



Mixed results from Article 173: legislation improved the climate reporting of some institutional investors without transforming the practices of all actors concerned

Paris, January 21, 2021. Novethic announces the release of the final season of its "173 Shades of Reporting" series. After four years of analyzing reports published by the 100 largest French institutional investors, the study assesses this unprecedented legislation which, despite starting as a symbol of France's leadership in sustainable finance, ultimately had limited impact.

▶ Limited transformation amongst top French institutional investors ◀

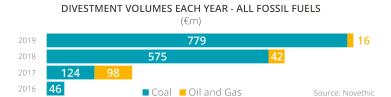
Novethic began analyzing reports from the 100 largest French institutional investors as soon as Article 173 came into force in 2016. Paragraph 6 created a new reporting obligation on climate risks and the consideration of ESG criteria in asset management on a "comply or explain" basis. In four years, these market players – worth a collective €2.6 trillion – have not made significant changes under the influence of this incentive regulation. Engaged Actors, which increased from 15 to 23, are the only ones who have constantly improved their climate reporting and strengthened their commitments. The largest group is "Can Do Better" with 43 investors. This group reports on Article 173 but does not use it as an opportunity to better assess the risks and opportunities affecting their portfolios, whether that be related to the climate or Environment, Social and Governance (ESG) factors. What's more concerning is that Novethic also identified a group of **Dropouts** (12) who stopped complying with this regulatory framework or publish irrelevant content. This is not necessarily a preferred alternative to the silence from the group of Absentees, which still includes close to 20 actors.



lacktriangle Coal exclusions and green financing are becoming common practice \blacktriangleleft

Adopted the same year as the Paris Agreement, Article 173 aims to raise awareness of climate risks among the main French institutional investors who must report on this subject if they manage more than €500 million. Four years later, there is still no uniform methodology for portfolio carbon footprint measures, but progress is being made concerning climate commitments and the quality of reporting.

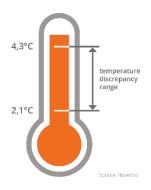
In four years, nearly half of the 100 largest French investors have formalized a coal exclusion policy, and they reinforce the requirements each year, with the first non-conventional oil and gas exclusions emerging in 2017. This led to the sale of nearly €800 million in assets in 2019 due to climate incompatibility.



Lastly, with €49 billion, green financing accounts for 2.3% of assets under management for investors reporting green assets, and this figure is constantly increasing. Even if they remain mainly invested in Green Bonds, investors are choosing other asset classes, such as infrastructure and forests.

▶ Portfolio temperature: the star of climate reporting <</p>

The climate reporting of the most committed investors has improved over the last four years. Currently, 25 actors assess the implied temperature rise (ITR) of their portfolios, which is 7 more than in 2018. Novethic detailed the heterogeneous methodologies that were used and noted that the discrepancies are significant and cannot be ignored since all the trajectory simulations are higher than the Paris Agreement objective, which is less than 2° by the end of the century.



► Clients: largely absent from reporting ◀

Article 173 provided that investors speak of sustainable finance to their clients and beneficiaries. Four years later, it is clear that this provision never really came into force. The most successful reports are mainly aimed at climate reporting experts. Ultimately, it was the PACTE Law that prompted life insurance distributors to communicate on their sustainable fund offers. It required them to integrate SRI, Greenfin, or Finansol-labeled Units of Account (UA) into their product range. In 2020, this represented €22.7 billion, or more than 6% of the €361 billion invested in UA.



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