financial sector have published a statement on July 2nd, 2019 with strengthened commitments toward firms engaged in the coal sector notably in terms of shareholder engagement.

2. Requirements for risk management **SCORE 5/10**

Asset management companies managing more than 500 million euros of assets are subject to Article 173-VI and should report on climate-related risks. In 2018, in the context of the report issued by Ministry of Finance, Ministry of Ecological and Inclusive Transition, ACPR and AMF released a report in July 2019 to take stock of Art. 173 application. The AMF ensured that all the asset management companies subject to this obligation published the report provided for in the Monetary and Financial Code at asset manager level.

Regarding risk management, there is no specific requirement regarding the integration of ESG risks by asset managers. General rules require asset managers to establish an appropriate risk management policy in order to assess for each fund the fund's exposition to market, liquidity or counterparty as well as any other risk, which could be material for the fund managed. Article 173 requires asset managers to disclose their policy regarding the incorporation of ESG criteria in their risk policy using a "comply or explain" approach.

SYSTEM STABILITY **(Dimension)**
Regulation/Supervision of rating agencies (Sub-dimension)

1. Requirements for organisation and risk management include ESG/climate risks and a long-term perspective **SCORE N/A**

Supervision at EU level (ESMA). Not relevant at the national level.

ENABLING ENVIRONMENT **(Dimension)**
Common green taxonomy (Sub-dimension)

1. Common green taxonomy **SCORE 9/10**

The Taxonomy Regulation establishes the EU Taxonomy at the EU level. Due to the nature of regulations, the EU Taxonomy is directly applicable in the Netherlands. Technical screening criteria for most carbon-heavy sectors will be introduced through Delegated Acts by the end of the year. Before the introduction of the EU Taxonomy, France has developed its own taxonomy for green activities. This taxonomy is the basis of the label GreenFin, designed for green funds, with a college of experts in charge of its evolution. This taxonomy has also served for defining the French sovereign green bonds. France has been highly involved in negotiation the Taxonomy regulation at European level, based on the French experience, notably with the development of private and public labels using such types of classifications of environmentally sustainable activities.

ENABLING ENVIRONMENT **(Dimension)**
Clear transition pathway (Sub-dimension)

1. Provision of a clear transition pathway **SCORE 7/10**

With its 2015 Law of Energy Transition and Green Growth and 2019 Energy-Climate Law, France is stating its ambition to become carbon neutral by 2050 and the contribution of the private sector in aligning the French economy with the Paris agreement.

ENABLING ENVIRONMENT **(Dimension)**
Supporting green finance with public incentives (Sub-dimension)

1. Risk reduction support for green finance **SCORE 7/10**

France has developed several financial instruments in support of sustainable investments. Those instruments are deployed by 4 institutions: Caisse des Dépots, BPIFrance, Ademe and AFD for overseas departments, under two mains financing programmes: Plan d'investissement d'Avenir (PIA) and Grand Plan d'Investissement (GPI).

The 3rd phase of the PIA has given priority to the transition and thus increased the share of financing in favor of low-carbon transition; as of October 2018, the total amount devoted to transition in the PIA amounted to 7 bn€. This amount represents 60% of the total PIA.

For all projects, environmental criteria is taken into account, in an ex-ante evaluation.

Financing instruments include loans, guarantees, shareholdings, grants, technical supports. Caisse des Dépots and BPI France announced in November 2018 their aim to deploy 16 billion euros by 2020.

Instruments includes for example the French heat fund (Fonds Chaleur), Certificats d'Economie d'Energies (for energy efficiency for households and companies) and the home improvement grants from the French Housing Agency (ANAH), provided for heat retrofitting and energy efficiency works. Further sector-specific instruments are in place for, inter alia, aeronautics, agribusiness, automotive, biotechnology, eco-technology, and eco-services.

2. Government incentives for green finance **SCORE 7/10**

Several subsidies targeted towards the retrofitting of house units are in place, e.g.: green loans with subsidized interest rates and fees (Eco-PTZ) or the Energy Transition Tax Credit program (CITE) which is granted to investments that improve the environmental performance of existing buildings. Furthermore, tax incentives for buying renewable energy installations such as solar photovoltaic or renewable heating installations are granted.

The French government generally pursues a push & pull approach with its investment subsidies.

ENABLING ENVIRONMENT (Dimension)

2-Degree Consistency of Public sector acting (Sub-dimension)

1. Government investment strategy **SCORE 8/10**

The Banque Publique d'Investissement, Caisse des Dépots and AFD have a specific mandate to align financing activities with a 2 degree trajectory.

All large public investment institutions have committed to a 2-degree aligned investment strategy : a Charter of public investors was signed in 2017 by the AFD, Caisse des Dépots, BpiFrance, the FRR and ERAFP. The main commitments are the integration of climate issues within investment process, an increased participation to financing low-carbon transition, shareholder commitment and climate disclosure.

BpiFrance, French Agency of State shareholdings, Caisse des Dépots, Ircantech, ERAFP and FRR signed a new Charter to commit to use the ACT tool, created by the Ademe and CDP. The main impacts of this Charter for public investors are the assessment of the adequacy between their investment strategy and a 2 degree trajectory and encouraging companies they invest in to align on a 2 degree trajectory.

2. Government agencies issue Green Bonds **SCORE 9/10**

French green bond issuance commenced in 2012, when three local government entities issued the first green bonds to fund green projects (e.g. green buildings, renewable energy and low-carbon transport). Since then, France has grown its Green Bond market significantly. Within France the French State leads the list of the largest issuers. On 24 January 2017, Agence France Trésor launched the first French sovereign green bond, the Green OAT 1.75% 25 June 2039 for an issuance amount of €7bn. France has committed to provide three reports to investors: an annual report on allocation, an annual report on performance indicators and a report on ex post impacts at an appropriate frequency. The ex-post impact reporting is reviewed by an independent Council.

In early September 2019, the green OAT amounts to €20.7bn, thanks to several re-taps since the first issuance, in order to meet the market demand, which makes it the world's largest sovereign green bond. In global context France is the third largest issuer of green bonds after the US and China

In global context France is the third largest issuer of green bonds after the US and China. France projects an even higher amount to be issued in 2019 as it has been in 2018.

3. Green public financial institution **SCORE 6/10**

In France there is no special green financial institution. However, all development banks and public agencies provide climate change related finance.

Coming from the Zaouati/Canfin report, a "one stop shop" plateform called France Transition Ecologique was launched in May 2019, to gather all green financial services under one platform.

4.Central banks disclosure on climate-related risks **SCORE 6/10**

In March 2018, the Banque de France was the 1st central bank to publish a Responsible Investment Charter which covers the management of assets for which it has the full and sole responsibility, i.e. own funds and pension liabilities investment portfolios. In March 2019, it issued its first Responsible Investment report (based on the article 173-VI of the LTCEV and the TCFD recommendations) on the Charter perimeter.

This report provides information on the responsible investment strategy and governance, and data regarding several metrics: carbon footprint (scope 1and 2 and partially scope 3) and carbon intensity; portfolio alignment with a 2°C pathway (two indicators based on the Science Based Target initiative and the Greenhouse gas emissions per unit of value added); contribution to the funding of the transition (shares of "green activities) and climate related risks (exposures to physical and transition risks).

ENABLING ENVIRONMENT (Dimension)

Public capacity building and awareness raising on green finance (Sub-dimension)

1. Consumer education on green finance **SCORE 8/10**

Consumer education is more or less integrated depending on the level, there are major gaps in professional education and schools. However, in academic and universities sphere, there is a lot of initiatives as the Energy and Prosperity Chair, the works of Institut Louis Bachelier, and several research prizes (as French-SIF prize, and Banque de France prize). A cartography of all the research institutions in sustainable finance has been issued by Finance for Tomorrow in 2018.

Regarding consumer education, AMF had several initiatives aiming at improving retail investors' knowledge and understanding of sustainable products.. In addition, AFD and I4CE have both issued MOOCs and AMF published videos for consumer education.

2. Curriculae on green finance (schools, universities, general public education) **SCORE 5/10**

One of the nine work groups of the public-private initiative Finance for Tomorrow“ is currently developing ideas for educational programmes and courses on sustainable finance. The educational programmes will be targeted at students and professionals. Sustainable finance is already part of several specialized programmes such as MSc in Responsible Finance and MSc in Corporate and Sustainable Finance. Finance for tomorrow has already developed a master programme on sustainable finance in partnership with Neoma Business School. A mandatory inclusion in all curricula is in discussion at the National Assembly.

ENABLING ENVIRONMENT **(Dimension)**
Green public-private initiatives of financial centres (Sub-dimension)

1. Green public-private initiatives of financial centres: **SCORE 7/10**

Finance for Tomorrow acts as a collaborative initiative between the financial industry, public players (particularly the Ministry of finance, but also Ministry of Ecological and Inclusive Transition, AFD, Banque de France and Caisse des Dépots), academics and civil society (think tanks and NGOs). The initiative aims to promote sustainable finance in France and internationally.
Nine working groups involving financial actors, public authorities, think tanks and academia are developing ways to redirect investment flows towards a low-carbon, inclusive economic model. Activities include work on climate risks, research to drive innovation, efforts to promote research on sustainable finance, identifying and removing policy barriers to sustainable finance and developing educational programmes.
Each year, Finance for tomorrow organizes the Climate Finance Day, an international and high-level event that gathers more than 600 people.

On July 2nd 2019, following the Minister's commitment at the 2018 Paris Climate Finance Day, the representatives of the financial sector published a statement with strengthened commitments toward firms engaged in the coal sector notably in terms of shareholder engagement. The Ministry of Economy and Finance will be reconvening by mid-2020 with financial actors, in order to assess their divestment strategies from coal.

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

As of November 2020
Note for interpreting this evaluation : Given current state of methodology development, data availabilities and market experiences, the ideal total score (10) might not be realistically achievable in some categories today, best practices today score significantly lower.