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New French climate legislation and relevance for Swiss asset managers

"How new soft and hard law requirements challenge the financial sector"

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Swiss Sustainable Finance

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COP21 participants reached a landmark agreement...

All countries must communicate or renew their INDCs **every 5 years**. In addition, progress on the implementation of their INDCs must be monitored.

Technology and funds **(~$100 bn per year starting from 2020**) will be transferred from the North to the South.

Funding and innovation will be key issues in the agreement

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…Backed by the private financial sector, including Swiss asset managers

NAZCA & LPAA platforms gathered all private sector engagements before, during and after COP21.

Investors played an important role, with **877 individual and collective commitments by 425 investors** (banks, insurance, etc.).

France and Switzerland were **key players** with respectively **61 and 33 commitments**.

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Investor initiatives have included carbon footprinting, disclosure and reduction

Climate Change Reporting as a Fiduciary Duty

Annual carbon footprinting and disclosure

Carbon footprinting and reduction targets

However, further steps must be taken by investors in order to align with climate goals

Out of 33 Swiss commitments, **24 concerned individual commitments to reduce operational CO_2 footprint**.

No individual commitment to measure, disclose or reduce **portfolio CO_2 footprint**.

No individual commitment to invest more heavily in **green and carbon neutral industries** or divest from fossil fuels.

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In terms of policy-making, hard law must complete soft law initiatives

Voluntary ‘soft law’ initiatives enable high visibility for pioneers and best practices.

Yet, voluntary initiatives are not sufficient to mobilize a substantial share of the investment market.

Soft law must therefore be completed by laws with an immediate impact on investors.

In this regard, extra-financial reporting is a key tool as it is a lever for transparency and accountability among investors and by extent in the whole economy.

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The French Ministry of Ecology took 2 major soft and hard law initiatives to align financial actors with climate change

Implementation of the **'Energy transition law to support green growth'**, including mandatory climate reporting for institutional investors

Creation of a public label for the financial sector: **the 'Energy and ecology transition for the climate' label**

Label
TRANSITION ÉNERGÉTIQUE
ET ÉCOLOGIQUE
POUR LE CLIMAT
pour les investisseurs qui s'engagent
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The ‘Energy transition law to support green growth’ (ETL), a law with multiple and complementary goals

-40% of greenhouse gas emissions in 2030 vs. 1990

-50% of final energy consumption in 2050 vs. 2012

-30% of fossil energy consumption in 2030 vs. 2012

-50% of landfilled waste by 2025

32% of renewable energies in the final consumption and **40%** of the power generation

Diversify power generation and lower the share of nuclear energy to **50%** by 2025

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The ETL law sets up strict governance mechanisms

Accountability to **Parliament** and to the **'Conseil National de la Transition Ecologique'** (National Council for the Ecological Transition)

New environmental reporting obligations for companies and investors

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The ETL law reinforces reporting obligations for companies

Report on financial risks linked to climate change and the measures that the company takes to reduce them, by setting up a low carbon strategy in all the components of its activities.

Report on the way the company takes social and environmental consequences into account, including consequences on climate change of its activities, services and goods, as well as its social engagement to the benefit of sustainable development, circular economy and in favor of the fight against discrimination and of the promotion of diversity.

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The ETL law also reinforces reporting obligations for investors

Inclusion of ESG criteria and objectives in their investment policy and the **means deployed to contribute to the energy and ecological transition** in the annual report.

Environmental objectives include the **exposition to climate risk** (e.g. GHG emissions) and the **investor's contribution to the fight against global warming's international objectives and to the energy transition.**

Contribution evaluated **in the light of indicative targets set up by business sector and investment type**, in coherence with the French national low carbon strategy.

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2

Creation of a public label for the financial sector: **the ‘Energy and ecology transition for the climate’ label**

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The ‘energy and ecology transition for the climate’ label for financial products, an additional tool for the ETL law

Label
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Objective 1: **mobilize more savings** for the benefit of the energy transition and the fight against climate change

Objective 2: **encourage the creation of new green investment funds**

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A label supported and promoted by public authorities

A label meant for development on a European scale

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A label awarded on the basis of 4 criteria relating to portfolio construction and management

Exclusions
→ Strictly no investment in industries with negative climate or environmental externalities (fossil fuels...)

Green share
→ Minimal investment level in companies and projects contributing to the energy and ecology transition (renewable energies, clean transportation...)

ESG criteria inclusion
→ Potential ESG controversies monitoring and transparency requirements in financial management procedures

Environmental impact of portfolios
→ Measure of the environmental footprint of portfolios (climate change, water, natural resources & biodiversity)

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Implications for foreign asset managers providing services to French investors

Foreign asset managers must offer their mandates including the service of carbon disclosure.

➔ ICGN & AM mandate-type (which includes ESG criteria)

French asset owners will have to report on the carbon intensity of their whole portfolio, independently of the different asset managers working for them.

FSB FINANCIAL STABILITY BOARD

Although French law won't have a major impact on foreign asset managers for now, it could anticipate the works of the Climate Disclosure Task Force of the FSB.

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THANK YOU FOR YOUR ATTENTION

Q&As

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