Is France leading the way on ESG investor's mandatory reporting?

The European Commission's set of priorities to boost development revolve around jobs and growth, as outlined in the Green Paper 'Building a Capital Market Union' published in February last year. Building stronger capital markets to help reduce reliance on banks for funding, while complementing their role. Part of the measures set out to develop and integrate capital markets target focus on increasing and diversifying the sources of funding. To this end, enhanced focus was given on emerging investment categories with high potential such as ESG investments.[1] The Green Paper introduced a consultation to define the priority actions needed to put in place, by 2019, the key elements of a more functional Capital Markets Union. In the aftermath of the consultation, Eurosif published its 'Capital Markets Union Manifesto[2]', highlighting the importance of not decoupling Europe's growth and job creation agenda from the broader sustainability agenda.

Last September, based on the results of the consultation, the CMU Action Plan was issued to set out the building blocks of an effective and integrated CMU to be put in place by 2019. On this occasion, Eurosif renewed its policy positioning, in support of the CMU Initiative and Action Plan and is advocating for a specific set of action declined around four key pillars:

1. Greater transparency via mandatory ESG disclosure
2. A clear definition of fiduciary duty as including ESG issues
3. Further legislative coherence in promoting sustainable long-term investment
4. Enhanced long-term infrastructure investment

Following the European Commission's vision to promote transparency on ESG issues, specific legislation already exists at member states level and is particularly effective in advancing long-term sustainable investment as it creates incentives for investors to integrate ESG criteria and sustainability goals into investment decisions whilst fully preserving their freedom to invest in the assets they deem most relevant. Some Eurosif member countries (Austria, Belgium, the UK, Germany, Italy, and the Netherlands) are amongst the leaders in this respect and France seems to be ahead of the curve. Last summer a new regulation called "law on energy transition for green growth" passed in France and its article 173 is a groundbreaking measure for the investment community and very good news for Responsible Investment. This article carries mandatory ESG and climate policy reporting to all asset owners on a "comply or explain" basis and is applicable as of 2016. Article 175 is very ambitious on climate change, recognized as the first national regulation including maximum 2° warming target issues, but it also mainstreams ESG disclosure, a topic upheld by French SRI actors for a long time. On December 31, 2015 an implementation decree of the article 173 was published. The French SIF (FIR) applauds the way French regulators decided to implement this ambitious law at national level. Investors are given two full years to share experiences and best practices related to portfolio's climate footprint and policies, before objectives and targets are fixed. This very constructive approach leads to cooperation and better research quality; FIR intends to play a significant role in fostering technical debates among its members. Some voices in Europe echoed that the new regulation might also have a big and positive ripple effect outside France. In fact, French asset owners will ask or require all their asset managers - i.e. including international companies that are not subject to the French regulations, to report according to the French requirements.

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[1] http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper_en.pdf pg. 15
[2] http://www.eurosif.org/wp-content/uploads/2015/02/A-Sustainable-Capital-Markets-Union-Manifesto1.pdf

This regulation resonates with Mark Carney's, now famous speech, given last September at Lloyd's and with role of the Financial Stability Board's task force on Climate-related Financial Disclosures. Launched during COP21, this task force is chaired by Mike Bloomberg and is focusing on one major aim: a better understanding of climate risks by investors.

Other SIFs all over Europe are supportive of Article 173. Francesco Bicciato, FFS President in Italy told Eurosif "We hope that this innovative measure will have a positive impact also on the Italian market. We believe that - thanks to Energy Law - international AMs (operating in our country) will develop their expertise on ESG and financial risks associated with climate change and will be able to offer a wider range of services to investors. Also, we hope that the Italian authorities will take into account this measure as a best practice and will evaluate to introduce similar ones. FFS will do its best to encourage further steps on this".

Eurosif's Spanish member organization, Spainsif, also commented positively to this legislation as a good reference for developing a framework of ESG transparency for investors in Spain in the upcoming future, which does not yet exist at national level.