Recommendations of the Task Force on Climate-related Financial Disclosures – review of local relevance

FRANCE

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1. Investors and climate disclosure

Why does climate disclosure matter to investors? ***Investor action on climate change*** finds that in 2017, 74 percent of asset owners are acting on climate change and see it as one of the most important long-term trends for investment, with this figure being 83 percent in France[1]. Without better data, investors cannot manage the physical and transition risks[2] associated with climate change for their clients, members and beneficiaries.

The FSB Task Force on Climate-related Financial Disclosures: In June 2017, the industry-led FSB Task Force on Climate-related Financial Disclosures (TCFD) chaired by Michael R. Bloomberg released its recommendations. These provide a framework for financial disclosures on climate-related risks and opportunities by companies and investors[3]. 400 global investors representing US$22 trillion in assets under management publicly called on the G20 in June 2017 to support the Paris Agreement, drive investment into the low carbon transition and support the TCFD[4]. Over 100 companies have already expressed their support for the TCFD recommendations[5].

The PRI-Baker McKenzie Country Reviews: To support practical implementation of the TCFD's recommendations, the Principles for Responsible Investment (PRI) and global law firm Baker McKenzie have together produced a series of country reviews. They examine how the TCFD's recommendations integrate into existing material risk disclosure regulation and soft law in specific markets, with recommended next steps for implementing TCFD. The reviews cover Brazil, Canada, the EU, France, Japan, the United Kingdom and the USA[6].

Why review France? There is strong momentum for climate action in France. Following the US announcement to withdraw from the Paris Agreement, President Macron responded that "The Paris Agreement is irreversible" and with a One Planet Summit. Article 173-VI of the law on energy transition and green growth is an example of national regulation to engage the financial community on sustainability[7]. The law requires investors to disclose how ESG and climate change are factored into investment decisions, paving the way to drive more sustainable investment.

This report highlights:

- France's existing regulation and policy on climate disclosure, within the context of France's Paris Agreement-related commitments (see Appendix);
- How the FSB Task Force recommendations could assist in France, including a comparison of TCFD and Article 173-VI; and
- PRI's recommendations for implementing TCFD in France.

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[1] https://www.unpri.org/page/investors-progressing-on-climate-action-but-more-needs-to-be-done-before-2020

[2] Transition risks identified by the TCFD include the financial impacts of risks relating to climate policy action, litigation or legal risk, new technologies and market changes.

[3] https://www.fsb-tcfd.org/publications/final-recommendations-report/

[4] http://investorsonclimatechange.org/

[5] https://www.fsb-tcfd.org/statement-support-supporting-companies-june-2017/

[6] https://www.unpri.org/news/pri-baker-mckenzie-report-climate-change-a-material-risk

[7] https://www.unpri.org/news/what-the-french-energy-transition-law-means-for-investors-globally

2. Key Findings: TCFD and Article 173-VI

France's existing regulation on corporate disclosure is comprehensive, providing a solid foundation for TCFD. Existing regulation already seeks to integrate sustainability risks into broader financial risk analysis and disclosure frameworks.

- Article 225 and other sections of the Grenelle II Act adopted in 2010 have strengthened ESG reporting for many companies in France. The requirements encompass strategy and general governance relating to environmental issues, identification of material risks, reporting on scope 2 emissions, covering listed companies and most non-listed companies with over 500 employees.
- Article 173-III, IV of the Energy Transition Act of 2015 further requires companies disclose material elements of their scope 3 emissions, as well as potential financial impacts of climate-related risks.
- Article 173-VI requires institutional investors and asset managers to report on their approach to ESG issues – not only climate change. Article 173-VI also encourages organizations to report on their contribution and alignment with the low carbon transition, at a national, regional and global level.

Overall, the French legal framework and the TCFD recommendations are not far apart. Both encourage organizations to adopt a strategic, forward-looking approach towards climate change.

The TCFD recommendations are a useful reference point for French organizations in understanding international best practice climate risk reporting, beyond existing regulatory requirements. The Mouvement des entreprises de France (MEDEF) further considers that most of the TCFD recommendations can help companies to improve their reporting in this context. The TCFD recommendations offer French organizations **four practical benefits**:

- Governance: the TCFD recommendations extend into areas that are not specifically provided for in the French mandatory regulation, including recommendations on governance for climate-related risks and opportunities.
- Scenario analysis guidance: the TCFD recommendations provide French organizations with guidance on forward-looking analysis of climate-related risks and opportunities, including a technical supplement on scenario analysis[8].
- Structure: the clear structure of the TCFD recommendations around 4 thematic areas is helpful, each representing core elements of how organizations operate i.e. governance, strategy, risk management, as well as metrics and targets.
- Coverage: the TCFD recommendations apply to a wide range of organisations, covering financial and non-financial sectors, going beyond France's existing regulation, under which only certain companies are targeted by the relevant French regulation.

Implementation of TCFD in France would be assisted through a strong signal from the Government, regulators and stock exchange. Implementation will require some company and investor capacity-building, particularly in scenario analysis.

PRI already plans to support TCFD implementation, including in investor engagement with companies to adopt TCFD, advancing investment practices and in investor disclosure aligned to TCFD through the 2018 PRI Reporting Framework.

[8] https://www.fsb-tcfd.org/publications/final-technical-supplement/

Table 1: Comparison of TCFD and Article 173-VI

TCFD recommendation	Energy Transition Law – Article 173
Governance	***No alignment between article 173 and TCFD recommendations***
a) Describe the board's oversight of climate-related risks and opportunities	
b) Describe management's role in assessing and managing climate-related risks and opportunities	
Strategy	***Alignment between article 173 and TCFD recommendations***
a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Description of ESG risks for investments and exposure of the activity to these risks Consequences of climate change and extreme weather events The change in availability and price of natural resources and in their exploitation (in accordance with climate and ecological objectives) The coherence of issuer's investment expenditure with a low-carbon strategy (including those involved in the exploitation of fossil fuel reserves) Elements to assess the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) Elements to assess exposure to climate change-related risks Link between environmental criteria and climate change-related risks (physical risks and transition risks) Link between environmental criteria and the assessment of the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE)
b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	Integration in the investment policy The change in availability and price of natural resources and in their exploitation (in accordance with climate and ecological objectives) The coherence of issuer's investment expenditure with a low-carbon strategy (including those involved in the exploitation of fossil fuel reserves) Elements linked to the implementation of the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) Measurements of assets invested in financial products contributing to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) (thematic funds, financial securities, infrastructure assets, undertakings for collective investment covered by a label, charter or initiative) Consequences of climate change and extreme weather events

TCFD recommendation	Energy Transition Law – Article 173
	Elements to assess the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) Elements to assess exposure to climate change-related risks Engagement strategy with issuers Engagement strategy with portfolio management companies (*sociétés de gestion*)
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Description of the methodologies of the analysis implemented with respect to environmental criteria relating to climate change-related risks Integration in the investment policy Description of ESG risks for investments and exposure of the activity to these risks Consequences of climate change and extreme weather events Elements to assess the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE)
Risk Management	***Alignment between article 173 and TCFD recommendations***
a) Describe the organization's processes for identifying and assessing climate-related risks	Procedures to identify and assess ESG risks Link between environmental criteria and climate change-related risks (physical risks and transition risks) Elements to assess exposure to climate change-related risks Consequences of climate change and extreme weather events
b) Describe the organization's processes for managing climate-related risks.	Procedures to identify and evaluate ESG risks Elements to assess exposure to climate change-related risks Integration in the investment policy Link between environmental criteria and climate change-related risks (physical risks and transition risks)
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Procedures to identify and assess ESG risks

TCFD recommendation	Energy Transition Law – Article 173
Metrics and Targets	***Partial alignment between article 173 and TCFD recommendations***
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	Link between environmental criteria and climate change-related risks (physical risks and transition risks) Elements to assess exposure to climate change-related risks Link between environmental criteria and the assessment of the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) Elements to assess the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) Measurements of assets invested in financial products contributing to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE) (thematic funds, financial securities, infrastructure assets, undertakings for collective investment covered by a label, charter or initiative) Consequences of climate change and extreme weather events The change in availability and price of natural resources and in their exploitation (in accordance with climate and ecological objectives) Coherence of issuers' investment expenditure with a low-carbon strategy (including those involved in the exploitation of fossil fuel reserves) Elements linked to the implementation of the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE)
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Past, current and future measurements of greenhouse gas emissions, direct or indirect, associated with issuers that form part of the investment portfolio
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	Elements linked to the implementation of the international objective to limit global warming and the achievement of the energy and ecological transition objectives (TEE) Elements to assess the contribution to compliance with the international objective to limit global warming and to achieve the energy and ecological transition objectives (TEE)

3. Recommendations for TCFD in France

The PRI recommends the following next steps in France:

- **The French Government and Autorité des marchés financiers (AMF) should publicly endorse the TCFD recommendations**. Euronext should implement the Sustainable Stock Exchanges Initiative's Green Finance Guidance which covers environmental disclosure[9]. Together, this will send a strong signal of support for climate disclosure, building on strong existing regulation of the Grenelle II Act and Article 173-VI.

- **French companies should adopt the TCFD's recommendations** as a useful good practice framework for consistent climate-related disclosures to investors. Sharing of good practice will assist in overcoming implementation hurdles, with convergence in reporting frameworks needed in the longer term.

- **Investors should drive implementation of TCFD**. This should include investor engagement with companies to adopt the TCFD's recommendations, and encouraging regulators and stock exchanges to endorse TCFD. Investors should also evolve their disclosure to beneficiaries, members and clients, informed by the TCFD's guidance for asset owners and managers.

What would implementation of TCFD mean for France?

French organizations will essentially need to assess and manage the financial impacts of the physical and transition risks associated with climate change. Transition risks include the financial impacts of risks relating to climate policy action, litigation or legal risk, new technologies and market changes.

Capacity-building on TCFD will be essential to effective implementation, particularly given that the recommendations are relevant to organizations of all sizes. Feedback from PRI signatories highlights that more industry work is needed on metrics and methodologies, as well as company and investor use of scenario analysis.

All actors in the investment chain will need to be involved: companies, banks, insurers, investors, sell-side analysts, credit rating agencies and investment consultants. The Task Force has highlighted that asset owners sit at the top of the investment chain and have a particularly important role to play in implementation.

TCFD is an industry-driven, voluntary framework and does not supersede existing national regulation. However, in terms of aligning current regulation with TCFD, improvement of existing French climate risk disclosure requirements consistent with the TCFD Recommendations would (among other things) involve:

- An increase in the scope of covered French companies, with respect to size and type (e.g. in France, simplified joint stock companies (*sociétés par actions simplifiées*) or limited liability companies (*sociétés à responsabilité limitées*) are not subject to the 2017 Ordinance requirements);

- Alignment of various pieces of relevant reporting frameworks and the introduction of standardised methodologies against which all companies can report. On one side, with regards to institutional investors, Article 173-VI was introduced on a "comply and explain" basis and provides for no formal system for monitoring and ensuring compliance. On the

[9] http://www.sseinitiative.org/wp-content/uploads/2017/11/SSE-Green-Finance-Guidance-.pdf

other side, the 2017 Ordinance requires the company's report to be subject to verification by an independent and accredited third body, and sanctions may also be applicable.

- These adjustments could be co-ordinated within the foreseen revision of the EU legal framework.

How PRI will support TCFD implementation

The PRI has 1,800 signatories worldwide, representing nearly US$70 trillion in assets under management, in 50 countries including France.

The PRI will support signatories in:

- **Active ownership**: PRI will convene global investor engagement to encourage companies, regulators and stock exchanges to adopt the TCFD's recommendations.
- PRI is a partner of Climate Action100+[10].
- PRI's Global Policy Reference Group[11] will engage with regulators on disclosure.
- **Investment practices**: PRI will build capacity and advance investment practices in assessment and management of climate-related risks and opportunities, including use of company disclosures aligned with TCFD and scenario analysis[12].
- **Investor disclosure**: PRI is encouraging signatories to pilot climate reporting indicators aligned with TCFD in the 2018 PRI Reporting Framework[13]. Pilot reporting will enable French investors to build their capacity to report aligned with TCFD.
- **Addressing barriers around responsible investment**: The PRI has set out its priorities for the next 10 years in its Responsible Investment Blueprint[14]. These include climate change and broader issues important to TCFD implementation.

[10] http://www.climateaction100.org/

[11] https://www.unpri.org/news/pri-seeking-participants-for-expert-policy-network

[12] https://www.unpri.org/about/pri-teams/investment-practices

[13] https://www.unpri.org/report

[14] https://10.unpri.org/the-blueprint-project/

4. Review of company and investor regulation

4.1 Disclosure requirements for companies

Overview of the French legislative environment

For the past 15 years, a number of French companies have been subject to non- financial reporting obligations, first created by the "Nouvelles Regulations Economiques" law (NRE Law) in 2001 and then reinforced by the Grenelle II Law in 2012. Now consolidated into the French Code of Commerce (FCC), these disclosure requirements have been recently amended by the transposition of Directive 2014/95/EU by Ordinance no. 2017-1180.

While ESG issues including climate change are material risk factors for investors, the French regulation refers to these as non-financial information (whether in the FCC or the below mentioned Laws, Ordinances and Decrees).

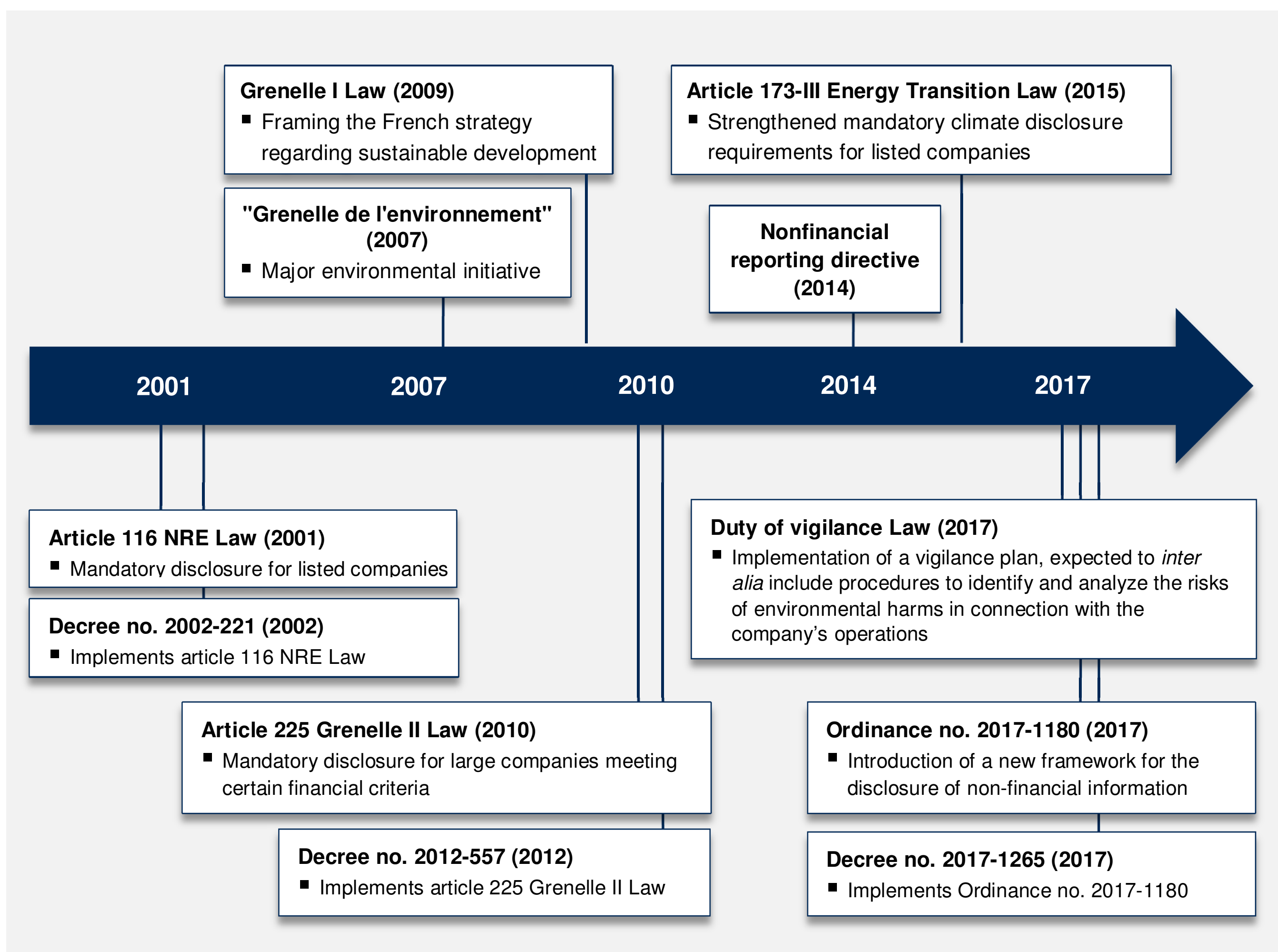

FIGURE 1: NON-EXHAUSTIVE TIMELINE OFSUSTAINABILITY LEGISLATION AND INITIATIVES IN FRANCE

NRE Law 2001 and Grenelle II Law

On 15 May 2001, the French Parliament passed the NRE Law to require disclosures on social and environmental issues in the annual reports of companies listed on a French regulated market (article 116, paragraph 4 NRE Law).

In 2007, the French Government instigated a major environmental initiative called “Grenelle Environnement" to redefine France’s environmental policy. The proposals resulting from the process were put to public consultation, leading to a set of recommendations presented to the French parliament in early 2008. The first piece of legislation (Grenelle I Law) was adopted by the French Parliament on 3 August 2009 and set environmental objectives focusing on climate change. The second piece of legislation (Grenelle II Law) was adopted on 12 July 2010 and its purpose is to define the rules for implementing the commitments of the Grenelle I Law.

Grenelle II Law and its implementing decree no. 2012-557 (2012 Decree) strengthened and extended the environmental reporting obligations to certain non-listed companies, provided they exceed certain thresholds in terms of turnover and number of employees. The thresholds established at that time have since been amended by the 2017 Decree, as explained below.

Article 173-III of the Energy Transition Law

In July 2015, France strengthened mandatory climate disclosure requirements for listed companies. The context of adoption of the Energy Transition Law is highlighted below under point 2.2.

Pursuant to Article 173-III, listed companies shall disclose, in the annual report subject to the vote of the shareholders: “the financial risks related to the effects of climate change and the measures adopted by the company to reduce them, by implementing a low-carbon strategy in every component of its activities”. The annual report shall include, in addition to the reporting on social and environmental consequences of the company’s activity (already mandatory in France) “the consequences on climate change of the company’s activities and of the use of goods and services it produces". This reflects the French Government's recognition of climate change risk as a true financial risk to companies, moving beyond the more traditional characterisation of climate risk in financial reporting as a "non-financial" or purely environmental/social consideration.

Ordinance no. 2017-1180 of 19 July 2017

(a) Context

A new framework for the disclosure of non-financial information by large companies entered into force in France as of 1 August 2017, following the transposition of Directive 2014/95/EU (Directive) by Ordinance no. 2017-1180 of 19 July 2017 (2017 Ordinance) and its implementing decree no. 2017-1265 of 9 August 2017 (2017 Decree).

These new provisions are applicable to reports for financial years beginning on or after 1 September 2017 (article 7 of the 2017 Decree).

(b) Affected entities

The scope of the affected entities evolved in order to focus the new requirements on large companies, whose activities may have a significant impact on environmental, social and societal issues. As a result of a major simplification measure, small and medium-sized listed companies are no longer subject to disclosing non-financial information on the basis of the statement. Covered companies are subject to disclosure of non-financial information (Article L. 225-102-1 and R. 225-104 FFC) as follows:

1. Listed companies, provided they meet the following cumulative thresholds:
   - balance sheet total: EUR 20,000,000;
   - net turnover: EUR 40,000,000;
   - average number of employees during the financial year: 500.
2. Non-listed companies, provided they meet the following cumulative thresholds:
   - balance sheet total: EUR 100,000,000;
   - net turnover: EUR 100,000,000;
   - average number of employees during the financial year: 500.

Small listed companies below the above-mentioned threshold would no longer have to comply with these reporting requirements. Moreover, subsidiaries subjected as per their size are exempted from producing such a declaration provided that the information relating to them is presented by the parent company in a consolidated way, revealing a complete and relevant picture of the extra-financial impacts of the activities of the group.

These new thresholds will bring a greater number of companies within the scope of the reporting requirements.

(c) Statement on extra-financial performance

The content of the social and environmental information to be detailed in the annual report is determined in Article R. 225-105 FCC, as amended by the 2017 Decree. It takes the form of a statement on extra-financial performance ("*déclaration de performance extra-financière*"), presented to the extent necessary for investors to understand the company's activity, and includes:

- a reference to its business model or, where applicable, to the group's business model;
- the principal risks related to those matters linked to the company's operation, or where applicable, to the group's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas;
- a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented; and
- the outcome of such policies.

This statement on extra-financial performance is incorporated in the management report (Article L. 225-100 FCC) and will have to be published on each company's website and maintained on-line for five years (Article L. 225-102-1 FFC).

Regarding climate change issues specifically, the 2017 Ordinance mandates the inclusion of information on the consequences of the company's activity and of the impact of the goods and services it produces in a climate change context. Companies must also provide details of financial risks posed by climate change impacts, as well as the measures they have implemented to reduce those risk, through adopting low-carbon strategies in all aspects of their activities.

Finally, the company’s report must be verified by an independent and accredited third body for a duration not exceeding six years (article R. 225-105-2.-I FCC). The regime is introduced on a comply or explain basis. Pursuant to this system, companies can choose to omit information on

subjects not relevant to their activity, but in that case, must provide an explanation for not disclosing this information in their non-financial statement.

(d) Sanctions

Where a company's annual report does not contain the environmental declaration referred to in paragraphs I and II of article L. 225-102-1, any interested person may apply to the president of the commercial court acting in summary proceedings to order that the board of directors or supervisory board, as the case may be, communicate the relevant information or be subject to a fine/penalty. When the request is granted, the penalty payment and the costs of the proceedings are borne by the directors or members of the Executive Board, individually or severally as the case may be.

The adoption of reporting standards such as those envisaged by the TCFD can assist significantly in this context by helping to anticipate any case of non-compliance:

- at the board level, the TCFD report recommends disclosing how and how often the board is informed about climate-related issues, whether it integrates them when reviewing, guiding, and monitoring the organization's activities, and how it oversees progress against goals and targets for addressing those issues; and
- at the management level, the TCFD's recommendations include disclosing whether the organization has assigned climate-related responsibilities to management level positions, what those responsibilities entail and how they are reported to the board. Just as for board level, the report also invites organizations to describe processes by which management is informed about climate-related issues and how it monitors such issues.

Duty of Vigilance Law

Law no. 2017-399 of March 27, 2017 on the duty of vigilance of companies (Duty of Vigilance Law) establishes a legally binding obligation on certain parent companies to identify and prevent adverse human rights and environmental impacts resulting from their own activities, from activities of companies they control, and from activities of their subcontractors and suppliers, with whom they have an established commercial relationship. The vigilance plans, as well as the reports on their implementation, will be public and included in the company's annual report. A company cannot be fined if it does not establish a vigilance plan or does not comply with its vigilance plan - however, a breach of the duty of care may still lead to liability for the company.

Corporate governance

In France, corporate governance standards are the product of a combination of legislative provisions introduced in the FCC and the recommendations of the AFEP-MEDEF code. In 2017, MEDEF responded to a public consultation on the TCFD recommendations. It concluded that the TCFD recommendations make a useful contribution towards helping companies in their climate risk reporting and that adoption of most of the recommendations could help companies to improve the standard and usefulness of this reporting.

To view France's complete responsible investment framework, visit the PRI's Regulation Map.

For each measure, it indicates the nature of the rule, the year of implementation, the authority responsible, whether the measure is voluntary or mandatory, and if it addresses ESG issues in isolation or in combination. It also provides commentary on the key clauses relating to ESG factors and investment.

To view the map and download the full methodology, visit the PRI website.

For further information, email policy@unpri.org

4.2 Climate change-related aspects of investor regulation

Until the early 2010s, relatively little attention was paid in France to the role played by financial institutions in France's economic and financing model. French authorities have since introduced reporting obligations in the financial system: first in 2010 for management companies (*sociétés de gestion)* and certain investment companies (*sociétés d'investissement*), and more recently in 2015 for institutional investors.

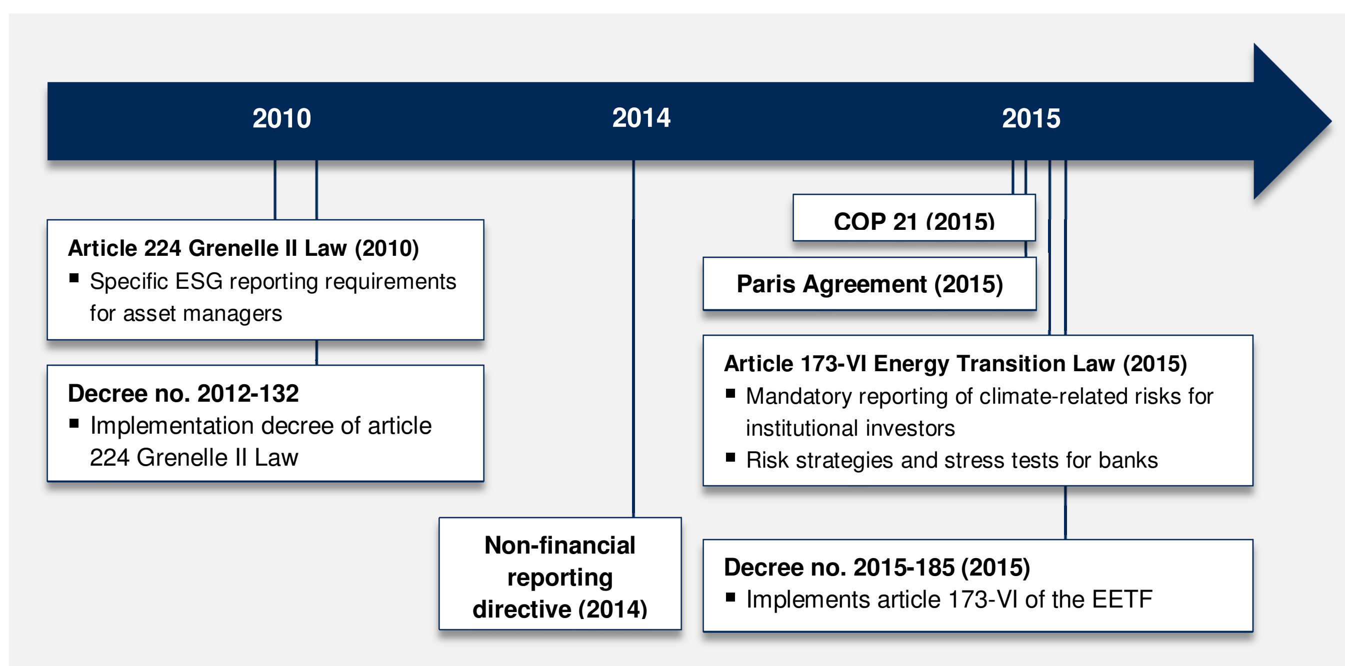

FIGURE 2: NON-EXHAUSTIVE TIMELINE OFSUSTAINABILITY LEGISLATION AND INITIATIVES IN FRANCE

Grenelle II Law

Grenelle II Law and implementing decree no. 2012-132 (Decree no. 2012-132) introduced a major reform targeting investors, which is the obligation for management companies (sociétés de gestion) and investment companies with variable capital (sociétés d'investissement à capital variable) to report on the integration of environmental, social and governance (ESG) criteria in their investment policies. These requirements were incorporated in the French Monetary and Financial Code under Articles L. 533-22-1 and D. 533-16-1, recently amended following the adoption of the Energy Transition Law on 22 July 2015.

Article 173-VI of the Energy Transition Law

(a) Context

On July 22, 2015, the French National Assembly adopted law. no. 2015-992 (the Energy Transition Law) aimed at increasing disclosure of climate change-related risks by financial institutions (including institutional investors) as well as the alignment of institutional investors' portfolios with French and international climate policy. On December 31, 2015, the French

Treasury Department published decree no. 2015-1850 (the 2015 Decree) in order to give effect to Article 173-VI.

Article 173-VI of the Energy Transition Law was drafted in the context of the "finance" strategy of the COP21 conference hosted by France, also known as the 2015 Paris Climate Conference.

This provision requires asset management companies and institutional investors to disclose information on the manner in which they incorporate ESG objectives into their investment and risk management policies.

(b) Affected entities

Article 173-VI applies to asset management companies (already targeted by Article 224 of the Grenelle II law), and, for the first time, institutional investors.

The 2015 Decree exhaustively addresses a list of targeted entities: insurance companies, mutual insurance companies, employee benefits institutions, portfolio management companies, Caisse des Dépôts et Consignations, supplementary pension institutions, institutions providing supplementary pension schemes for non-statutory employees of the Government and public bodies, the public institution managing the mandatory supplementary public-service pension scheme, and the National Pension Fund for local authority employees.

(c) A comply or explain approach

The Energy Transition Law provides investors with broad flexibility in choosing the best way to fulfil its objectives, based on a comply or explain approach. It does not impose any specific method, giving leeway to find the reporting methodology best suited to the investment portfolio, for example, reflecting specific asset classes or subsidiaries. However, investors must provide information and justification on the methodology used. They are encouraged to draw from current best practices. An assessment of the implementation will be carried out after two years, at the end of 2018, and the best-in-class approaches will be promoted.

(d) Reporting requirements

REPORTING ON INTEGRATION OF ESG CRITERIA

The 2015 Decree provides a general overview of ESG reporting requirements (article 1, subsection II, paragraph 1):

1. The investor should report on the general approach with regard to the inclusion of ESG issues in the investment policy and risk management;
2. The investor should report on the content, frequency, and means used by the entity to inform subscribers, affiliates, contributors, beneficiaries or clients about the integration of ESG criteria as reflected in the investment policy and, if applicable, risk management;
3. For an asset management company, the list and the share of funds (in assets under management) that integrate ESG criteria;
4. The use of labels, initiatives, charters, and codes related to providing information on the ‘quality’ of ESG practices, including a brief description of said labels, initiatives, charters, and codes;
5. If the entity has a risk management policy, a general description of the internal procedures of the entity to identify the risks associated with ESG issues, a general description of risks identified, and the exposure of its activities to these risks.

The following provides further details on these reporting requirements with regard to their impact on investment policies and decisions and which aspects they integrate (article 1, subsection II, paragraph 2):

1. If applicable, entities can make distinctions in terms of ESG integration according to their activities, by asset class, by investment portfolio, by issuer, or any other relevant division of the activities. They should indicate the reasons for these distinctions. Asset managers in particular can provide reporting elements jointly for several funds under management if these have similar characteristics. Elements include:
   - Description of the nature of the main criteria considered for ESG issues and the reasons for choosing them;
   - Description of the general information used for the analysis of issuers on criteria relating to compliance with ESG issues;
   - Description of the methodology of the ESG analysis and the results;
2. Entities are to describe the way in which the results of the analysis relating to environmental compliance, in particular exposure to climate risks, social and quality of governance objectives, are integrated into the investment policy:

   2.1 Description of the changes made following this analysis:
   - Changes triggered in the investment policy regarding divestment decisions and, if applicable, risk management processes;
   - Where applicable, a description of how those segments of the portfolio which are not subject to an ESG assessment are managed;

   2.2 Implementation of an engagement strategy with issuers:
   - Presentation of engagement policies carried out with issuers;
   - Presentation of the voting policy;
   - Assessment of the engagement actions implemented.

   2.3 Implementation of an engagement strategy with portfolio management companies:
   - Presentation of engagement policies, including in terms of exercising voting rights;
   - Assessment of the implementation of these policies.

Finally, the 2015 Decree provides the following information (article 1, subsection II, paragraph 3 and 4):

1. If applicable, asset management companies shall report the above items from paragraph 2 in relation to investments managed for third parties;
2. If an entity doesn't include ESG criteria or if it does so only partially, it should justify why.

REPORTING ON INTEGRATION OF CLIMATE RISKS AND THE CONTRIBUTION TO THE ENERGY TRANSITION

Article 173-VI focuses on environmental factors – notably climate risk – and meets the demand of investors for enhancing financial risks assessment through taking better account of climate-related risks.

In this context, the 2015 Decree defines the following climate change issues to guide the choice of environmental criteria that should be taken into account regarding the reporting of items under subsection II, paragraph 2 (Article 1, subsection III, paragraphs 1-3):

1. Assessment of climate risk refers to:
   - Physical risks, defined as exposure to the physical consequences directly caused by climate change;
   - Transition risks, defined as exposure to changes caused by the transition to a low-carbon economy;
2. Assessment of the contribution to compliance with the international objective to limit global warming and to achieving the energy and ecological transition objectives provided for in paragraph four of Article L. 533-22-1 (i.e. the French low carbon strategy).

The entities should describe the sources of information used that may cover:

1. Financial and extra-financial data;
2. Internal analyses, external analyses or ratings, in particular analyses conducted on the basis of the reports inter alia mentioned in Article L. 225-102-1 FFC or equivalent documents;
3. Any other type of relevant information.

The entities should describe the methodologies used for their analysis, which can include:

1. General information on:
   - The overall characteristics of the analysis methodology;
   - If applicable, the underlying principal hypotheses and their compatibility with the international goal of limiting global warming;
   - An explanation of the relevance of the method and the selected parameters.
2. The risk exposure and contribution to the transition of the portfolio are assessed based on internal or external analysis, depending on the approach used according to its relevance as regards the activity of each entity and the nature of the assets concerned. They can be based on/cover the following:
   - The consequences of climate change and extreme weather events;
   - Changes in the availability and price of natural resources and their exploitation made in accordance with climate and ecological objectives;
   - The coherence of issuers' investment expenditure with a low-carbon strategy, in particular, in the case of actors involved in the exploitation of fossil fuel reserves, the assumptions underlying the investment expenditure intended for the development of these reserves;
   - Any element linked to the implementation by the public authorities of the international objective to limit global warming and achieve the energy and ecological transition objectives;
   - Past, current and future measurements of greenhouse gas emissions, direct or indirect, associated with issuers that form part of the investment portfolio, in particular by stipulating, as regards the method used, its general characteristics and specifically the scope used, and the way in which it gives rise to a risk

analysis. If the measurement gives rise to an intensity calculation, the denominator used. If the measurement is an aggregate, the definition of the weightings used;

- Measurements of assets invested in thematic funds, in financial securities or infrastructure assets contributing to the energy and ecological transition, in undertakings for collective investment covered by a label, charter or initiative intended to contribute to compliance with the international objective to limit global warming and achieve the energy and ecological transition objectives;
- Any element enabling a relevant assessment of the entity's exposure to climate change-related risks and its contribution to compliance with the international objective to limit global warming and achieve the energy and ecological transition objectives.

REPORTING ON THE ALIGNMENT OF VOLUNTARY DECARBONIZATION TARGETS WITH NATIONAL AND INTERNATIONAL GOALS

In terms of implications for investment policies, the entity should provide information relating to (article 1, subsection III, paragraphs 4-5):

1. The way in which the entity analyses the coherence of its investment policy with these objectives and the way in which it contributes to this, depending on the nature of its activities and the nature of its investments;
2. The indicative targets that it sets in this respect by specifying how it assesses their coherence with the international objective to limit global warming, the guidelines decided upon by the European Union and the carbon budgets and national low-carbon strategy;
3. Actions to achieve these indicative targets, including:
   - Specific changes to the investment and divestiture policy;
   - Engagement with issuers;
   - Increase in assets invested in thematic funds, in financial securities or infrastructure assets contributing to the energy and ecological transition, in undertakings for collective investment falling under a label, charter or initiative intended to contribute to compliance with the international objective to limit global warming and achieve the energy and ecological transition objectives;
4. If applicable, its performance vs. these indicative targets for the last financial year and, an explanation for gaps where they exist.

The Government plans to publish an assessment of the implementation of the present article after two years of application (before end of December 2018) and may define a reference definition of indicative targets based on observed best practices.

(e) Differential treatment

The 2015 Decree imposes relatively lighter obligations on investors with a total balance sheet (or belonging to a group with a total balance sheet) of less than EUR 500 million, which will only have to provide a general overview of how they integrate ESG factors:

1. Asset managers managing funds below EUR 500 million and institutional investors with balance sheets below EUR 500 million must report on the implementation of their ESG policies, as explained above.

2. Asset managers managing funds above EUR 500 million and institutional investors with balance sheets above EUR 500 million are subject to extended climate change-related reporting obligations (besides their ESG policies). Those obligations are two-fold:

   - Assessment of the portfolio’s exposure to climate change-related risks, including both physical risks (physical impact of climate change) and transition risks (impact of the transition to a low-carbon economy).

   - Assessment of the investor’s contribution to meeting the international and national low-carbon goals, including the low-carbon targets set by the investor itself and the actions taken to achieve these targets.

More broadly, banks and credit providers will be subject to regular stress tests including a climate change component. These entities shall disclose in their annual report the risk of excessive leverage (not carbon-specific) and the risks exposed by regular stress tests.

(f) Sanctions

The 2015 Decree does not cover the details of the enforcement of the law. There is also no mention in the decree of third-party certification of the information provided in the annual report. Therefore, there is no formal system for monitoring and ensuring compliance.

The Government will publish a review of the 2015 Decree after two (2) years (and before the end of December 2018). Following the review, there may be more guidance based on observed good practices. It is expected that investors will also help develop good practice case studies to support implementation of the law.

(g) Compatibility with TCFD recommendations

Article 173-VI is in line with the requirements of the TCFD recommendations report. As a general statement, it provides very detailed guidance on the scope and nature of climate-related risk assessment and reporting, when compared to corporate financial disclosure requirements/guidance in other developed nations.

The TCFD recommendations promote the better integration of climate and financial risks, to change the way companies deal with climate-related issues, and to make the disclosure process more transparent and reliable for investors and other stakeholders, by inter alia distinguishing between physical and transition risks. Article 173-VI already requires institutional investors and asset managers to disclose how they address climate change-related risks, split into “physical” risks (defined as exposure to the physical consequences directly caused by climate change) and “transition” risks (defined as exposure to changes caused by the transition to a low-carbon economy), and to assess and report on their contribution to international efforts to cap global warming and to supporting France’s “energy transition”.

TCFD Recommendations are however applicable to a broader range of entities than those subject to Article 173-VI (since no threshold or differential treatment is applicable) and further covers areas that are not specifically provided for in the French mandatory regulation (e.g. recommendations with respect to the company's governance for addressing climate-related risks and opportunities).

5. Conclusion

The French strategy has been to take small steps to give enough time to all actors to implement climate disclosure. Article 173-VI means that France is advanced in climate change, with TCFD a natural next step. The TCFD recommendations have initiated a positive movement to better integrate climate issues into financial reporting beyond "mere" ESG issues reporting, which appears to be consistent with the direction of the French regulation.

By introducing mandatory climate change-related reporting for institutional investors, the French Government has made a major innovation in terms of regulation in this area. It is hoping for a ripple effect, both internationally and on a national level, across the investment value chain.

Article 173-VI provides financial players with relevant information on the companies they finance, and asks them to explain how they integrate this information into their investment decisions. Some of its aspects are however relatively new, which makes it difficult to assess what the ultimate medium and long-term impacts will be.

These new disclosure requirements are part of a global awareness raising movement on the impact of climate change. Further evolutions are likely since France will hold a new summit on climate mobilization on 12 December 2017, i.e. two years after the adoption of the Paris Agreement, to take further action on climate, notably on the financial front. France will also push for the TCFD recommendations to be mandatory, according to Brune Poirson, the country’s Secretary of State (*Secrétaire d'Etat*) attached to the Ministry for Ecological Transition and Solidarity (*Ministère de la Transition écologique et solidaire*) under Minister Nicolas Hulot.

Appendix 1: Summary of France's climate change commitments

170 parties have ratified the Paris Agreement. Its central aim is to strengthen the global response to climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. The goal is feasible, but only if emissions peak by 2020 at the latest. The Paris Agreement requires all parties to put forward “nationally determined contributions” (NDCs), including a requirement to report regularly on their emissions, and on their implementation efforts. In 2018, parties will take stock of the collective efforts to progress towards the goal set in the Paris Agreement. Climate disclosure supports the Paris Agreement goals and NDCs, by enabling company and investor management of material climate-related risks and opportunities.

France's NDC forms part of the NDC submitted by the European Union (EU) and its Member States in March 2015. This NDC sets out a target of an at least 40% absolute reduction in GHG emissions by 2030, compared to 1990, to be fulfilled jointly. The proposed reduction can be further broken down into a 43% reduction within sectors which participate in the EU Emissions Trading Scheme (ETS), and 30% in non-traded sectors.

The first EU NDC notes the following sectors and source categories which will be subject to mitigation focus and activities:

Sector	Source Categories
Energy	Fuel Combustion 1. Energy industries 2. Manufacturing industries and construction 3. Transport 4. Other sectors Fugitive emissions from fuels 1. Solid fuels 2. Oil and natural gas and other emissions from energy production CO2 transport and storage
Industrial processes and product use	Mineral industry Chemical industry Metal industry Non-energy products from fuels and solvent use Electronic industry Product uses as substitutes for ODS Other product manufacture and use Other
Agriculture	Enteric fermentation Manure management Rice cultivation Agricultural soils Prescribed burning of savannas Field burning of agricultural residues Liming Urea application Other carbon-containing fertilisers Other

Sector	Source Categories
Waste	Solid waste disposal Biological treatment of solid waste Incineration and open burning of waste Wastewater treatment and discharge Other
Land Use, Land-Use Change and Forestry set out in Decision 529/2013/EU	Afforestation, reforestation Deforestation Forest management Cropland management Grazing land management Or equivalent land-based accounting using UNFCCC reporting categories Other categories/activities elected by the EU and its Member States as Parties to the Kyoto Protocol and its Doha Amendment.

France submitted its long-term climate action plan, the National Low-Carbon Strategy (Strategy), to the UNFCCC on 28 December 2016. The Strategy sets out how France will meet the EU NDC target of 40% reduction in total emissions by 2030 compared with a 1990 baseline, as well as an additional target of a 75% reduction in total emissions by 2050 compared with a 1990 baseline. The Strategy involves adopting sectoral emissions reductions targets, significantly strengthening energy saving efforts and decreasing the carbon intensity of the energy used in France, targeting the transport, building efficiency, agriculture and forestry, industry, energy and waste sectors. This French Government has adopted its first three carbon budgets to cover the 2015-2018, 2019-2023 and 2024-2028 periods.

France has also submitted an NDC to cover mitigation actions of four of its overseas territories, New Caledonia, French Polynesia, Saint-Barthélemy and Saint Pierre and Miquelon. This NDC makes the following commitments for each of the overseas territories:

Overseas Territory	NDC commitment
New Caledonia	Reduce greenhouse gas emissions reductions in residential and tertiary sectors by 35%, in the mining and metallurgy sectors by 10% and in the transport sector by 10% from a 2010 baseline by 2030
French Polynesia Saint Barthélemy Saint Pierre and Miquelon	Economy wide (except agriculture, forestry and other land uses) reduction of greenhouse gas emissions of 15% from a 2010 baseline by 2030.

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The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The principles have 1,800 signatories globally representing US$ 70 trillion in assets under management.

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