

« 173 SHADES OF REPORTING »

SEASON III FOCUSES ON CLIMATE

Paris, 28 November 2019. Novethic publishes the third edition of its analysis of the climate and ESG reports of the main French institutional investors representing €2,300 billion in assets. It provides a quantified assessment of the contribution of Article 173 of the Law on Energy and Ecological Transition, particularly on **the measurement of the impact of climate risks on investments, and the volume of green financing.**

The gap is widening between the committed and the wait-and-see'ers!

For fiscal year 2018, Novethic found "only" 72 reports called "173 report", one less than for fiscal year 2017. In this sector, which is undergoing a major reorganisation, it can be seen year after year that more than a quarter of the 100 largest French institutional investors are passively resisting this reporting exercise.



In addition, Article 173 provided for a dual reporting obligation for investors managing more than €500 million: one on climate risks and the other on the integration of environment, social and governance (ESG) criteria. These two dimensions have not been covered with the same methodological commitment, as the climate analysis tends to progress more than the ESG analysis.

The TCFD guidelines provide an effective framework for managing climate risks

The third edition of our study focuses on the analysis of climate risk reporting. It emphasizes on 18 investors with the most advanced climate policy and who declare that they use the Task Force on Climate-related Financial Disclosures (TCFD) framework. Novethic screened their reports to get a clear picture of the level of ownership. This in-depth analysis made it possible to establish a scoring of reports on each of the four pillars of the TCFD: governance, strategy, risk management and metrics & targets.

This first analysis shows that the 5 most committed institutional investors are starting to strategically manage climate risks.

The carbon footprint is becoming more sophisticated

68% of assets under management (AuM), most of which is invested in equities and bonds, are now covered by the calculation of a carbon footprint or intensity, which consists of assessing the level of greenhouse gas emissions from assets in portfolios (companies, governments, infrastructure). That's ten points more than last year. An increasing number of players are even setting reduction targets, most of which involve selecting companies with the lowest carbon emissions.

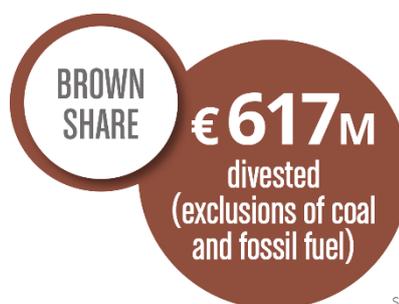
The multiplication of indicators to measure the environmental impact of portfolio assets, whether positive or negative, makes it very difficult to compare them. We find most often:

- **Transition scores or "TEE rating"**, which are used by about fifteen investors;
- **The evaluation of the portfolio's carbon reserves**, carried out by 7 investors, which outlines the risks of potential devaluation of fossil fuel assets;
- **The calculation of avoided emissions**, with a still unclear methodological framework, which is carried out by 4 investors.

The brown share: an emerging concept

The quantitative survey carried out by Novethic highlighted the emergence of the analysis of the brown share of portfolios. 35 investors take part in the exercise on 55% of their AuM.

This is a signal of the efficiency of the campaigns conducted by NGOs with the financial sector to stop financing coal and, more generally, fossil fuels, their goal being to redirect the divested financial flows towards the green economy.



Source: Novethic

The green share is taking shape

In one year, we have gone from 1.07 to 1.41% of the AuM in the panel studied by Novethic dedicated to green financing. This is an encouraging development, especially as about ten investors are even setting targets for increasing their green investment volumes.

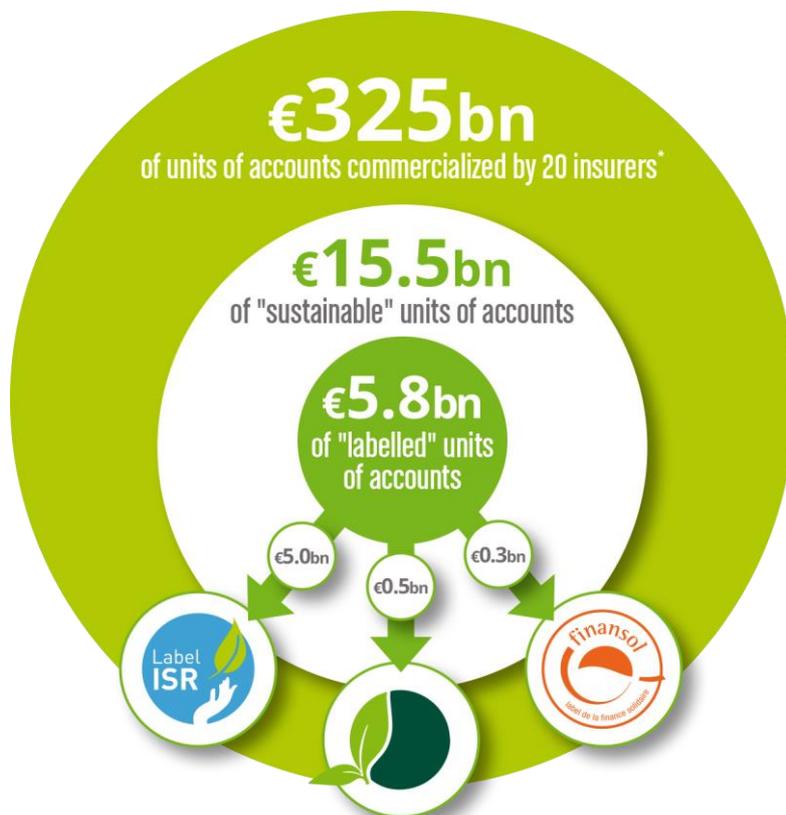


Source: Novethic

Nevertheless, this result must be nuanced since the increase of 8.6 billion euros in green financing was mainly devoted to the purchase of green bonds issued by governments, supranational organisations or large companies. However, according to the annual study published by I4CE, there is still a shortfall of 15 to 18 billion euros each year in France to finance the energy transition and the necessary equipment (thermal renovation of buildings, charging stations for electric cars, etc.).

The next major challenge: addressing sustainable finance with individuals

The "173" reports remain highly technical and are addressed to an audience of experts. The next major challenge will be to communicate to life insurance clients who, thanks to the PACTE law, will have to be offered at least one labelled sustainable finance fund (SRI, Greenfin or Finansol) from 2020. Speaking clearly about the integration of ESG criteria and climate risks to individuals is an exercise for which the three years of publication of "173" reports have not prepared all French institutions.



* Source: quantified survey carried out by Novethic

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