

CLIMATE
CHANGE
2020

GLOBAL OBSERVATORY
ON NON-STATE
CLIMATE ACTION

GLOBAL SYNTHESIS REPORT ON CLIMATE FINANCE

ASSESSING FINANCIAL ACTORS' CLIMATE ACTION



FINANCE
FOR TOMORROW
by Paris Europlace



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Ronan Dantec

PRESIDENT OF CLIMATE CHANGE
ASSOCIATION

With the 5th anniversary of the Paris Agreement just days away, this 3rd edition of the report jointly produced by Climate Chance and Finance for Tomorrow reflects a growing awareness on the part of financial actors of their major role, not only in the low-carbon transition of the real economy, but also in factors crucial to its success: the protection of biodiversity and the social impact of investments and financial products.

With this publication, the Climate Chance Observatory continues its mission of tracking how efforts evolve, assessing the credibility of actors' strategies in relation to international climate objectives, and observing the reality of the actions they committed to.

This report sheds light on how risks are taken into account in the decision-making and strategies of the various actors involved: banks, insurance companies, public and private investors. It also examines to what degree their choices are consistent with the scale of climate change impact already perceptible for many of them.

Each year, the report analyses in greater detail the need for action from the financial sector consistent with climate and environmental issues. The tools to measure contributions to the Paris Agreement are being put in place and are contributing to strong market dynamics favouring the development of green bonds, green financing, sustainable debt.

Consideration for the UN's Sustainable Development Goals (SDGs) and for the positive impacts of investment decisions is taking shape, but still struggles with the lack of a benchmark or

“With this publication, the Climate Chance Observatory continues its mission of tracking how efforts evolve, assessing the credibility of actors' strategies in relation to international climate objectives, and observing the reality of the actions they committed to”

shared indicators. It does, however, bear witness to an increasingly decompartmentalised and global understanding of the climate challenge.

To this end, financial regulators have a major role to play and are coming into their own. For one thing, they are cooperating much more than in 2018 to help the financial industry improve the climate parameters of their financial performance. They have also strengthened disclosure requirements. Taxonomies developed by the European Union, China and Canada can potentially serve the reallocation of funding and investments. We will be attentive to this in upcoming reports, as we are convinced that without strategic alignment on the part of financial players, we will not succeed in addressing the main challenges of climate and development.



Thierry Déau

PRESIDENT OF FINANCE FOR TOMORROW

I am pleased that, for the third year running, Finance for Tomorrow has the honour of contributing to the annual Financial Sector Climate Action Synthesis Report published by Climate Chance.

This report retraces the impressive progress made by the financial sector over the past 5 years, on a global scale. I am pleased to note the maturity of French financial players individually and,

“I hope that this review of climate finance will contribute to understanding the efforts made around the world and the major trends that will drive green and sustainable finance in the years to come”

collectively, that of the Paris financial market, spearheaded by its green and sustainable finance initiative, Finance for Tomorrow. We are not the only ones, of course; international mobilisation and collaboration between and among financial centres are essential. The topics Finance for Tomorrow is working on coincide with the new frontiers identified by this review: financing biodiversity, incorporating a social dimension, green fintech, alignment with the objectives of the Paris Agreement, transition finance and more.

This assessment should not, however, obscure the shortcomings, inconsistencies, and the current difficulties in understanding the impact of climate finance. To address this we, in Paris,

have decided to make collective commitments such as ceasing to finance the coal sector and increasing the green, or sustainable, part of our activities. And we are reporting publicly on our efforts. This is the purpose of the Observatory for Sustainable Finance, launched in October this year, on the occasion of the 6th Climate Finance Day, by Finance for Tomorrow and professional federations from the sector, with support from the European Commission's Life program. This collaborative and singular endeavour will be fully rolled out over the next five years. It already provides free, online access to individual commitments by actors from the Paris Financial Centre and to consolidated numbers grouped according to the sector's main divisions. Year after year, it will provide a record of how well commitments are being met and will be enriched with further indicators.

Finance for Tomorrow is fortunate in having the opportunity to present innovative approaches such as this and to learn about innovations from other green financial centres worldwide as part of the international network Financial Centers for Sustainability (FC4S), supported by the UNEP. I believe that this joint mobilisation of financial centres is a catalyst for individual progress among players, and thus a driver of the much needed redirection of capital towards of sustainable development.

I hope that this review of climate finance will contribute to understanding the efforts made around the world and the major trends that will drive green and sustainable finance in the years to come.

CLIMATE FINANCE SYNTHESIS REPORT 2020

Transparency on climate-related risks and opportunities

"2019 key figures of climate finance"

Support TCFD's recommendations

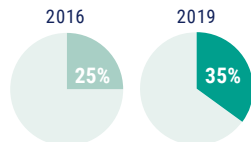


"committed to applying its climate reporting framework in whole or in part"

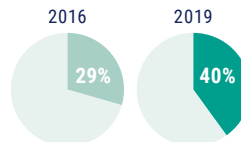
Source: TFSB TCFD, February 2020

Institutional investors and asset managers

"Climate finds a place in asset management..."

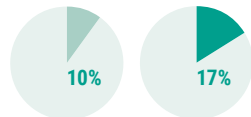


35% ARE REDUCING EXPOSURE TO FOSSIL FUELS, VS. 25% IN 2016

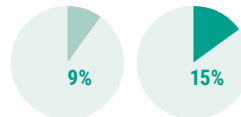


40% TAKE CLIMATE ISSUES INTO ACCOUNT IN FINANCIAL DECISIONS, VS. 29% IN 2016

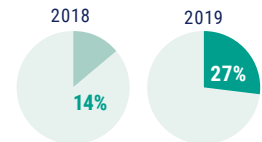
"...But climate is not yet a strategic issue"



17% INTEGRATE CLIMATE INTO THEIR ASSET ALLOCATION, VS. 10% IN 2016



15% SET CLIMATE-RELATED TARGETS, VS. 9% IN 2016

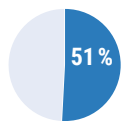


27% CONDUCT CLIMATE-RELATED SCENARIO ANALYSIS, VS. 14% IN 2018

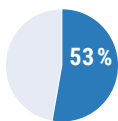
Source: PRI snapshot of some 1700 investors and asset managers, 2019.

Banks

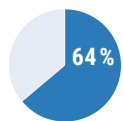
"Banks perceive climate-related risks and opportunities..."



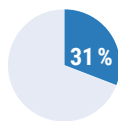
OFFER GREEN FINANCIAL PRODUCTS



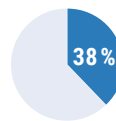
HAVE PROCESSES FOR MANAGING CLIMATE-RELATED RISKS



DISCLOSE THEIR CARBON FOOTPRINT



MEASURE THE CLIMATE IMPACT OF THEIR FINANCING ACTIVITIES



CONDUCT CLIMATE-RELATED SCENARIO ANALYSIS

"...but have room to improve their impact on the climate"

Financing for fossil fuels

\$736
BILLION IN 2019

+ 15% VS. 2016

Source: BCS 2019 report covering 39 banks reporting according TCFD recommendations, representing 40% of global banking assets.

Source: Banking on climate change Fossil fuel finance report 2020.

International public funding

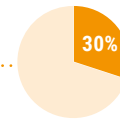
Multilateral Development Banks: alignment in progress

62

BILLION DOLLARS IN 2019

+70%

ADDITIONAL CLIMATE FUNDING BETWEEN 2015 AND 2019



IN 2019: CLIMATE FUNDING REPRESENT OVER 30% OF THEIR ACTIVITY.

Source: Joint report on MDBs climate finance 2019

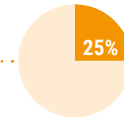
Regional and national development banks: a high potential

190

BILLION DOLLARS CLIMATE FINANCE COMMITMENTS IN 2019

87%

OF CLIMATE FINANCE IS DOMESTIC



IN 2019: CLIMATE FUNDING REPRESENT OVER 25% OF THEIR ACTIVITY

Source: IDFC Green Finance Mapping Report 2019

The Green Climate Fund

6.2

BILLION DOLLARS COMMITTED

143

PROJECTS APPROVED

1.2

BILLION DOLLARS DISBURSED

Source: Green Climate Fund, August 2020

Green and sustainable financial products: small markets but high growth

Sustainability linked loans:

122
BILLION DOLLARS ISSUED

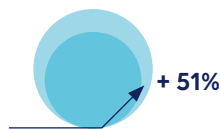


● 2018 ● 2019

Source: Climate Bond Initiative, Bloomberg

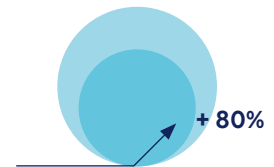
Green bonds

260
BILLION DOLLARS ISSUED



Green and sustainable debt

465
BILLION DOLLARS ISSUED



Financial regulation and supervision: drivers of action

66

CENTRAL BANKS AND FINANCIAL AUTHORITIES BELONG TO THE NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS) VS. 8 IN 2017.

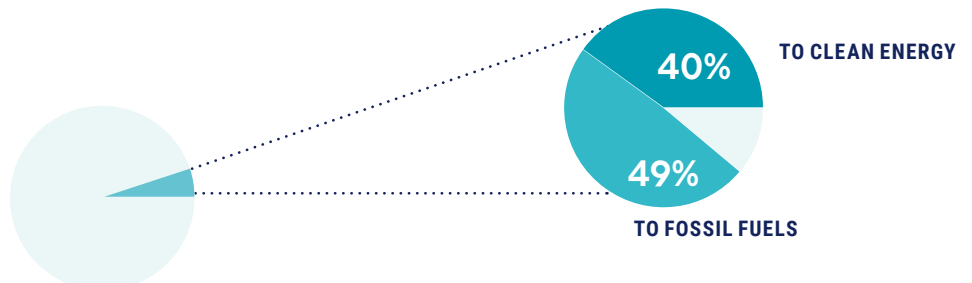
>390

AND SUSTAINABLE FINANCE POLICIES AND MEASURES AROUND THE WORLD, 2X NUMBER IN FORCE IN 2015

TAXONOMY OF GREEN ASSETS: UNDERWAY IN EUROPE AND CANADA, UPDATING IN CHINA

Stimulus plans: a crucial role to shift capital

"3 to 5% of G20 stimulus packages go to energy"



Source: Energy Policy Tracker, August 2020

INTRODUCTION

The risks associated with climate change

In 2015, the Bank of England warned the financial sector that it was time to take climate change seriously because it would lead to increasing financial risks of three kinds:¹ economic losses generated by extreme or chronic events due to climate disruption (physical risks); decreases in asset value due to increasing environmental regulations, technological changes and changes in demand (transition risks); and litigation that could arise from inaction (liability risks). Even though significant progress has been made over the past five years, many financial players assume they have a 10 to 20 year time frame in which to prepare before these risks materialise. But in reality, these risks are already perceptible.

LOSSES LINKED TO CLIMATE CHANGE ARE ON AN UPWARD TREND

The year 2019 was marked by extreme weather events around the world:² in Mozambique, cyclone Idai caused 1,300 deaths and destroyed important infrastructure and production; typhoons Faxai and Hagibis hit Japan, which seems to have been underprepared for their violence; in California, fires triggered the Chapter 11 bankruptcy of electricity supplier Pacific Gas and Electric Company (PG&E), deemed responsible for starting them due to its network's lack of adaptations; not to mention the fires that ravaged parts of Australia for several months through early 2020. Increases in economic losses, estimated at around 4% per year on average between 1980 and 2019, can be chalked up to climate disruption coupled with economic development and increased vulnerabilities due to urbanisation in high-risk locations such as coastal zones and areas of interference with nature. Representing just one-third of total losses due to weather and climate-related disasters, insured losses alone totalled USD 52 billion in 2018, half of this in Japan.³ While the insurance and reinsurance company Swiss Re believes risks related to climate change are still insurable, thanks to the short-term adjustments of premiums most insurance policies allow for, insurers need to better assess future risks and help to reduce them if they are to remain so.

1 Bank of England Prudential Regulation Authority (Sep. 2015). [The impact of climate change on the UK insurance sector. A Climate Change Adaptation Report by the Prudential Regulation Authority](#)

2 Kramer, K., Ware, J. (Dec. 2019). [Counting the cost 2019: a year of breakdown](#). Christian Aid

3 Bevere, L., Gloore, M. (08/04/2020). [sigma 2/2020: Natural catastrophes in times of economic accumulation and climate change](#). Swiss RE

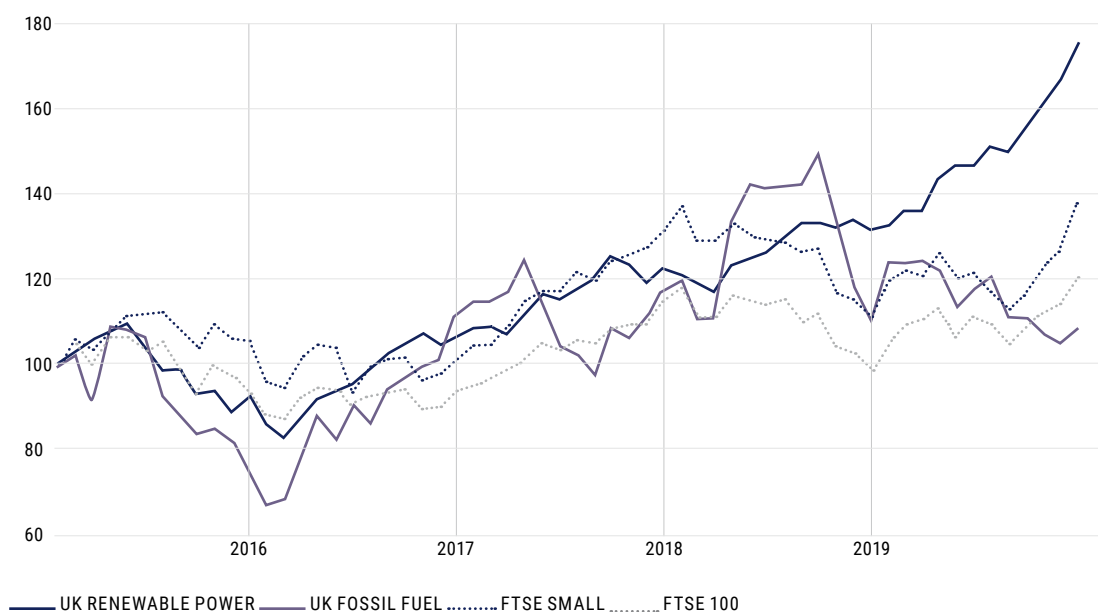
THE TRANSITION TO A LESS CARBON-INTENSIVE ECONOMY IS REDUCING THE PROFITABILITY OF HIGH-EMISSION SECTORS

A 2020 joint study by the International Energy Agency (IEA) and Imperial College⁴ compared the recent performance of listed fossil fuel companies with that of listed renewable energy companies in the United States and Europe. The study shows that over the last ten years, and even more so over the last five, stocks in renewables have been both more profitable and less volatile than fossil fuel stocks (**fig. 1**). Admittedly, the renewables sector is not fully substitutable for the fossil fuel sector in portfolios because, like infrastructure, it is heavily dependent on project finance. Moreover, excessive demand compared to the available supply of listed renewables can result in overvaluation. But the fossil fuel sector is showing other signs of financial weakness. Since 2018, total market capitalisation of the oil and gas majors has declined nearly 50%. The same is true of their profitability, expressed as the rate of return on investment.⁵ Until now, the sector has paid higher dividends than the rest of the economy. In 2020, between a price war among oil-producing countries⁶ and the Covid-19 pandemic, decisions were taken to reduce dividends for the first time. In just nine months, the European companies Shell, BP, Total, Eni, Equinor and Repsol, as well as the American company Chevron, collectively depreciated USD 87 billion in assets. In the second quarter of 2020, the five supermajors — Shell, Total, BP, Chevron and ExxonMobil — collectively paid out USD 17 billion more to their shareholders than they earned in business revenue, turning to debt and selling assets to do so.⁷ This financial downturn has a direct impact on investors, while to some extent reflecting their uncertainties about the sector's ability to manage the transition. It can be seen as a forewarning of transition risks, which are particularly apparent in the coal sector.

FIGURE 1

FIVE-YEAR COMPARATIVE RETURNS OF LISTED 'FOSSIL FUEL' AND 'RENEWABLE ENERGY' EQUITIES

Source: [IEA & Imperial College, 2020](#)



4 CCFI, IEA (Jun 2020). [Energy Investing: Exploring Risk and Return in the Capital Markets A Joint Report by the International Energy Agency and the Centre for Climate Finance & Investment](#). Imperial College Business School Centre for Climate Finance and Investment, International Energy Agency

5 IEA (May 2020). [World Energy Investment 2020](#).

6 Stevens, P. (12/04/2020). [OPEC and allies finalize record oil production cut after days of discussion](#). CNBC

7 Hipple, K., Sanzillo, T., Williams-Derry, C. (25/08/2020). [IEEFA brief: Second quarter results show that shareholder dividends pushed oil supermajors deep into red](#). Institute for Energy Economics and Financial Analysis

THE FINANCIAL SECTOR IS NOW A TARGET OF CLIMATE-RELATED LITIGATION

2019 saw a sharp increase in the number of legal actions involving climate change:⁸ nearly 1,500 cases were recorded in January 2020, the vast majority of these in the United States. This stakeholder pressure tactic, which is gaining traction around the world, initially took aim at States, but is increasingly targeting companies, mainly in the fossil fuel sector. Lawsuits naming financial players are beginning to appear, particularly in Australia, where proceedings have been launched against the Australian pension fund REST by some of its shareholders, as well as against the ANZ bank and Commonwealth Bank of Australia. In the Netherlands, action taken against ING by a non-profit actor ultimately led to in-depth dialogue between the parties. Law firms expect to see litigation increase as awareness of risks grows, as the possibility of financial actors being held liable for inaction increases, and as legislation evolves. The results of these proceedings will be closely watched by members of the financial industry well beyond the countries in which the legal actions are unfolding.

Better identifying, evaluating, and, ultimately, reducing these climate-related risks to balance sheets is now an objective for a growing portion of the financial sector, driven by pressure from financial regulators, at least in Europe.

⁸ de Wit, E., Seneviratne, S., Calford, H. (Feb. 2020). [Climate change litigation update](#). Norton Rose Fulbright; Clifford Chance (Oct. 2019). [Climate Change Litigation. Tackling climate change through the courts](#).

1 Some progress on integrating climate change into the decisions of financial actors

A • Finance seeks to extend its assessment of climate risks

FROM IDENTIFICATION TO INTEGRATION OF CLIMATE RISKS: THE TCFD MAKES HEADWAY

In 2017, the Task Force on Climate-related Financial Disclosure (TCFD) created in 2015 by the G20 Financial Stability Board (FSB) delivered the culmination of its efforts. This was the first-ever transparency framework setting out both the financial risks associated with climate change and the opportunities associated with the low-carbon transition. In it, the TCFD recommended that economic and financial actors disclose publicly their integration of climate issues in four areas: governance, strategy, risk management, and metrics and targets. It also suggested that they test their current activities and strategies for the future against different climate scenarios, including at least one low-carbon scenario.⁹

Application of these recommendations is strictly voluntary. In February 2020, the TCFD announced that more than 1,000 different organisations around the world supported these recommendations, including nearly 500 financial sector companies, representing nearly USD 140 trillion¹⁰ in assets under management. For instance, one of world's two largest pension funds, Japan's GPIF, completed its first TCFD-based reporting in 2019.

Despite the financial sector's vested interest in reducing climate-related financial risks, it must be acknowledged that adopting the TCFD's recommendations, which are primarily intended for businesses, entails a detailed reference framework that is complex and costly to apply in its entirety. This places it out of reach for a majority of the entities making up the world's economic fabric; it remains a tool used mostly by large multinational companies. In practice, the financial world continues to lament a lack of data that is easy to access, understand and leverage to inform decisions. A survey published in late 2019 by the Global Sustainable Investment Alliance,¹¹ which brings together the Sustainable investment forums around the world, shows that while investors consider the TCFD's recommendations very useful, they are rather dissatisfied with the climate-related information published by listed companies, particularly in the United States. Only one-third of investors use this information in their investment analysis, and a reliance on third-party data providers remains predominant.

⁹ The Paris Agreement sets an objective of limiting global warming to less than 2°C, which involves reducing GHG emissions to reach neutrality in the second half of the century, and if possible 1.5°C which involves achieving carbon neutrality in 2050.

¹⁰ Task Force on Climate-related Financial Disclosures (12/02/2020). [More than 1,000 Global Organizations Declare Support for the Task Force on Climate-related Financial Disclosures and its Recommendations](#)

¹¹ Global Sustainable Investment Alliance (Dec. 2019). [Sustainable Investor Poll on TCFD Implementation](#).

In the spirit of the TCFD's recommendations, several countries and regions of the world have introduced legislation making some form of climate disclosure mandatory for companies and the financial sector (see below).

CLIMATE TOOLS AVAILABLE TO FINANCE

The TCFD provides a list of the tools financial institutions can use to manage climate risks. The simplest, though approximate, is measuring the carbon footprint of their activities and monitoring its evolution, year after year. In order to reduce this carbon footprint, they can set objectives for green financing/investment. They may also exclude or limit their involvement in sectors that are high emitters of greenhouse gases (GHG). The objective can be twofold: to reduce the climate-related risks of their portfolios, and to increase the positive impact of their financing and investments with regard to the low-carbon transition. Most of these approaches remain qualitative. Sophisticated tools for measuring and monitoring risks and impacts at the level of institutions' balance sheets are currently being developed. These seek to make it possible to carry out risk simulation tests based on differing scenarios for climate-related variables, to choose strategic options for the development of portfolios and to set rules for making financing and investment decisions.

Implementation of TCFD and financial actors' policies

Conducting these estimations and simulations does not necessarily mean choosing to pursue a policy consistent with the objectives of the Paris Agreement. Nevertheless, it paves the way for portfolio assessment and meeting the growing requirements of regulators and supervisors, which are also beginning to use climate scenarios to run stress tests for the institutions they supervise (see below).

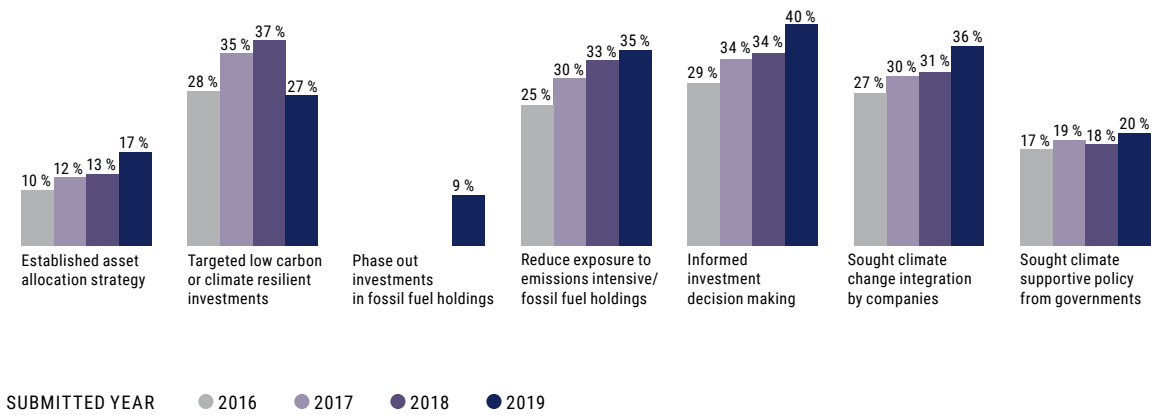
Investment: the climate is making its way into management decisions, but more rarely into strategy

Since 2018, the Principles for Responsible Investment (PRI) require climate reporting from signatories, per the transparency guidelines recommended by the TCFD. The PRI are the world's largest responsible investment initiative, with more than 2,000 signatory institutional investors (asset owners) and asset managers, with nearly USD 90 trillion under management in 2019. Analysis of this reporting thus provides a good indication of the progress made by a significant portion of the sector.¹²

The climate is becoming a factor in asset management...

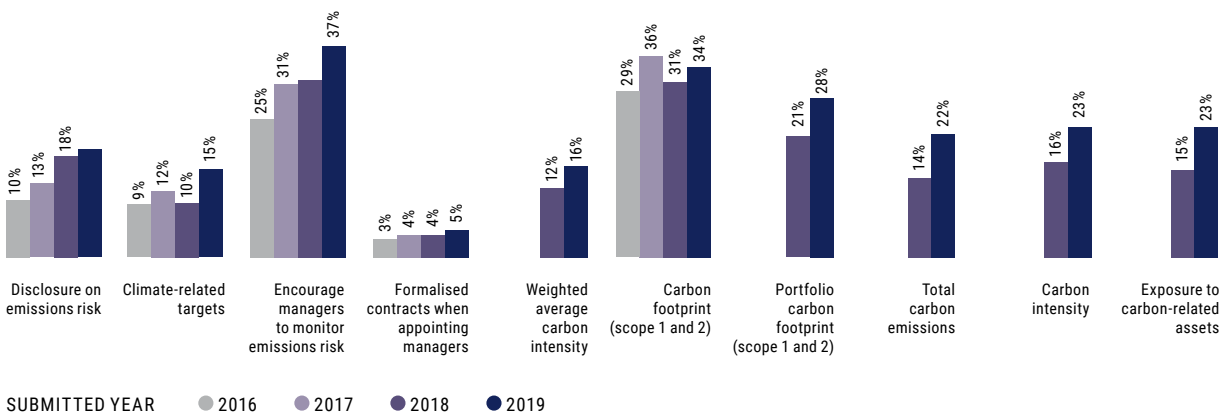
Some 40% of investors take climate issues into account in making investment decisions. More explicitly determined to participate in the low-carbon transition and to have a positive impact, 27% target low-carbon investments (**fig. 2**). The decrease in this figure between 2018 and 2019 may be interpreted as a sign of the scarcity of this type of asset. Fossil fuel exclusion policies are still very much a minority approach, but a third of investors are reducing exposure to the sector. Engagement with companies is the tool most frequently used, with nearly 40% of investors employing it.

¹² Principles for Responsible Investments (2019). [PRI climate snapshot 2019](#)

FIGURE 2**CLIMATE POLICIES OF PRI SIGNATORY INVESTORS**Source: *Principles for Responsible Investment, 2020***...but it is not yet a consideration in strategy**

Of all the signatories, only 19% had a climate strategy in 2019. This percentage is higher among institutional investors (25%), and thus lower among asset managers. In general, the climate is taken into consideration by a slightly higher proportion of investors than managers. Institutional investors are increasingly encouraging their portfolio managers to address climate-related risks, but this has yet to be formally included in most of management mandates. A small segment (17%) of investors has introduced climate-related parameters into asset allocation (choice of asset classes, time horizons, geographic considerations and investment sectors). Scenario analysis remains a minority practice, but is increasing: 27% employed it in 2019 versus only 14% in 2018. The most widely used scenarios are the Sustainable Development Scenario (SDS) and the Beyond 2°C Scenario (B2DS) from the International Energy Agency (IEA). The IPCC’s high temperature increase scenarios also appear, but to a lesser extent, indicating greater consideration for transition risks than physical risks overall.

The most frequently used measurement tool remains a portfolio’s carbon footprint and variants thereof (**fig. 3**). However, risk management and monitoring exposure to brown assets also continue to gain ground..

FIGURE 3**CLIMATE POLICY TOOLS USED BY PRI SIGNATORY INVESTORS**Source: *Principles for Responsible Investment, 2020*

Unsurprisingly, European investors, along with investors from Australia, New Zealand and Japan, are more attentive to the climate than their American, Asian and African counterparts. The improved scores achieved by French investors suggest that the disclosure requirements introduced in 2015 by Article 173 of the French Energy Transition Law have spurred them into action, even if players from other countries have very similar scores. The effects over the next few years of regulatory changes underway at the European Union level (see below), which will make this disclosure mandatory, should prove instructive in this respect.

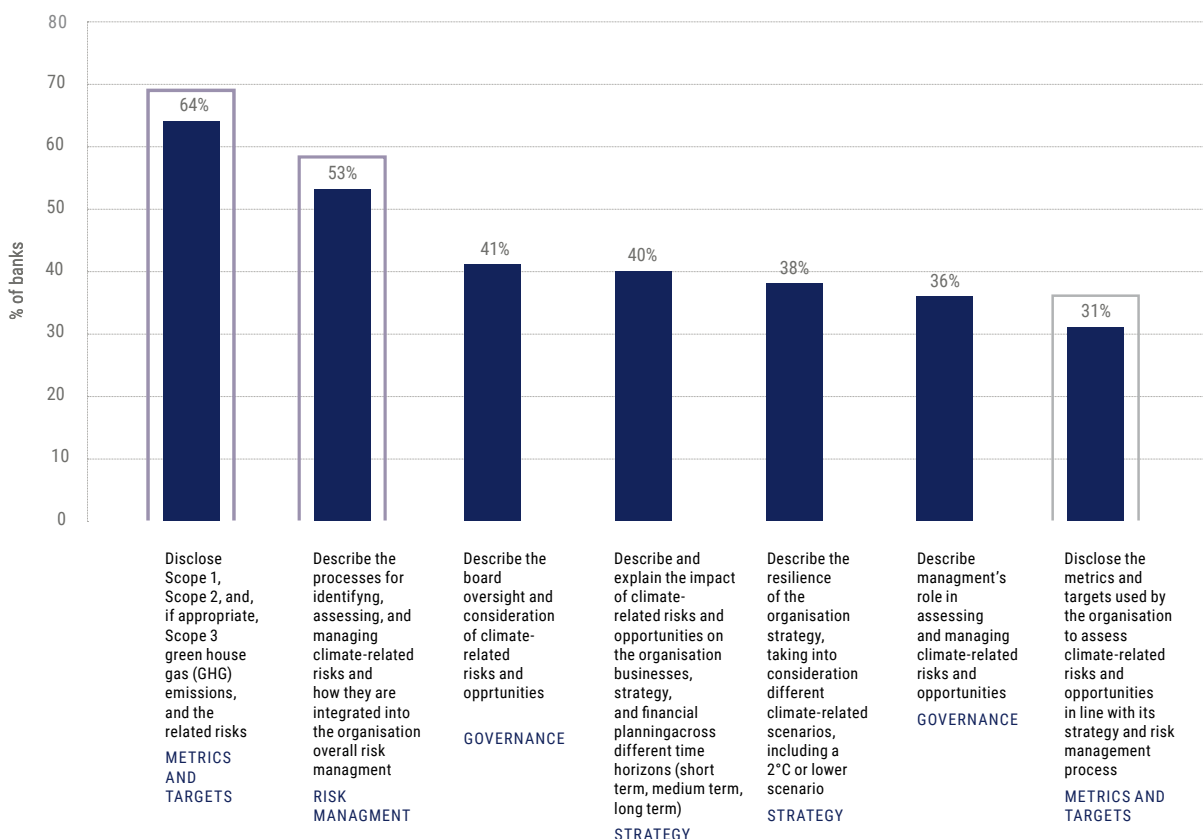
These results should be interpreted with caution. First, they cover only the PRI signatories, meaning the most mobilised investors. Secondly, they are based on investors' self-assessments, do not necessarily cover all their activities and do not necessarily reflect the quality of their data and methodologies. More broadly, this shows tools and means, not impacts. This also applies to the climate actions of banks described below.

BANKS: HIGHLY VARIABLE CLIMATE CONSIDERATIONS

According to a recent report by BCS Consulting,¹³ only 39 banks have started to publish reports that comply with the TCFD's recommendations. Basically, these are large banks, representing some 24% of the global banking sector, 85% in Europe, 31% in Asia and 49% in the United States. The entire Chinese banking sector, along with certain major banks in the United States and in Europe, such as Wells Fargo, Unicredit and Commerzbank, are still ignoring the recommendations. Of the banks publishing a climate report, the French banks show the greatest maturity in deploying the measures recommended by the TCFD, followed by banks in the United Kingdom and Switzerland.

FIGURE 4

IMPLEMENTATION OF TCFD RECOMMENDATIONS BY BANKS - Source: [BCS Consulting, October 2019](#)



13 Fontaine, H. (14/10/2019). [TCFD framework: Global Progress Report for the banking sector](#). BCS Consulting

A majority of the banks studied, 64%, do publish their carbon footprint. More than 50% of them offer green financial products such as green loans and green bonds. More than half also set targets, limits and exclusions for sector financing.

A slim majority of 52% integrate climate-related risks into their risk management, whether for physical or transition risks, and have access to decision-making tools. Meanwhile, 38% of surveyed banks use climate scenarios, but only 10% have carried out stress tests.¹⁴

It can be concluded that at banks, as among investors, the integration of climate considerations into banking strategies and decisions is still imperfect. Some banks have set up their own decision-making systems to manage their risks. To date, the only investment bank that shares both its method and results is Natixis, which published its Green Weighting Factor in September 2019.

POLICIES TOWARDS HIGH-RISK SECTORS: EXCLUSION AND RESTRICTION

Divestment policies

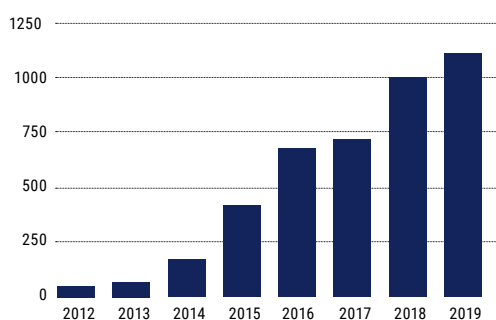
Sector-based exclusion policies for investors consist in divesting their portfolio of financial assets in certain sectors, and ceasing to invest in them on the basis of specific criteria, such as climate related criteria. While such approaches can reduce climate-related risks for financial players, they are not a central climate policy tool (**fig. 3**), except for those whose policies are based around strong convictions. Nevertheless, this type of policy is now widespread enough to be considered a financial risk by the companies concerned, particularly those in the fossil fuel sector. Coal — the most carbon-intensive energy — is the top target, but exclusions also extend to the most costly and most climate- and environmentally-damaging forms of oil and gas production: oil sands, Arctic drilling, and to a lesser extent deep-water drilling and hydraulic fracturing. These practices can also be part of a strategy to escalate shareholder engagement policies as the ultimate means of exerting pressure on companies. In practice, they are also the result of increasing campaigns by non-profits lobbying financial actors in view to making access to capital more and more difficult and expensive for the fossil fuel sector.

FIGURE 5

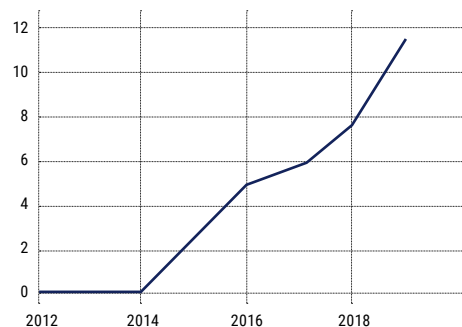
THE RISE OF DISINVESTMENT IN THE FOSSIL FUEL SECTOR 2012-2019

Source: [DivestInvest - 350.org - Go Fossil Free, December 2019](https://divestinvest.org)

GROWTH IN NUMBER OF DIVESTMENT COMMITMENTS



GROWTH IN TOTAL ASSETS OF DIVESTING INSTITUTIONS (TRILLIONS USD)



According to the latest report of the DivestInvest¹⁵ movement from December 2019, divestment

¹⁴ A bank stress test is an exercise that entails simulating extreme but plausible economic and financial conditions in order to analyse the consequences on banks and measure their ability to withstand such situations. These tests are conducted by central banks. To learn more: <https://www.lafinancepourtous.com/decryptages/crises-economiques/mecanique-des-crises-stress-test-test-de-resistance-bancaire/> (website in French)

¹⁵ Cadan, Y., MOkgopo, A., Vondrich, C. (Sep. 2019). [\\$11 Trillion and counting](https://divestinvest.org). *Fossil Free*

from fossil fuels increased from USD 52 billion to USD 11 trillion cumulatively between 2014 and 2019. Remarkably, it is practiced not only by small, high-conviction funds, but also by some of the largest institutional investors and asset managers for whom divestment is often partial: the Norwegian sovereign wealth fund, Amundi, Legal & General, etc. While the large asset managers in the United States remain on the sidelines of this movement, BlackRock, the largest of all, both in the US and worldwide, decided in January 2020 to partially divest from coal. However, the decision only covers its actively managed funds and applies only to companies deriving more than 25% of their revenues from coal-related activities.

Divestment is now considered a major risk by companies in the fossil fuel sector, who see it as a threat of increase in the cost of capital in a context of decreased financial prospects due to the Covid-19 pandemic. Massive divestment would have a concrete impact on their financial conditions and would contribute, with shareholder engagement, to forcing them to define credible transition strategies in order to maintain a 'social licence to operate'. Moreover, exclusion practices are tending to extend to other environmental issues, such as contribution to deforestation, loss of biodiversity, etc.¹⁶

Bank exclusions and restrictions

According to the *Banking on Climate Change 2020* annual report,¹⁷ 26 of the 35 largest banks worldwide have adopted policies restricting coal financing, and 16 also limit their financing in the oil and gas sector, in particular regarding oil sands and Arctic production. These policies are mostly partial, as they only target project finance and not corporate finance, or because the thresholds set still allow for the development of new production capacities, for instance. Only two banks have extended their restrictions to shale oil and gas and LNG terminals: BNP Paribas and Unicredit. Paradoxically, the report also shows that a bank can define a restrictive investment policy while substantially increasing its financing volumes¹⁸ in the fossil fuel sector.

US banks, which remain by far the largest contributors to financing the fossil fuel sector across the board, are cautiously beginning to set rules for coal and, to a lesser extent, the Arctic. While the policies of Crédit Agricole and BNP Paribas are considered the most restrictive, the Scottish bank Natwest/RBS announced a more strategic approach to its oil and gas policy in February 2020, which will consist in ceasing to finance companies that have not put in place a 'credible transition plan' by 2021 to align with the objectives of the Paris Agreement.¹⁹

Insurance exclusions

In 2017, some insurance companies began to deny coverage to companies, facilities and projects in sectors that contribute significantly to global warming and its consequences. Their main motivation was to ensure consistency between their exclusion policy as investors (see above) and their core business as insurers. This type of exclusion primarily concerns coal. One NGO campaign, 'Insuring Coal No More'²⁰ seeks to extend this exclusion and is monitoring progress. As of December 2019, a total of 17 companies, representing 9.5% of the insurance sector and nearly 50% of the

16 Husson Traore, A.-C. (03/09/2020). [Forests and Finance veut stopper la déforestation en asséchant ses financements](#). *Novethic*

17 Rainforest Action Network, Banktrack, Indigenous Environmental Network, Oil Change, Reclaim Finance, Sierra Club (2020). [Banking on Climate Change. Fossil Fuel Finance report 2020](#).

18 The financing estimated by this report covers corporate financing and debt underwriting in project finance.

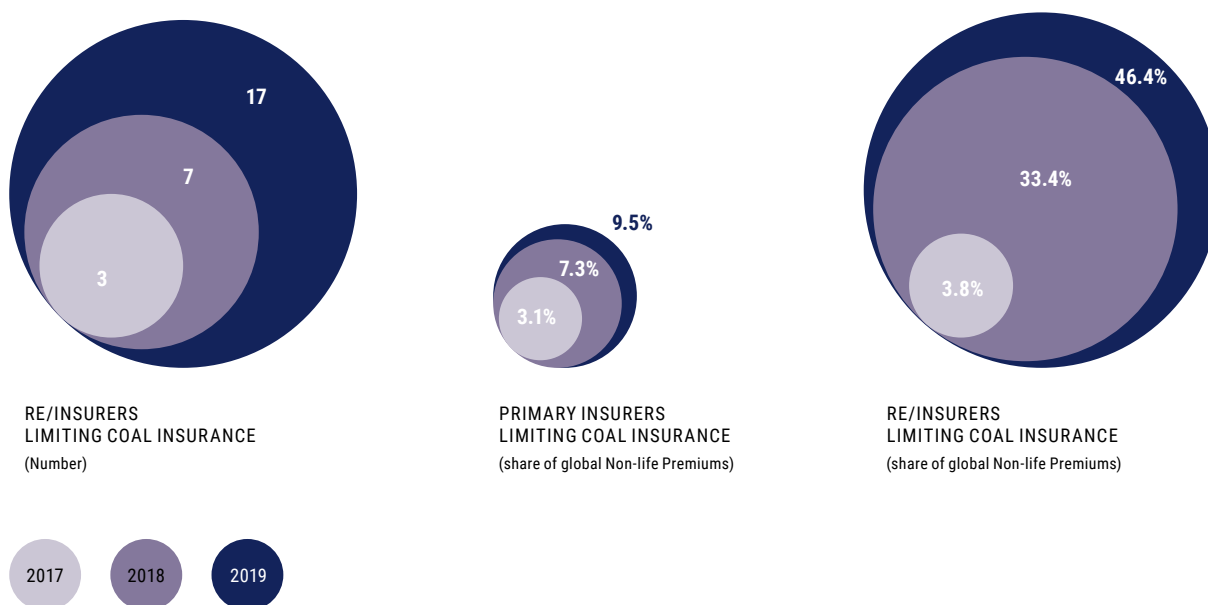
19 <https://www.natwestgroup.com/our-purpose/climate.html>

20 Bosshard, P. (Dec. 2019). [Insuring Coal No More. The 2019 Scorecard on Insurance, Coal and Climate Change](#). *Unfriend Coal*

reinsurance sector,²¹ had stopped insuring new coal projects (**fig. 6**). This movement, which started in Europe, spread to the United States and Australia in 2019. Nevertheless, the very large American insurers remain loyal to coal and, in Asia, only China's Ping An announced a restrictive policy in 2019. The most comprehensive exclusions are practised by Swiss Re and Zurich. These exclude not only new projects but also the existing operations of companies active in coal and oil sands. While it is difficult to estimate the impact of such measures on the real economy, they could make insurance less accessible, raising policy prices, limiting access to bank financing and contributing to the competitive advantage of green energy.

FIGURE 6

EVOLUTION OF EXCLUSION IN THE INSURANCE MARKET - Source: [Unfriend Coal/Insure Our Future, 2019](#)



B • Tools for measuring the contributions of finance to meeting the Paris Agreement are gradually taking shape

LOOKING FOR PARIS-ALIGNED STRATEGIES

Starting in 2018, a handful of financial institutions, starting with development banks, affirmed their willingness to pursue a strategy of alignment with the objectives of the Paris Agreement. This generally meant aiming to reach net-zero emissions from their activities in 2050. Such a commitment calls for efforts to craft definitions and methods that remain ongoing. As of 2019, the multilateral development banks had adopted guidelines; other development banks belonging to the International Development Finance Club (IDFC) are working on an operational framework. Thirty-three banks that are signatories to the Principles for Responsible Banking have also stepped up and made this commitment, of which five, signatories to the Katowice Pledge, worked together. They have published a joint methodology, based on the PACTA tool from the 2 Degrees Investing Initiative think tank, which they adapted to their credit portfolios in 2020. Morgan Stanley was the first bank in the United States to make this alignment commitment, also in 2020.²²

²¹ Reinsurance: practice of a specialized company assuming part of the risks covered by insurance companies.

²² Press release (21/09/2020). [Morgan Stanley Announces Commitment to Reach Net-Zero Financed Emissions by 2050](#). Morgan Stanley

The Net-Zero Asset Owner Alliance²³ coalition, launched in September 2019 by six institutional investors, has attracted new members. As of mid-2020, the initiative counted 29 investors representing nearly USD 5 trillion in assets under management. The European network, Institutional Investors Group on Climate Change (IIGCC), proposed an initial framework²⁴ of recommendations to achieve this alignment. It is still early days to report on the progress of these commitments, given the complexity of the task of designing methodologies to rationally steer their business activities towards a net zero carbon footprint by 2050. A variety of methods and tools have been developed over the past five years.

The most successful tool, which offers open-source availability and benefits from public funding, remains the Paris Agreement Capital Transition Assessment (PACTA), developed by the 2 Degrees Investing Initiative think tank.²⁵ Since its launch in 2018, it has been used by many investors to test their portfolios, and has been adapted for banks as of September 2020. Also in September 2020, the Science Based Targets initiative published a specialist tool for the financial sector.²⁶ Under the banner of the Principles for Sustainable Insurance initiative, several insurance companies are also jointly developing methods for addressing both physical and transition risks.

Published in 2020 by the Institut Louis Bachelier,²⁷ a report analyses a dozen or so of these methods, both third-party service offerings and publicly available tools which aim to establish temperatures for financial portfolios as way of assessing their performance. It emerges from the study that these methods are quite disparate, that their results are not very comparable and above all, that they are highly inconsistent.

DEPLOYING GREEN FINANCING AND OTHER PRODUCTS: GREEN BONDS, GREEN LOANS, GREEN INSURANCE

Meanwhile, low-carbon transition finance and investment products, which are also business opportunities for banks and asset managers, are rapidly being rolled out.

Sustainable investment funds

The volume of investment funds described as sustainable exceeded USD 1 trillion in 2020, according to Morningstar.²⁸ This growth, which mainly concerns Europe (86%), has accelerated markedly since the start of the Covid-19 crisis. There are now nearly 3,500 listed sustainable funds and index funds (ETFs) of the 22,000 investment funds inventories worldwide. These funds incorporating ESG investment criteria include climate-related and low-carbon transition funds, as well as those with environmental themes such as water, biodiversity and renewable energy. However, no detailed breakdown is available on a global scale.

Green bonds

Green bonds, whose specificity is to guarantee that funds raised finance or refinance projects with a positive environmental impact, first saw the light in 2007. Since then, the market has been growing, diversifying and becoming more sophisticated.

²³ <https://www.unepfi.org/net-zero-alliance/>

²⁴ Press release (05/08/2020). [\\$16 trillion investors develop first-ever framework for net zero investing](#). The Institutional Investors Group on Climate Change

²⁵ <https://2degrees-investing.org/resource/pacta/>

²⁶ <https://sciencebasedtargets.org/financial-institutions-2/>

²⁷ Reynaud, J. et al. (Sep. 2019). [The Alignment Cookbook. A Technical Review of Methodologies Assessing a Portfolio's Alignment with Low-Carbon Trajectories or Temperature Goal](#). Institut Louis Bachelier

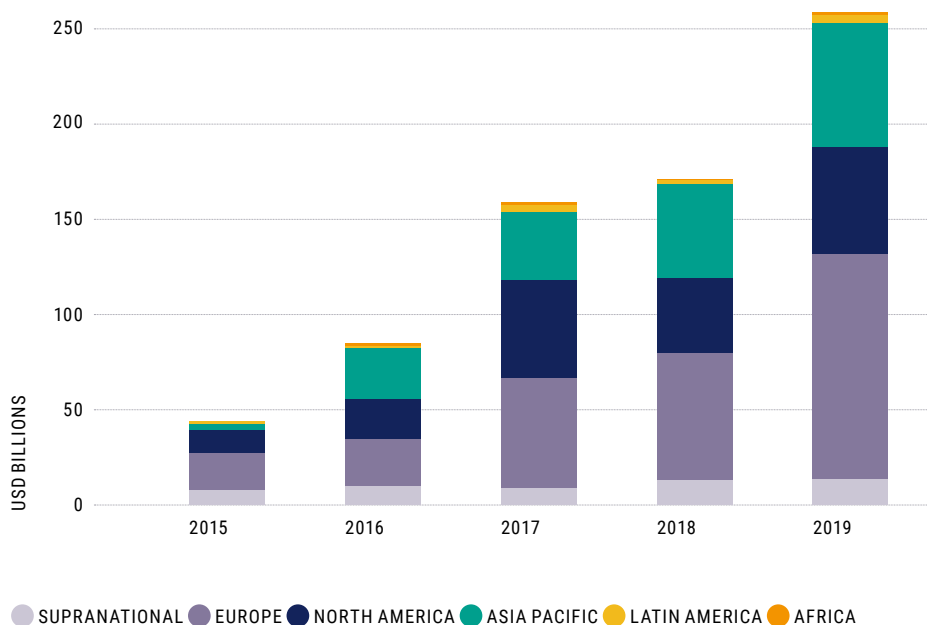
²⁸ [https://www.environmental-finance.com/content/news/esg-fund-assets-pass-\\$1trn-milestone.html](https://www.environmental-finance.com/content/news/esg-fund-assets-pass-$1trn-milestone.html)

In 2019, the market set new records for issuance with USD 260 billion issued after remaining stable in 2018.²⁹ Diversification continued apace in terms of transaction size, number of issuers, and countries and continents of origin. Europe, the United States and China account for the largest market shares (**fig. 7**).

FIGURE 7

ISSUANCE OF GREEN BONDS BY REGION: EUROPE LEADS MARKET GROWTH IN 2019

Source: [Climate Bond Initiative, 2020](#)

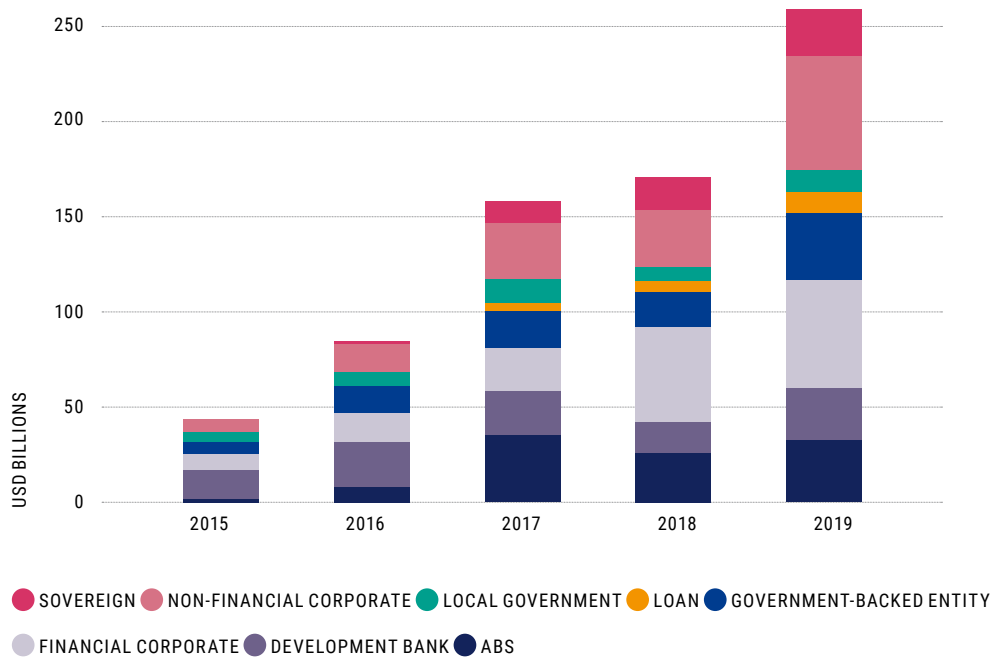


Numbers of issuers increased across all categories in 2019, particularly private companies, but also financial institutions, States, local authorities, public companies and development banks (**fig. 8**). Regular contributors to on the market include Fannie Mae (the US national mortgage association), Le Grand Paris, and the German development bank KfW. Interestingly, Chile was Latin America's leading issuer in 2019.

Energy, real estate and transport were the main sectors financed by green bonds. Water management, waste management and sustainable land use remain more difficult to raise funding for (**fig. 9**). 2019 saw the EBRD launch the first green bond dedicated to climate resilience,³⁰ and also meeting the Climate Bond Initiative (CBI) standard. Development banks, with whom the market originated, remain major issuers of green bonds. They also support the market's development by underwriting, in whole or in part, transactions of other issuers in developing and emerging countries, whether corporates, banks or sovereigns. They currently play a decisive standard-making role in bringing projects related to the marine economy to the bond market.

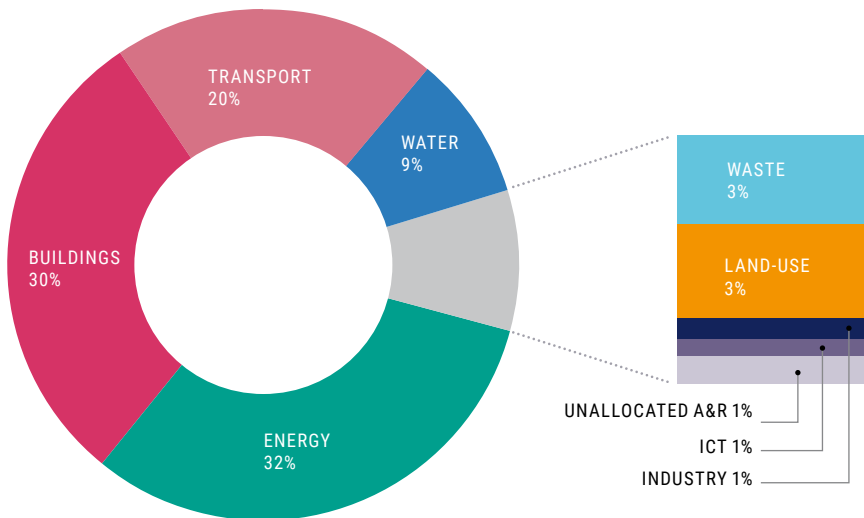
29 Climate Bonds Initiative (July 2020). [Green Bonds. Global State of the Market](#).

30 Bennett, V. (20/09/2019). [World's first dedicated climate resilience bond, for US\\$ 700m, is issued by EBRD](#). *European Bank for Reconstruction and Development*

FIGURE 8**FOR THE FIRST TIME, IN 2019, NON-FINANCIAL COMPANIES ARE THE MAIN ISSUERS OF GREEN BONDS**Source: [Climate Bond Initiative, 2020](#).

The market's diversity and its ability to take on new environmental challenges beyond climate alone are signs of its dynamism. In the Green Bond Principles, the market possesses voluntary rules on transparency, integrity and impact measurement that are frequently updated within the framework of the International Capital Market Association (ICMA). In 2019, more than 85% of emissions were audited or subjected to an external review, including 17% with CBI certification. These rules on disclosure and performance measurement will be further enhanced in Europe with the adoption in 2021 of the EU Green Bond Standard, based on the European Union's taxonomy of sustainable activities (see below). In parallel, Chinese authorities announced at the beginning of 2020 that the list of activities that may be financed by green bonds would be updated to exclude coal. When this new taxonomy is adopted, it will bring Chinese green bonds closer to global standards and should attract interest from international investors.

Despite its renewed growth in 2019, the market remains small: To finance the low-carbon transition on the scale needed would require volume of issuance to reach USD 1 trillion per year, according to the Climate Bonds Initiative (CBI). This is more than the total volume of green bonds currently in circulation. Going forward, volume growth for this market is expected to come mainly from the creation of a favourable environment for financing the green economy. Another idea is to create additional classes of bonds beyond the 'green' category that reflect the impact or transition of issuers.

FIGURE 9**ENERGY, BUILDING AND TRANSPORT REPRESENT MORE THAN 80% OF THE AREAS FUNDED IN 2019**Source: *Climate Bond Initiative, 2020*

Reconciling market expansion and integrity: The idea of creating a category of transition bonds has been floating around for some years. This type of product should enable companies in high-carbon-emitting sectors, which are unlikely to gain access to the green bond market without causing controversy, to secure funding for their transition strategy. In 2019, AXA IM took the concept a step further by proposing guidelines for transition bonds. In fact, a number were issued in 2019: SNAM, an Italian energy infrastructure manager, the Brazilian company Marfig in the agri-food industry, and the bank CA-CIB, to refinance loans to carbon-intensive companies, are a few examples. The ICMA is now conducting further review to craft a set of guiding principles. 2019 also saw the first issue of a sustainability-linked bond by the Italian electricity company Enel. In this case, the bond is intended to finance the company's development as a whole and not precisely defined green activities. However, the payout is subject to increase if the issuer meets its stipulated environmental and social performance levels, as measured by indicators. Tools of this type can make it possible to finance issuers' transition beyond the scope of traditional green bonds. But they also raise questions. Are the environmental objectives set by the issuer itself ambitious enough? What guarantees that these bonds will not also finance the development of a company's 'brown' assets? For these reasons, such products may not fully meet the expectations of investors and their supervisors.

The rise of green financing

The year 2018 saw a new type of loan appear: green loans earmarked by the borrower to finance assets and activities with an environmental impact. In 2019, the total amount of such loans reached USD 78 billion, compared to USD 60.5 billion in 2018 (+28%). Currently, the labelling of these loans is based on borrowers' willingness to qualify them as such and on compliance with voluntary principles jointly agreed upon by market players, based on the model of green bonds. The approach is particularly interesting for major borrowers, who rely on large-volume syndicated loans³¹ to improve their access to the debt market.

Another category of impact loan saw the most spectacular growth in 2019: **sustainability-linked loans**. These loans, whose interest rate is linked to the achievement of performance levels measured

³¹ Loan granted by a group of banks to a company or a project.

by environmental and social indicators, amounted to USD 122 billion in 2019, representing growth of 168%. This still represents a tiny part of the global credit to the economy. For example, Royal Dutch Shell borrowed USD 10 billion in December 2019³² in the form of a syndicated loan, for which the amount paid will depend on the borrower achieving its short-term objectives on reducing its net carbon footprint. Because it relies on the borrower defining its own objectives this type of loan still raises questions. Observers and investors would like to also see in-depth explanations of each borrower's transition strategy and proof that its indicators constitute ambitious progress.

In the future, the accounting of green loans will be more systematic in Europe as a result of the disclosure obligations that will apply to major banks for the portion of their activities that fall within the European taxonomy of sustainable activities (see below). It is likely that the total volume of loans so recorded will considerably exceed just those loans currently labelled as green, despite the narrow definition of green activities in the taxonomy project.

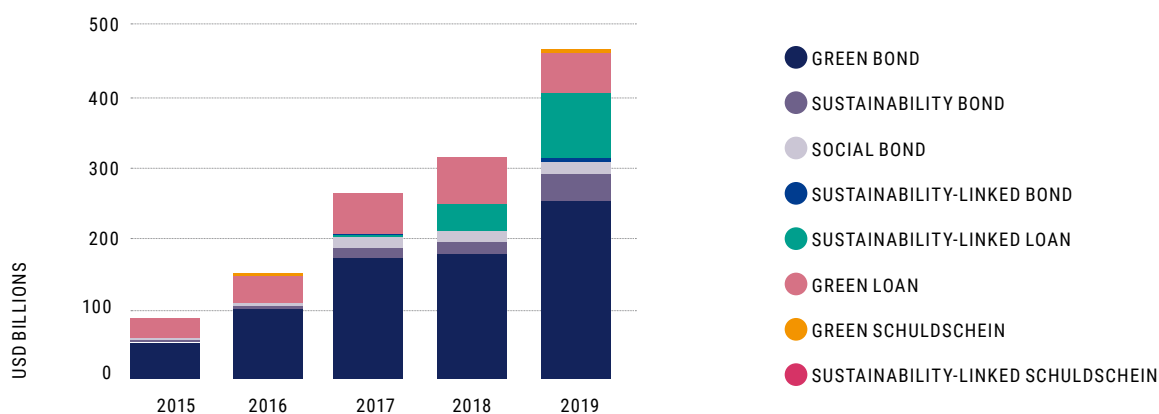
The sustainable debt market

Overall, the sustainable debt market, comprising the different categories of green, sustainable and social bonds and loans, grew by 78% in 2019, according to Bloomberg (**fig. 10**).

FIGURE 10

GREEN AND SUSTAINABLE DEBT REACHED MORE THAN USD 460 BILLION IN 2019

Source: Bond data de BNEF, loans and Schuldschein de Bloomberg



The sustainable insurance market

Until now, the insurance sector has focused its climate and environmental work on its role as an institutional investor. But attitudes are beginning to change towards mobilising its core business as well, i.e. offering products to cover risks that have an impact on the low-carbon transition or contribute to resilience to climate change.

In a July 2020 report,³³ Allianz Research identifies several areas where insurance can contribute to making companies more sustainable. For example, it is possible to identify new ways of transferring risk in the face of extreme weather events, notably through public-private partnerships. Damage repayment conditions can also be introduced in insurance policies to prevent damage

32 Press release (13/12/2019). [Shell signs innovative \\$10 billion revolving credit facility](#). Royal Dutch Shell

33 Zimmer, M., Gismondi, K. (30/07/2020). [Impact Underwriting: Sustainable Insurance as an opportunity for society and business](#). Allianz, Euler Hermes

and 'build back better' to be more resilient. The sector can also help remove non-financial barriers that slow down energy efficiency renovation decisions in real estate, and increase guarantees of energy savings. Expanding insurance coverage among the world's population, including through microinsurance and insurance of the agricultural sector, also contributes to increasing resilience.

These types of insurance product are trending, but growth is not currently quantifiable. A first step was taken in July 2020 by the California Insurance Commissioner with the publication of an online database of the insurance policies available worldwide to individuals and companies that help reduce greenhouse gas emissions or increase the resilience of policyholders against climate change.³⁴ The database lists hundreds of products for housing, vehicles, agriculture and the protection of natural areas.

DEVELOPMENT BANKS AND THE GREEN CLIMATE FUND

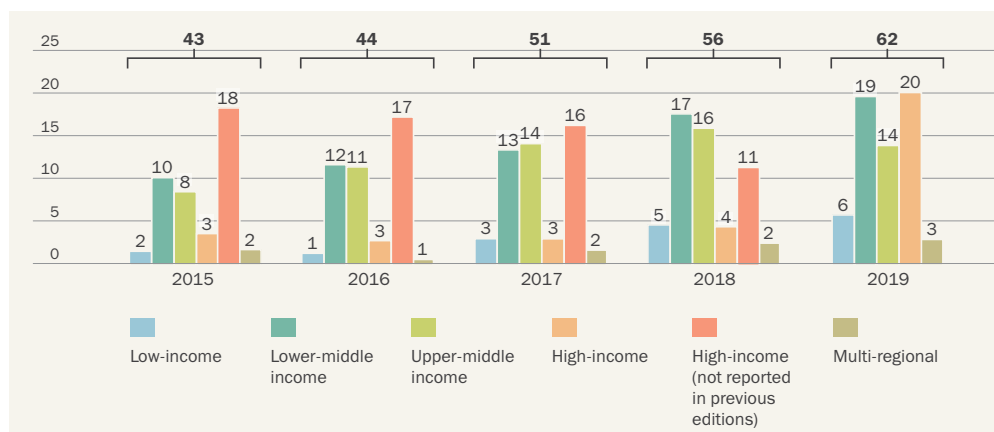
Multilateral development banks: green financing became 30% of business

In 2019, multilateral development banks³⁵ allocated USD 62 billion to climate change³⁶ (**fig. 11**), with 76% for mitigation and 24% for adaptation.³⁷ Adding the funds they manage and the co-financing linked to their operations, the total comes to USD 164 billion. This represents, on average, 31% of their activity. Financing for developed countries mainly concerns the European Investment Bank (EIB) in the European Union, and the European Bank for Reconstruction and Development (EBRD) for countries of the former Soviet bloc.

FIGURE 11

EVOLUTION IN CLIMATE FINANCING BY MULTINATIONAL DEVELOPMENT BANKS

Source: [Joint report on multilateral development banks climate finance, 2020](#)



The national and regional development banks' high potential

In 2019, the 26 members of the International Development Finance Club (IDFC), which gathers regional and national development banks, dedicated USD 197 billion to green finance, around 25% of their activities. Some 87% of these commitments, mostly loans, are domestic, which shows the strong power of national public banks. Adaptation finance has expanded more than threefold

³⁴ https://interactive.web.insurance.ca.gov/apex_extprd/f?p=142:1

³⁵ African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank Group (IDB Group), World Bank Group (WBG), Islamic Development Bank (IsDB).

³⁶ AfDB, ADB, AfIB, EBRD, EIB, IDBG, IsDB, WBG (2019). [Joint report on Multilateral Development Banks Climate Finance](#).

³⁷ Financing for adaptation only include the share of financing aimed at reducing the vulnerability of projects. Mitigation funding includes all projects.

since 2015 and now represents 10 % of climate finance. In 2019, IDFC established a strategic partnership with the Green Climate Fund.

The Green Climate Fund reaches cruising speed

In late 2019, the major international tool for financing climate action in developing countries saw the future of its activities guaranteed, thanks to the completion of its first replenishment campaign, five years after its operational launch. Twenty-seven countries have pledged USD 9.8 billion to the Fund for the 2020-2023 period.

By end of April 2020,³⁸ the GCF had approved 123 projects for commitments of USD 5.3 billion and, through co-financing, a total value of USD 18.9 billion. The Fund has entered a new phase in its development: bringing the projects financed to fruition. Currently, 103 projects are in the implementation phase; this is reflected in a sharp rise in disbursements, which reached USD 1.2 billion in 2019 compared to a few hundred million the year before.

The GCF has also taken upon itself to look for synergies with the various climate-related multilateral public funds,³⁹ in particular the Climate Investment Funds (CIFs), the Global Environment Facility (GEF) and the Adaptation Fund (AF), in order to address challenges in terms of orientation and procedure encountered by countries and project holder.

C • A new frontier: the search for impact

'RETHINKING THE PLACE OF BUSINESS IN SOCIETY'⁴⁰

The search for impact takes place first and foremost at the level of the company, where the notion of combining profit and social utility is increasingly being considered seriously.

This debate initially centred around the emergence of a more comprehensive definition of the corporation that would legally enable companies adopting it to make commitments to social utility beyond the traditional corporate purpose of pursuing shareholders' financial interests. The United States was the first country to introduce this legal structure, more than 10 years ago, with the Benefit corporation or 'B Corp', defined as a for-profit enterprise that creates a good of general interest. Other countries have undertaken similar initiatives, such as Italy with the '*Società Benefit*' in 2016.

Beyond this regulatory and legal debate, the expansion of the B Corp label (more than 3,500 companies from 74 countries were certified in 2020)⁴¹ reflects an increasing desire on the part of companies to present themselves as socially useful to all their stakeholders, including financial players.

In France, the PACTE law, which entered into force in May 2019, offers companies the opportunity to specify a '*raison d'être*' (guiding principles),⁴² i.e. to include in their corporate purpose a project that serves the collective interest. By June 2020, three quarters of CAC 40 companies had published

38 Green Climate Fund (21/08/2020). [GCF at a glance. Project Portfolio](#)

39 Wöreln, C., Altevogt, J., Keppler, L. (2020). [Synergies between climate finance mechanisms Synthesis report](#). *Climate Investment Funds, Green Climate Fund*

40 Extract from [LAW n° 2019-486](#) of 22 May 2019 relating to the growth and transformation of companies (known as the PACTE Law)

41 <https://bcorporation.eu/about-b-lab/country-partner/france>

42 "The by-laws "may specify a *raison d'être*, constituted of the principles which the company is endowed with and for the respect of which it intends to allocate means in the performance of its activity," Pacte law as quoted from <https://corpgov.law.harvard.edu/2019/06/08/french-legislation-on-corporate-purpose/>

a *raison d'être*, a trend that has accelerated in recent months in the context of the health crisis.⁴³ Presenting a *raison d'être* afforded the management of these various companies an opportunity to talk about the utility and vision of their business models in light of social and environmental issues.

However, the diversity of companies' commitments leaves them with little in common. In many cases, there is also a gap between a company's public pronouncements and its legal registration per its articles of association. As of June 2020, only 20% of CAC 40 companies had voted to introduce their *raison d'être* in their company statutes.⁴⁴ Thus shareholders still have a key role to play in supporting votes on this topic at general meetings. .

SHAREHOLDER ENGAGEMENT

In parallel with the internal journey of reflection at companies, investors are also seeking to increase the impact of the companies they hold shares in. To do so, they can leverage tools such as engagement through shareholder dialogue, voting policies and interventions at general meetings..

Shareholder dialogue

Shareholder dialogue on climate is a practice that is rapidly gaining ground with investors (see above), as evidenced by the scale of the Climate Action 100+ initiative (CA 100+) launched in 2017. By the end of 2020, the platform will bring together more than 500 investors from a dozen countries who collectively manage more than USD 47 billion. The initiative conducts collective engagement with 161 of the world's most emissions-intensive companies.

For example, a group of investors belonging to Climate Action 100+ and led by BNP Paribas Asset Management successfully won a shareholder majority of 53% at Chevron in favour of a proposal calling for the company to align its climate-related lobbying with the objectives of the Paris Agreement. This marked the first time a climate-related proposal received a majority of votes at Chevron.⁴⁵

In mid-2020, CA 100+ evaluated its track record since its launch, publishing several indicators:

- 120 companies have appointed a director or manager with explicit responsibility for leading the climate change issue,
- 50 have expressed the goal of achieving net-zero emissions by 2050 or earlier,
- 58 support the TCFD's recommendations.

In September 2020, CA 100+ sent a letter to each of the 161 targeted companies,⁴⁶ asking them to establish a roadmap for getting to 'net-zero emissions' and providing them with a framework for implementation that the investor group will use as a tool for evaluating company strategies and steering future engagement campaigns.

Voting at general meetings of shareholders

Voting at annual general meetings is the most transparent way both put pressure on companies and to engage them in dialogue.⁴⁷ To this end, shareholders have increasingly turned to filing climate resolutions. So far, they have mainly called on companies to provide greater disclosure, in

43 Confluence (June 2020). [CAC 40 companies at the time of the *raison d'être*. Where are they 2 years after the Notat-Sénard report?](#)

44 Ibid.

45 Koning Beals, R. (24/06/2020). [For first time ever, majority of shareholders push oil giant Chevron to align with Paris climate pact](#). Market Watch.

46 Climate 100+ (14/09/2020). [Climate Action 100+ calls for net-zero business strategies & sets out benchmark of largest corporate emitters](#).

47 Matsuo, T., LaMonaca, S. (24/06/2020). [Shareholders Keep Up the Pressure on Corporate Climate Action](#). Rocky Mountain Institute.

line with TCFD recommendations. Gradually, however, investors are going further, pushing companies in the most emissions-intensive economic sectors to implement strategies that are compatible with the objectives of the Paris Agreement. Several European companies from the oil and gas sector — Shell, BP, Total, Repsol and ENI — announced in the first half of 2020 that they were setting a target of ‘net-zero emissions’ by 2050. Looking closely, however, it turns out that none of the policies actually corresponds to real alignment with a 1.5°C or 2°C scenario.⁴⁸ Several resolutions submitted in 2020 at Shell, Total and Equinor called for such alignment, but failed to garner the majority required for adoption.

In the United States, the concept of adaptation is beginning to emerge in shareholder engagement. A number of resolutions have been tabled asking companies what measures they are taking to protect themselves from the physical risks of global warming, particularly as regards coastal industrial facilities on the Gulf of Mexico.⁴⁹ Meanwhile in 2019, the US Securities and Exchange Commission (SEC), which oversees the financial markets, proposed a measure restricting the ability of shareholders to file resolutions by increasing the minimum equity thresholds for doing so in 2019.⁵⁰ The adoption of these new rules in August 2020 constitutes a distinct setback in terms of investors’ leverage.

A wide array of resolutions submitted in 2020 sought to increase the transparency of companies’ climate lobbying practices and that of the professional organisations to which they belong. Beyond the oil and gas sector, this trend also held true for transport companies (car manufacturers, airlines...), which received extensive emergency support in the wake of the crisis caused by Covid-19.

It is also worth noting the banking sector has begun to feel pressure from shareholders. For instance, climate resolutions submitted at JP Morgan Chase came close to achieving a majority. Likewise, Japan’s Mizuho Financial Group, a major lender to the coal sector, was the target of a resolution to which it responded by announcing that it would stop financing new coal production or use projects. In the United Kingdom, after a resolution was filed calling on Barclays to desist from financing fossil fuel companies that fail to comply with the Paris Agreement, management has committed to making its activities carbon neutral by 2050.⁵¹

Overall, shareholder support for climate resolutions is on the rise, standing at 23% on average in 2020 as compared to 16% in 2019. During the same period, nearly 40% of the resolutions submitted were withdrawn before a vote at the general meeting due to companies’ promise of targeted action.

FROM SOCIALLY RESPONSIBLE INVESTMENT (SRI) TO IMPACT INVESTING

Attempts to achieve a positive impact on society and the economy based on financing decisions have been taking shape over the last decade.

On the one hand, ‘impact investing’ is growing briskly (USD 715 billion in 2020 vs. USD 502 billion last year)⁵² driving and supporting impact measurement initiatives, such as the Global Impact Investing Network (GIIN), which published the IRIS+ impact indicator database in 2019. However, as an investment category it remains a niche market.

On the other hand, it is fair to say that thinking about impact is no longer confined to the ‘impact

48 Coffin, M. (24/06/2020). [Absolute Impact: Why oil majors’ climate ambitions fall short of Paris limits](#). *Carbon Tracker*.

49 Cook, J. (04/06/2020). [Key ESG Issues Up for Shareholder Vote](#). *Morningstar*.

50 Levy, M. (22/06/2020). [SEC’s Proposed Amendment to Rule 14a-8 May Make Life More Difficult for Climate Investors](#). *Harvard Law School, Environmental & Energy Law Program*.

51 Press release (07/05/2020). [24% of shareholders voice dissent at Barclays’ current fossil fuel support](#). *ShareAction*.

52 Hand, D., Dithrich, H., Sunderji, S., Nova, N. (Juin 2020). [Annual Investor Impact Survey 2020](#). 10th edition. *Global Impact Investing Network*.

investing' movement per se. Many investors who have developed responsible investment practices over a period of years, notably by integrating ESG criteria into their investment process, now wish to go beyond their current approach and consider the positive externalities of their investments.

In a total market estimated by the International Finance Corporation (IFC)⁵³ at more than USD 8 trillion in 2019, nearly 2,000 of the world's 22,000 investment funds — i.e. some USD 500 billion in capital — affirm they are seeking to make a positive impact. Of these, 900 funds (USD 205 billion) have a performance measurement system. While the practices most often develop social objectives, more than half seek a climate-related impact, whether through investment in green businesses, renewables, energy efficiency or sustainable agriculture.⁵⁴

Turning to **thematic funds**, we also see an increasing demand for impact indicators. Of the 207 sustainable thematic funds in Europe identified by Novethic,⁵⁵ half report or include indicators measuring the fund's positive impact as of June 2020. Approximately 40% of these indicators relate to the environment, with a strong climate component (carbon footprint and 2°C trajectory).

Similarly, the success of the **Sustainable Development Goals** reflects a desire on the part of responsible investors to use this reference framework as a methodological and strategic foundation for certain funds. A full 31% of signatories to the Principles for Responsible Investment (PRI) mentioned the SDGs in 2020, compared with 16% in 2018.⁵⁶ The PRI also published a proposed reporting structure based on the SDGs in 2020. However, the current lack of relevant methodological standards and the difficulties associated with measuring impact mean that a hodgepodge of practices have arisen.

FOR A BETTER UNDERSTANDING

METHODOLOGICAL STANDARDS TO AVOID 'SDG-WASHING'

Numerous initiatives seek to clarify impact assessment, and SDG reporting more specifically, by developing methodological standards. Alongside the Global Impact Investing Network (GIIN), other groups have formed to develop standards for all asset classes:

- The **Impact Management Project (IMP)** brings together more than 2,000 different entities and a network of thirteen organisations (PRI, OECD, UNEP FI, UN Global Compact...) The initiative has been endorsed by the G7 since July 2019. Launched in 2016, its project aims to secure agreement on the critical constitutive elements of impact measurement.

- In 2019, the World Bank Group's IFC published its **Operating Principles for Impact Management (OPIM)**, a set of nine principles for integrating impact throughout the investment process that reference the IMP's work on impact measurement; the project's goal is to achieve a consensus on global standards by 2021.

- In September 2020, asset managers PGGM and APG Group launched the **SDI-AOP (Asset Owner Platform for Sustainable Development Investments)**, in view to designing a methodology to classify investments and their contributions to the UN SDGs. This project adheres to the SDG taxonomy published in 2017.

53 Gregory, N., Volk, A. (Juin 2020). [Growing Impact. New Insights into the Practice of Impact Investing](#). International Finance Corporation World Bank Group.

54 Hand, D., Dithrich, H., Sunderji, S., Nova, N. (Juin 2020). [Annual Investor Impact Survey 2020](#). 10th edition. Global Impact Investing Network

55 Novethic (Sep. 2020). [TheNovethicindicator](#).

56 Principles for Responsible Investments (15/06/2020). [Investing with SDG outcomes: a five-part framework](#).

2 Financial regulation and supervision are accelerating trends

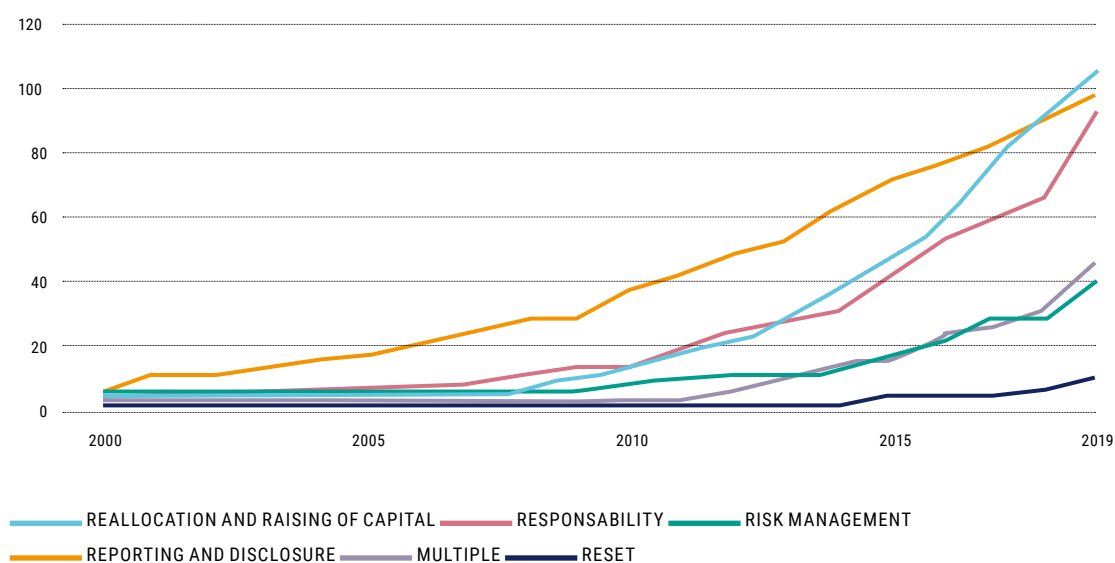
Consideration for climate change and the risks it involves is gaining ground amongst various regulators worldwide. A good indicator of this is the growing membership of the Network for Greening the Financial System (NGFS). Today, the group comprises 66 central banks and supervisors (compared with 8 when it was created in 2017) who seek to create a joint response to the challenges of global warming as a means of ensuring financial stability. The Basel Committee that establishes global standards for prudential regulation of banks has also undertaken works in a Task Force on Climate-related Financial Risks.⁵⁷

By the end of October 2019, by governments and financial regulators had announced more than 390 policies and measures at the national or regional level (fig. 12) to promote green and sustainable finance, according to the FC4S network and the UNEP Inquiry.⁵⁸ This constitutes a 25 per cent increase over 2018 and is double the number for 2015.

FIGURE 12

POLICY AND REGULATORY MEASURES SUPPORTING SUSTAINABLE FINANCE 2000-2019.

Source: [UNEP Inquiry, 2020](#)



In the European Union, the sustainable finance plan announced in March 2018 by the European Commission is on track. The plan began the implementation phase in 2019 with a number of legislative measures. For 2020, a new wave of sustainable finance policies intended to bring about the European Green Deal is underway. Baptised the 'Renewed Sustainable Finance Strategy,' it aims to achieve carbon neutrality in the EU by 2050 (fig. 13).⁵⁹

⁵⁷ <https://www.bis.org/press/p200430.htm>

⁵⁸ Mancini, M., Van Acker, D. (Avr. 2020). [Nudging the financial system. A network analysis approach](#). The UNEP Inquiry, UNDP Finance Sector Hub, The International Network of Financial Centres for Sustainability (FC4S Network)

⁵⁹ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/what-sustainable-finance_en

FIGURE 13**10 STRATEGIC AXES OF THE EUROPEAN ACTION PLAN FOR SUSTAINABLE FINANCE.**Source: [Finance for Tomorrow, 2020](#)

For its part, the European Central Bank (ECB) launched, in May 2020, a guide for banks explaining its expectations regarding the integration of climate risks in their overall risk management.⁶⁰ The guide, which was subject to consultation procedures through 25 September 2020, states that credit institutions must disclose their environmental and climate-related risks and explicitly include such exposure in their risk structure.

The process set in motion by regulators and supervisors has three main components: progress on the definition of a 'green' asset, better integration of climate risks, and increased disclosure requirements for financial activities and products.

A • Significant progress in defining green assets

Ensuring the reallocation of funding and investments towards activities and projects compatible with a low-carbon economy, starts with the challenge of defining a 'sustainable' investment. As a unified classification system for sustainable activities, the European Taxonomy aims to harmonise this definition and thus provide a foundation.

FIGURE 14**ENVIRONMENTAL ISSUES TARGETED BY THE EUROPEAN TAXONOMY.**

To build this classification, **six environmental** issues were selected as pillars: climate change mitigation, adaptation to climate change, protection of water and marine resources, transition to a circular economy, pollution control, and protection of ecosystems (**fig. 14**).

⁶⁰ Press release (20/05/2020). [ECB launches public consultation on its guide on climate-related and environmental risks](#). European Central Bank

Generally speaking, for an economic activity to be considered 'sustainable', it must demonstrate a substantial contribution to one of these six issues, without significantly affecting the other five pillars (the 'Do No Significantly Harm' principle). Furthermore, it must meet minimum social guarantees, i.e. it must comply with certain regulations, including the *OECD Guidelines for Multinational Enterprises* and the *UN's Guiding Principles on Business and Human Rights*.

At this juncture, the taxonomy's technical criteria are restricted to identifying economic activities that contribute significantly to climate change mitigation or adaptation.⁶¹ Ultimately, the taxonomy hopes to publish screening criteria to identify activities that make significant contributions to the four other environmental issues cited above.

The Regulation setting out the principles for application of the new European taxonomy was adopted by the European Parliament in June 2020.⁶² The European Commission will now prepare the delegated acts addressing specific technical criteria for the two issues of climate change mitigation and adaptation. Their adoption is expected by the end of 2020, for anticipated entry into force in December of 2021.

A 'Platform on Sustainable Finance', which should be operational sometime in autumn 2020, will be tasked with developing detailed technical criteria for the four other issues. The adoption of delegated acts relative to these objectives is scheduled for December 2021, with entry into force slated for 2022.

On the operational side, the European taxonomy specifies the obligations relative to transparency contained in the Disclosure Regulation.

A number of politically sensitive topics have been set aside for the moment, including the nuclear issue and development of a brown taxonomy. A taxonomy of so-called 'brown' (environmentally harmful) activities was supported by the Network for Greening the Financial System (NGFS) in its *Call for Action* report published in April 2019,⁶³ to complement and complete the green taxonomy's tool for reallocating funding and investment. The latest version of the draft taxonomy (March 2020) recognises the need for a comprehensive taxonomy covering all environmental objectives, thereby admitting the future possibility of developing methodology for a brown taxonomy. However, anything along these lines will have to wait for 2022.

Europe is not alone in working to publish a taxonomy: China has announced that it is currently updating its own. China's version is not identical to the European project — among other notable differences, it is expected to include nuclear power, major hydroelectric projects, cement and certain gas transport infrastructures — however, it is moving closer to meeting the expectations of international investors by excluding coal. Canada is also preparing a transition taxonomy,⁶⁴ which will more broadly cover activities taking steps to reduce their greenhouse gas emissions. The European Commission launched in 2019 an International platform on sustainable finance, that offers a dialogue forum between policymakers on the topic.

61 [According to the](#) latest publication of the EU Technical Expert Group on Sustainable Finance (Mar.2020). [Taxonomy - Final report of the Technical Expert Group on Sustainable Finance](#)

62 [Regulation \(EU\) 2020/852 of the](#) European Parliament and of the Council of 18 June 2020 on establishing a framework to promote sustainable investment and amending Regulation (EU) 2019/2088

63 Network for Greening the Financial System (Apr. 2020). [A call for action. Climate change as a source of financial risk](#). Central Banks and Supervisors Network for Greening the Financial System (NGFS)

64 <https://www.csagroup.org/news/defining-transition-finance-in-canada/>

B • Integrating climate risks in the balance sheets of financial institutions is moving to an operational phase

Climate risks are currently all but absent from the management of financial institutions' balance sheets and from related regulations (Basel III and Solvency II). Moreover, the ECB recognises that it is too early to impose capital requirements on financial institutions pegged to their climate risk exposure through a *Green supporting factor* or a *Brown penalising factor*.⁶⁵ The subject is now well documented by a reference study by the I4CE⁶⁶ think-tank, and some authorities have already launched pilot programmes, such as the Hungarian Central Bank, which introduced a programme in late 2019 to reduce capital requirements for green housing loans (notably energy renovation credit) over the 2020-2023 period.⁶⁷

In addition, more and more regulators are working on analysing this exposure, particularly by means of stress tests.

Stress tests are tools regularly used by supervisors to determine whether banks hold sufficient capital reserves with hypothetical systemic shocks. Banks are then subjected to macroeconomic scenarios with deteriorating conditions (sudden drop in confidence, fall in economic growth, etc.). Similarly, climate resilience tests are designed to model the impacts of climate change on different macroeconomic variables (cost of repeated extreme weather events, implementation of restrictive regulations, etc.), in order to integrate them into the reference scenarios.

A preliminary test was carried out by the Dutch Central Bank (DNB) in 2018.⁶⁸ While the variables analysed are limited, consisting mainly of implementation of government policies (i.e. a carbon price) and a technological breakdown, and the time horizons studied — less than 5 years — are rather short, the exercise laid the groundwork for the development of more complex methodologies.

Regulators are showing increasing interest in this type of test, and several methodologies are currently being developed, although their delivery schedule will likely be disrupted by the Covid-19 crisis. For example, the Bank of England, which had planned to conduct a 'climate stress test' by the end of 2020, with results expected in 2021, has decided to postpone this exercise to the second half of 2021 at the earliest.⁶⁹

For its part, the French supervisory body for banking and insurance (ACPR) also launched a climate resilience pilot project in July 2020.⁷⁰ The test has a twofold objective: to call the attention of French banking and insurance institutions to the risks associated with climate change and to identify the main difficulties involved in conducting such an exercise. The results will be submitted by the participants by the end of 2020.

C • Increasing disclosure requirements

Transparency with regard to how climate change issues are taken into account makes it possible to better understand, measure and thus manage the risks it poses to the financial system. Since the

65 Press release (20/05/2020). [ECB launches public consultation on its guide on climate-related and environmental risks](#). European Central Bank

66 Berenguer, M., Cardona, M., Evain, J. (March 2020). [Integrating climate risks into banks' capital requirements](#). Institute for Climate Economics (I4CE)

67 Press release (18/12/2019). [Hungarian Central Bank \(MNB\) introduces a green preferential capital requirement](#). European Covered Bond Council Programme

68 Vermuelen, R., Schets, E., Lohuis, M., Kölbl, B., Jansen, D.-J., Heeringa, W. (2018). [An energy transition risk stress test for the financial system of the Netherlands](#). De Nederlandsche Bank

69 Marsh, A. (07/05/2020). [Bank of England postpones climate stress test to focus on virus](#). Bloomberg

70 Autorité de Contrôle Prudentiel et de Résolution, Banque de France (16/07/2020). [Main scenarios and assumptions of the climate pilot exercise](#).

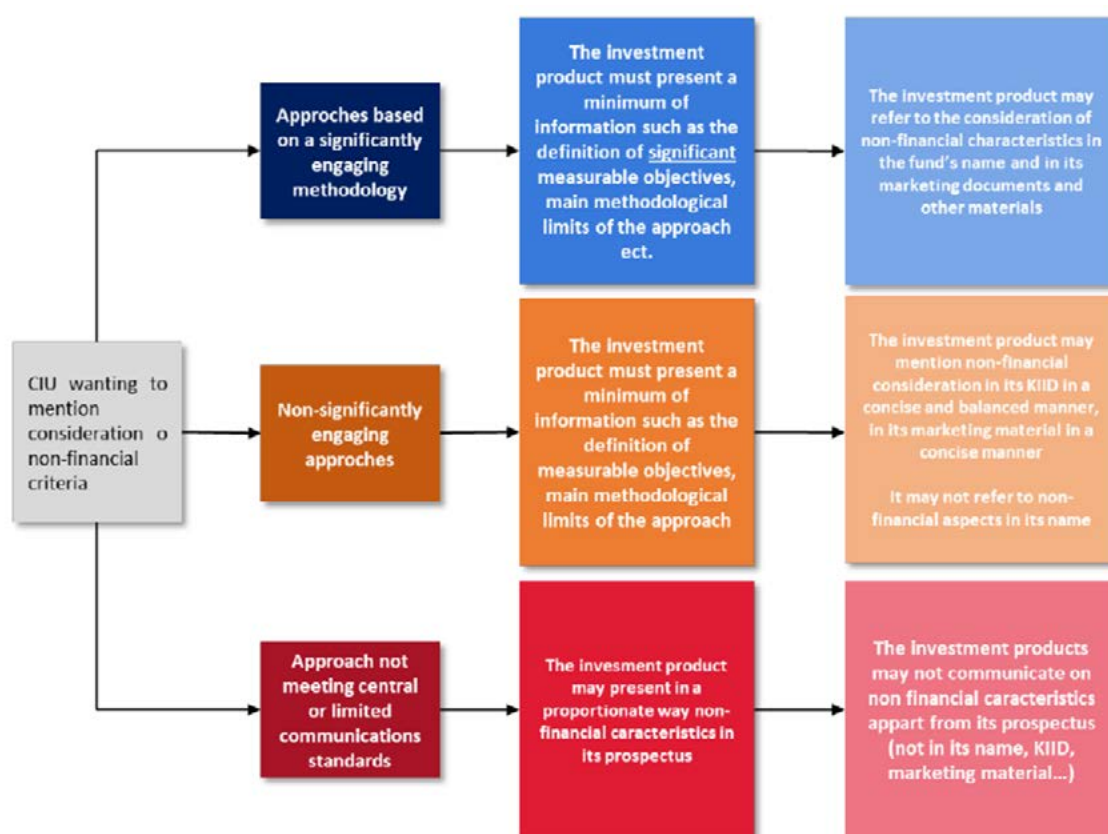
initial impetus provided by France's Article 173 of the Law on Energy Transition for Green Growth of 2015, regulators and supervisors worldwide are increasing their requirements in this area.

Building on the work of the *Task Force on Climate-related Financial Disclosure*,⁷¹ the European Commission published in December 2019 a Regulation on sustainability related disclosures in the financial services sector.⁷² The information required, in the form of 32 performance indicators (KPIs), concerns not only how sustainability risks are integrated into investment processes, but also their main negative effects on sustainability factors. This regulation will be effective as of March 2021, standardising rules regarding the information that must be published and regularly updated by participants in the financial market.

At the state level, in view to 'encouraging and supporting the drive towards sustainable finance, while ensuring the conditions for trust and the emergence of best practices,' the French AMF (*Autorité des marchés financiers*) has published a doctrine⁷³ stipulating the circumstances under which information on the consideration of extra-financial criteria may be shared by French collective investment schemes (mutual funds) and by foreign undertakings for collective investment in transferable securities (UCITS)⁷⁴ marketed in France. The details of this policy are illustrated in the following diagram:

FIGURE 15

MINIMUM STANDARDS FOR PRODUCTS WISHING TO COMMUNICATE ON THE CONSIDERATION OF EXTRA-FINANCIAL CRITERIA - Source: [AMF](#)



71 Task Force on Climate-related Financial Disclosure (Juin 2017). [Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures](#)

72 [Regulation\(EU\) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability reporting in the financial services sector](#)

73 Autorité des Marchés Financiers (March 2020). [Information to be provided by collective investment schemes integrating extra-financial approaches](#). AMF Position/ Recommendation DOC-2020-03

74 Ceballos, G. et al. (2015). [Accelerated modern human-induced species losses: Entering the sixth mass extinction](#). *Sciences Advances*, vol. 1, n°5

3 Green finance: beyond the climate

A • '2020: the year of biodiversity'

While climate is now at the centre of environmental concerns for a vast majority of financial actors, a holistic view of current environmental issues must also include the biodiversity crisis. We are currently experiencing the 6th mass extinction of biodiversity since the beginning of life on Earth.⁷⁵ This is taking place notably through a massive acceleration in the rate of species extinction⁷⁶ as documented in a report by IPBES, an institution equivalent to the IPCC, but for biodiversity.

Economic and financial players have seized on the topic lately. Here we may cite the *World Economic Forum 2020* report, which places biodiversity loss among the most likely and most impactful of global risks facing humanity. The massive erosion of biodiversity affects the quality of ecosystem services provided by nature to humankind, thereby weighing on economic profitability. Indeed, the current coronavirus crisis is itself the result of a combination of increased biodiversity loss, increased contact between wild species, and a loss of natural habitats to the benefit of human practices.⁷⁷

In response, high-level political summits have been held to raise awareness of the issue and take action globally. In 2019, a G7 Environment summit in Metz (France) ratified a charter on biodiversity,⁷⁸ while the IUCN World Conservation Congress in Marseille (France) and the CBD COP15 biodiversity conference in China, both initially scheduled for 2020 but likely postponed to 2021, will provide an opportunity for authorities worldwide to consider an international framework for setting and achieving biodiversity management and protection goals. The stakeholder consultation process prior to the COP by the Convention on Biological Diversity (CBD) has already led to the publication of preliminary recommendations for 2030 and 2050, with targets designed to be both realistic and ambitious.

FINANCIAL PLAYERS ARE GRADUALLY FINDING THEIR FEET IN THIS ENVIRONMENT, WITH INTERESTING PROSPECTS ON THE HORIZON

Driven by the current situation, some actors have publicly aired their commitments and positions. The insurance company AXA, in partnership with WWF France, published a report⁷⁹ on the various dimensions of integrating nature into investment strategies. The publication's third recommendation is to develop a biodiversity risk analysis framework for investors. On 25 September 2020, in parallel with the UN General Assembly, a Finance for Biodiversity Pledge was officially launched by 26 signatories, consisting of financial institutions from 10 countries (HSBC Global AM, New Forests Pty Ltd, Volksbank, Domini Impact Investments LLC, Bankinter, Allianz France, etc.). In France, members and partners of the Business Club for Positive Biodiversity (Club B4B+) published a joint Op-ed⁸⁰ on 27 May 2020, laying out the need for biodiversity metrics to measure and reduce the biodiversity

75 Ceballos, G. et al. (2015). [Accelerated modern human-induced species losses: Entering the sixth mass extinction](#). *Sciences Advances*, vol. 1, n°5.

76 Díaz, S. et al. (2019). [Summary for policymakers of the global assessment report on biodiversity and ecosystem services](#). *The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services*

77 Voir notamment les travaux de Jones, K.E., Patel, N.G., Levy, M.A., Storeygard, A., Balk, D., Gittleman, J.L. et Daszak, P. (2008). [Global Trends in Emerging Infectious Diseases](#). *Nature*, vol. 451, n°21, pp. 990-994 et Keesing, F. et al. (2010). Impacts of Biodiversity on the Emergence and Transmission of Infectious Diseases. *Nature*, vol. 468, pp. 647-652.

78 G7 Environment (May 2019). [Metz Charter on Biodiversity](#).

79 Bluet, H., Ionescu, C. (Mai 2019). [Into the Wild: Integrating nature into investment strategies](#). WWF France, AXA.

80 Club B4B+ (26/05/2020). [Reliable metrics are needed to reverse the curve of biodiversity loss](#). La Tribune; Club B4B+ (18/05/2020). [We Need Sound Metrics to Reverse Biodiversity Loss at a Global Scale](#). *Responsible Investor*

footprint of their investments. Signatories include, among others, BNP Paribas Asset Management, Schneider Electric, Caisse des Dépôts, and Mirova, a subsidiary of Natixis Investment Managers.

EXPERIENCE FEEDBACK

MIROVA NATURAL CAPITAL

Mirova, a subsidiary of Natixis Investment Managers, is an investment management company. In October 2019, the asset manager finalised its acquisition of Althelia Ecosphere, a management company specialising in natural capital investment, after holding a 51% stake since 2017. Renamed Mirova Natural Capital, the fund now manages nearly €400 million of assets dedicated to biodiversity and natural capital conservation with the goal of reaching €1 billion under management by 2022. The investor holds real assets, debt and venture capital through four funds: Althelia Climate Fund, Sustainable Ocean Fund, Althelia Biodiversity Fund Brazil and Land Degradation Neutrality Fund. Working in partnership with international entities, including the United Nations Convention to Combat Desertification and UNEP, Mirova Natural Capital has deployed five natural capital investment strategies to provide financing solutions for Nature-based Strategies focused on three sectors: forests, land and oceans.⁸¹

Supporting biodiversity thanks to reliable and quantitative indicators seems increasingly within reach to investors. At the end of 2019, the European Business @ Biodiversity platform published an analysis of the biodiversity measurement tools available to businesses and financial institutions,⁸² highlighting similarities and differences among the tools released and/or under development (use context, boundaries of analysis and comparison, data requirements, metrics, etc.). According to CDC Biodiversité⁸³ the following instruments are available to the financial sector: the Global Biodiversity Score (GBS), the Biodiversity Footprint Financial Institutions (BFFI), and the Corporate Biodiversity Footprint (CBF) published by Iceberg Data Lab. The ENCORE tool, developed by the Natural Capital Finance Alliance (NCFA), identifies dependencies on Nature and pinpoints the associated business risks of each business. In January 2020, AXA Investment Managers, BNP Paribas AM, Sycomore AM and Mirova launched a joint call for proposals⁸⁴ to develop a tool for measuring the impact of investments on biodiversity by working with an ESG data provider. Iceberg Data Lab's solution was chosen from amongst the 14 proposals received. They are expected to begin work this autumn.⁸⁵

81 For more information: <https://www.mirova.com/fr/investir/capital-nature/>.

82 Lammerant, J. (06/12/2019). [Assessment of Biodiversity Accounting Approaches for Businesses and Financial Institutions](#). *EU Business @ Biodiversity Platform*, UNEP-WCMC, ABMB, Fundacao Boticario.

83 CDC Biodiversité (Juillet 2020). [Measuring the Contributions of Business and Finance towards the Post-2020 Global Biodiversity Framework](#). *Mission Économie de La Biodiversité*, CDC Biodiversité.

84 Press release (28/01/2020). [AXA IM, BNP Paribas, Mirova and Sycomore AM launch a joint call to develop a pioneering tool to measure biodiversity impact](#). Mirova.com.

85 n.a. (28/05/2020). [30 investors mobilise for biodiversity](#). *Wealth Monaco Finance & Investment eMagazine*.

MEANWHILE, REGULATIONS ARE EVOLVING AT EVERY LEVEL TO TAKE THESE ISSUES INTO ACCOUNT

At the transnational level, reflections are currently underway. A trend is emerging towards increased biodiversity reporting for both companies and investors. The IPBES recommends⁸⁶ implementation of a new reporting framework for private investment that would integrate the environmental and socio-economic impacts of investments along with their externalities. Per the conclusions of numerous studies, a *Task Force on Nature-related Financial Disclosures* (TNFD)⁸⁷ in charge of considering the publication of impacts on nature was established in 2020, bringing together an assortment of stakeholders from the world of finance, under the aegis of the UNDP, UNEP-IF, WWF and Global Canopy. The European Commission's action plan on financing sustainable growth⁸⁸ also addresses this issue.

In France, a Biodiversity Plan⁸⁹ issued in 2018 mentions establishing mandatory biodiversity reporting, to include details of direct and indirect stress and impact on biodiversity caused by the business (and/or investment). A report⁹⁰ by the French Accounting Standards Authority (*Autorité des Normes Comptables*) also recommends making biodiversity reporting compulsory. Article 173 of France's Law on the Energy Transition and Green Growth of 2015 (LTECV)⁹¹ was extended in 2019 to require that investors publish information on their contributions to ecosystem and biodiversity conservation. The main resources available in this area are the IFC's Performance Standards (No. 6 on biodiversity), the Finance Sector Supplement to the Natural Capital Protocol,⁹² and publications by the Coalition for Private Investment in Conservation.

In 2021, international meetings for COP15 and the IUCN Congress should bring these efforts to fruition, leading to ever broader commitments by financial players on the topic of Nature and biodiversity. This is clearly the direction taken by the draft⁹³ CBD published in 2020 for its suggested targets.

86 Díaz, S. et al. (2019). [Global Assessment Report on Biodiversity and Ecosystem Services](#). The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services.

87 A Task Force on Nature-related Financial Disclosures: <https://tnfd.info/>

88 European Commission (08/03/2018). [Action plan: financing sustainable growth](#). COM(2018)97. Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions.

89 Interministerial Biodiversity Committee (04/07/2018). [Biodiversity Plan](#).

90 de Cambourg, P., Gardes, C., Viard, V. (Mai 2019). [Ensuring the Relevance and Reliability of Non-Financial Corporate Information: An Ambition and a Competitive Advantage for a Sustainable Europe](#). *Autorité des Normes Comptables*

91 [Amendment No. FC559](#) to the draft law on energy and the climate

92 Natural Capital Coalition, NCF (Nov. 2018). [Connecting Finance and Natural Capital - A Supplement to the Natural Capital Protocol](#)

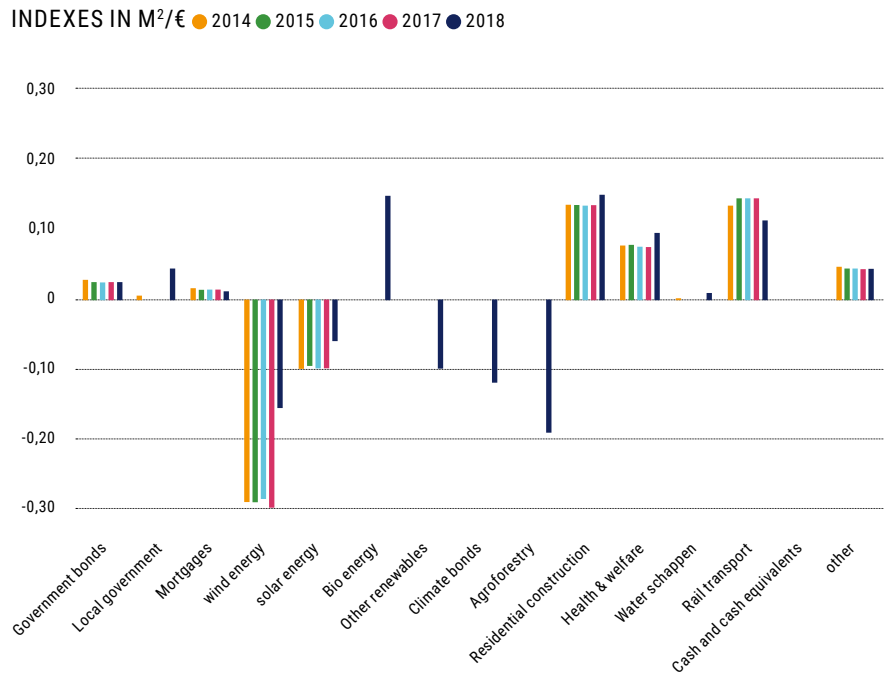
93 Convention on Biological Diversity (13/01/2020). [Zero Draft of the Post-2020 Global Biodiversity Framework](#)

ASN BANK CASE STUDY

The Dutch bank ASN Bank is committed to achieving a net positive impact on biodiversity through its lending and investment activities by 2030. Its strategy is two-fold. On the one hand, to reduce the ecological damage of its loan and investment portfolio and, on the other, to invest in wildlife conservation, renewable energy and the circular economy. Since 2014 the bank has been assessing the biodiversity footprint of its loans and investments in collaboration with various stakeholders (scientists, politicians, NGOs), measuring the intensity of biodiversity impacts per euro and type of investment, based on the *Biodiversity Footprint Financial Institutions* (BFFI) tool. Their analyses are transparent, and **figure 16** provides a breakdown of their investments' impacts between 2014 and 2018 by sector. In particular, investments in renewable energy and carbon storage (climate bond, agroforestry) appear as positive for biodiversity.

FIGURE 16

RATIO BETWEEN THE AMOUNTS INVESTED AND BIODIVERSITY IMPACTS IN M²/€ BETWEEN 2014-2018 - Source: [ASN Bank, 2020](#)



The graph shows impact intensities in m²/euro invested according to the different types of investment. Negative impact intensities indicate that the type of investment has a positive effect on biodiversity, according to the BFFI methodology, in that it is found to have a positive influence on the environment, in particular by reducing pressures on biodiversity (e.g. wind power on climate change).⁹⁴

94 To find out more: CREM, Pré, ASN Bank(August 2016). [Towards ASN Bank's Biodiversity footprint. A pilot project](#)

B • The effects of the Covid-19 pandemic

The Covid-19 pandemic brought into stark relief the social and health dimensions of sustainability. While green bond issues were frozen at the height of the crisis, a series of 'coronabonds' raised several tens of billions of dollars in the first half of 2020. Initially issued by development banks around the world, they were also taken up by private issuers, particularly in the health sector. More broadly, issuance of social or sustainable bonds, i.e. bonds that combine environmental and social objectives, have supplanted green bonds in recent months.

Separately, several analyses have tended to show that responsible investment funds, including environmental funds, have been more resilient to the shock that accelerated the creation of this type of fund,⁹⁵ capable of meeting the basic needs highlighted by the crisis. However, a recent OECD study⁹⁶ does not confirm this analysis and deplores a lack of standardised data and transparent methods for comparing performance across the entire economy and financial sector.

WILL PUBLIC FUNDING DRIVE A GREEN TRANSITION ?

As the crisis caused a sharp decline in growth, voices were quickly raised calling for the economic rescue and recovery plans that will guide the economy for years to come to serve as an opportunity to 'build back better'. Demands rolled in to accelerate the low-carbon transition rather than slowing it down, in contrast to the precedent of 2008, when the economic recovery went hand-in-hand with an even greater increase in GHG emissions. In this regard, handling of the energy sector will be critical.

Launched in 2020, the Energy Policy Tracker database⁹⁷ identifies and analyses the stimulus plans and public financing flows affecting energy production and consumption announced by G20 countries in 2020, which represent 3-5% of all stimulus packages. The data will be updated regularly. As of mid-August 2020, G20 stimulus packages have pledged at least USD 350 billion to the energy sector, almost half of which will go to fossil fuels, mainly oil and natural gas, and 30% to clean energy (**fig. 17**).

In many countries, rescue plans for the aviation sector have been unconditional (**fig. 18**). In the United States, the federal government has provided direct support for fossil fuel production and has relaxed certain environmental regulations that are costly to polluters, whereas some states have instead taken steps to promote clean energy. In China, new coal mining projects have been approved and environmental regulations have been relaxed or postponed, however, direct support for clean energy has also been increased or extended.

These data mainly reflect emergency measures and will be regularly updated by the Tracker as recovery plans are deployed. While the short-term picture is not encouraging, it is still too early to say whether these plans, including the conditional measures they contain, will have a beneficial effect on the transition.

95 Hale, J. (24/06/2020). [ESG Funds Setting a Record Pace for Launches in 2020](#). Morningstar

96 OCDE (29/09/2020). [Business and Finance Outlook 2020. Sustainable and Resilient Finance](#). OCDE

97 <https://www.energypolicytracker.org/>

FIGURE 17

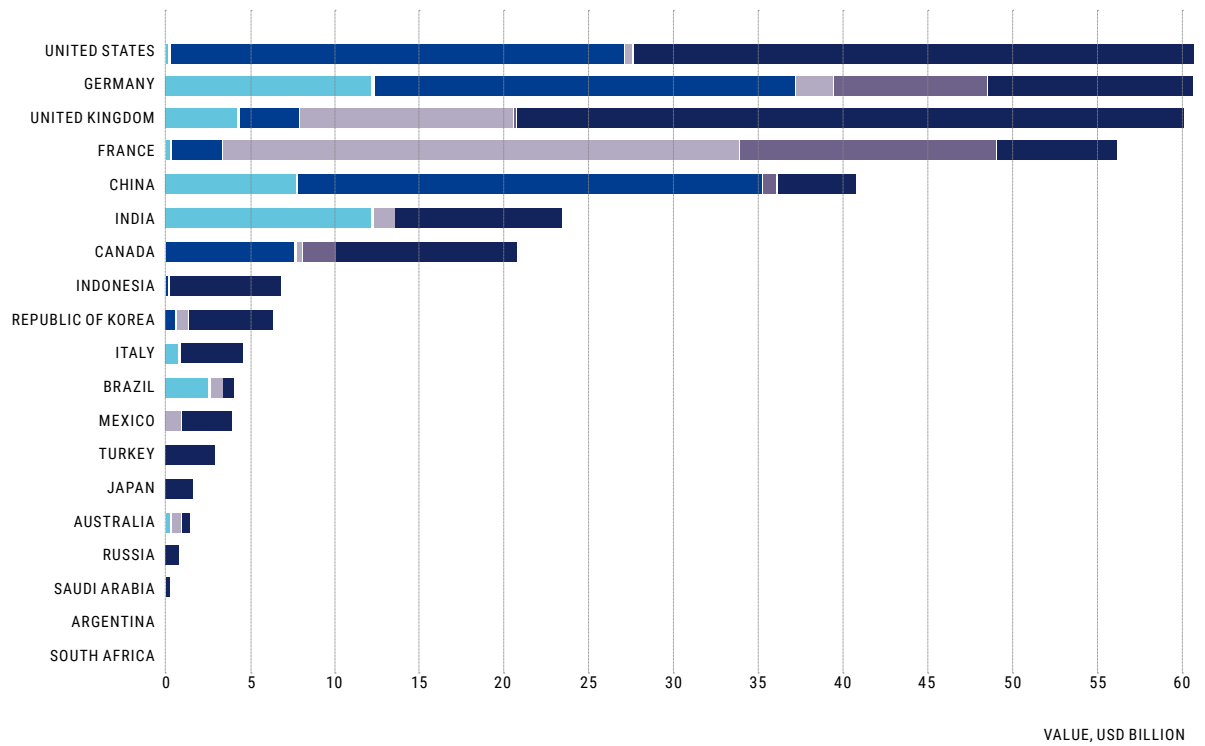
ENERGY FORMS BENEFITTING FROM G20 COUNTRIES' RECOVERY PLANS

Source: [ENERGY POLICY TRACKER 2020](#)



FIGURE 18

PUBLIC FUNDING COMMITTED TO FOSSIL, CLEAN AND OTHER ENERGIES IN THE RECOVERY PLANS OF G20 COUNTRIES AS OF 12 AUGUST 2020 - Source: [Energy Policy Tracker, 2020](#)



CONCLUSION

Recent trends in green finance

The emergence of transition finance as a major theme

Many tools and methodologies are now in place or under construction for greening the financial sector. That this broad-based movement is not reflected in sufficient volumes of financing is notably because it is impossible to move quickly from financing the existing economy, especially in the midst of a crisis such as the world is currently experiencing, to financing exclusively assets and activities adapted to a carbon-neutral world.

To date, the spotlight has been trained on assets at risk from transition, which initial investigations carried out in 2018 by a few European financial authorities have estimated at some 10% of banks' balance sheets. Emphasis has also been placed on green assets, which appear to constitute at best 20% of portfolios among even the most involved players. According to an EIOPA estimate,⁹⁸ they make up around 5% on average of European insurers' portfolios. However, not all assets between these two poles are neutral, and it is important that they too evolve.

To this end, the concept of transition finance has recently emerged.⁹⁹ This term was coined to describe financing for companies that are progressively reducing their carbon emissions. Criteria for debt instruments are currently being explored. The European taxonomy project also includes a category for businesses in transition. However, criteria capable of completely eliminating the risk of greenwashing have yet to be defined. To this end, release of the '*Framework for Financing a Whole-of-Economy Transition*', promised for November by Mark Carney, now climate advisor to the UK Presidency of COP26, is a step awaited with great anticipation.

The global health crisis highlights the need to make

Just Transition a reality

The concept of Just Transition, born several years ago, is finding its first operational response in impact debt tools such as sustainable bonds and loans along with their various permutations. The European taxonomy attempts to take this into account as well, with the introduction of minimum social criteria for an activity to be considered sustainable. The challenge today is to generalise this notion within the financial sector to ensure that the low-carbon transition can be socially acceptable. This process also reflects a desire on the part of those providing financing to achieve greater impact by linking social and environmental issues, as proposed in the structure of the Sustainable Development Goals.

⁹⁸ <https://www.eiopa.europa.eu/content/eu-sustainable-finance-taxonomy-perspective-insurance-and-reinsurance-sector>

⁹⁹ See for example: <https://www.climatebonds.net/transition-finance/fin-credible-transitions>

Deploying strategies in line with the Paris Agreement and achieving net-zero emissions by 2050

For the past two years, this ambition has gained ground as the search for a suitable methodology continues. First made by public development banks, this commitment is being extended to the private financial sector. It is also taking root among companies, whether spontaneously or under pressure from investors, who are making it an increasingly explicit requirement. The publication of undisputed sector scenarios and national transition strategies worldwide would greatly facilitate these alignment strategies.

The need for accurate and relevant information

Despite efforts to increase transparency on climate-related risks and opportunities, the financial community considers that companies still fail to provide them with the practical information needed to make informed financial decisions. Likewise, the climate, environmental and broader sustainability performance of financial products and services that claim such ambitions remains difficult to assess and compare. Any resolution of these issues will entail a generalisation and standardisation of mandatory disclosures, which is something regulators can impose. Europe is well on the way to achieving this already. The creation of open-access, verified databases would facilitate access to this information. Meanwhile, artificial intelligence tools are beginning to emerge to analyse this data and provide guidance for decision-making.

Orienting the public money earmarked for crisis recovery is a critical issue

Lastly, a further issue arises from the coronavirus pandemic and the massive public funding deployed to revive the world's economies. This situation calls for environmental and social considerations to be taken into account in choosing priorities for funding and measuring their impact. While emergency measures to date appear more conservative than transformative, it is important that the recovery plans currently being designed and deployed not be a missed opportunity for building a more sustainable, low-carbon economy.



Climate Chance Association

Since 2015, the Climate Chance Association has participated in the mobilisation against climate change. It is the only international organisation that aims to bring together all the non-state actors recognized by the UN (the 9 groups of actors: local authorities, companies, NGOs, trade unions, scientific community, agricultural, youth, indigenous peoples and women organisations), to develop common priorities and proposals and to strengthen stakeholders dynamics through networking (thematic coalitions, summits, action portal).

The Climate Chance Association and its Observatory are supported by



Finance for Tomorrow

Finance for Tomorrow, launched in June 2017, is the branch of Paris EUROPLACE to make green and sustainable finance a key driving force in the development of the Paris Financial Center and to position it as a hub of reference on these issues. Our +80 members are signatories of a common charter to contribute to the transformation of practices in the Paris Financial Center and to a global shift of financial flows towards a low carbon and inclusive economy, in line with the Paris Agreement and the UN Sustainable Development Goals.

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I-Care & Consult

I Care & Consult is an environmental strategy consulting company whose ambition is to support public and private organizations in their **"environmental transition"**, by changing the paradigm from a society with a strong footprint towards a society with high environmental productivity.



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