

GREEN FINANCE:

UNDERSTANDING, GETTING INFORMED, ASSESSING SOLUTIONS



“This guide invites both institutional investors who have the capacity to make long term investments in order to prepare the future as well as individual investors to require responsible products, to play its role so that our planet remains liveable”.

Alexis Masse, FIR President

“The decisions we make today are critical in ensuring a safe and sustainable world for everyone, both now and in the future.”

Debra Roberts, IPCC

UNDERSTANDING

Every economic agent is concerned by green finance

Green finance covers financial operations that aim at supporting the Energy and Ecological Transition (EET) and at preventing environmental damages that can arise from economic activities.

Every financial operation and financial asset is concerned.

INFRASTRUCTURES

Example of green infrastructures enabling a local autonomy in energy and food



Akuo Energy has developed a concept that combines, within the same space, energy production with solar panels and agricultural output, for some projects in permaculture.

PUBLIC SECTOR

Example: plummeting of various sectors of the economic activity of a country due to climate change



“The surface of land suitable for the culture of vineyard is going to decline in many historical wine producing regions, such as the region of Bordeaux or in the Rhône Valley”.

Lee Hannah, Ecologist

COMPANIES

Example of the automobile: risk related to the dependence to fossil energies, opportunities related to the electrification of vehicles



“The automobile industry has two major roles to play in the fight against climate change: bringing realistic technological solutions, like the electrification of vehicles, and making clean and smart mobility accessible to everyone”.

Carlos Ghosn, Chairman and CEO of Renault-Nissan

REAL ESTATE

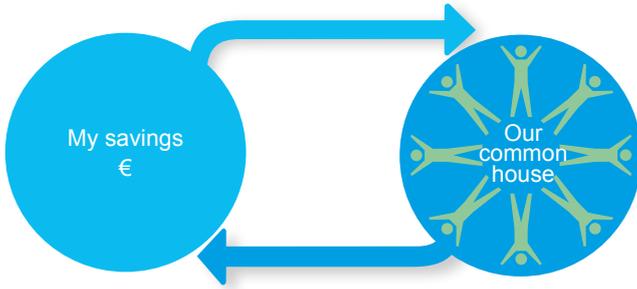
Example of construction: risk linked to the high energy consumption of buildings



According to Seloger.com, a badly ranked housing (based on its energy performance diagnosis) could see its value diminish by 20% in comparison with a property with an average energy consumption.

Finance and environment are closely interrelated

Do my savings facilitate the EET or am I financing activities that contribute to environmental damages?



From what opportunities related to the EET can I benefit?
What risks related to the environmental changes weigh on my savings management?

Environmental changes represent major risks and new opportunities for the financial world. Investment decisions are far from being neutral for the environment: prioritizing a player with strong organic policy in the food industry or preferring renewable energy over fossil energy does make an impact.

Three major risks are related to environmental changes: physical risks (natural disaster linked to climate change), transition risks (resulting from a posture of non-alignment with the necessary transition) and responsibility risks (legal risks for having increased environmental damages).

In order to ensure a rapid and ambitious EET, a massive reorientation of financial flows is necessary.

Green assets target activities that have a positive impact on the environment

Green financial assets (projects or companies) have positive impacts on the environment.

In order to help financial actors to get a better understanding, the European Commission is currently trying to develop a classification, or taxonomy, of the activities (green/non-green) depending on their environmental performances.

“Green bonds” differ from classic bonds in that the issuer commits to using the funds raised for the benefit of investment projects favourable to the EET. Investors must subsequently demand a real transparency on the use of the funds raised. Standardisation efforts are currently led in that sense.

However, defining what is “green” is neither simple, nor sufficient

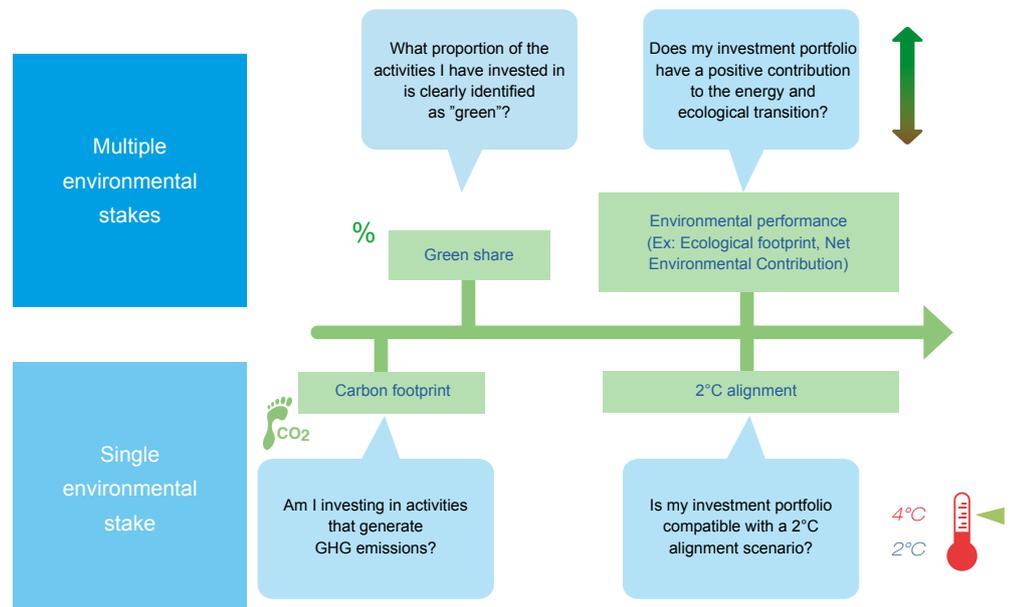
The same economic activity can, all at once, have negative and positive impacts and differ depending on the environmental issue considered. Thus, it is necessary to aggregate the positive and negative impacts to have a precise vision of the environmental performance of a given activity.

Green finance does not limit itself to the support of green activities: financial actors can also choose to accompany companies that decide to transform their business model and that have a trajectory compatible with the environmental transition.

Measuring environmental impacts is crucial to guide the choice of investors

Carbon footprint has historically enabled the spread of climate issues in finance.

Other methodologies are now being developed to give a more accurate picture of climate risks and opportunities, but also to cover the whole spectrum of environmental issues, in order to reflect the global environmental performance.

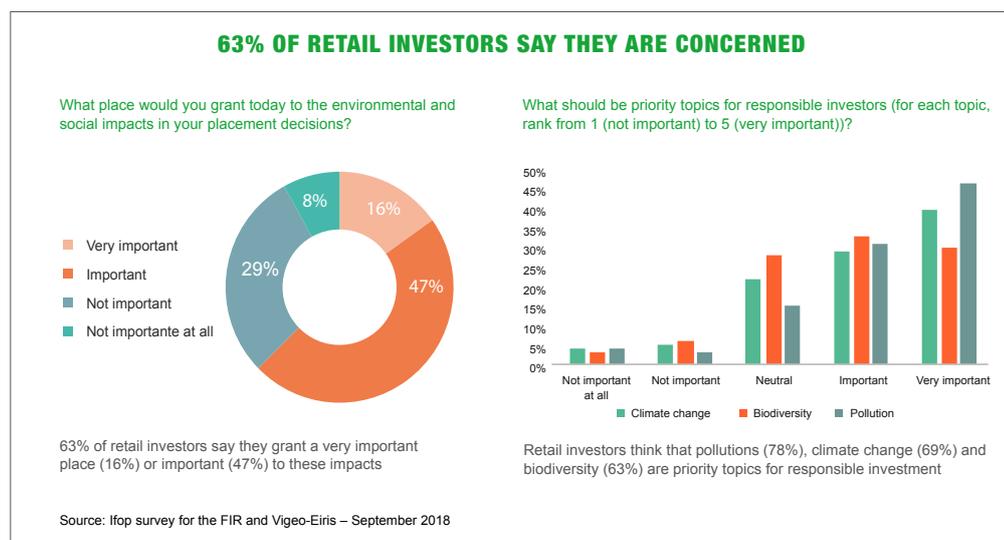


GETTING INFORMED

The information provided to retail investors on environmental matters do not meet their expectations

Most French retail investor value the social and environmental impacts of their investment decisions, but only a very small proportion of them are offered corresponding investment products.

Retail investors should request explanations from their financial intermediaries (bank, assurance, asset manager) on the products offered, for instance on the way environmental issues are integrated in classic investment products.



The offer of financial products that consider these environmental issues progresses



Products that are specific to environmental issues exist, like green bonds.

Despite the ongoing development of the offer (+49% between 2016 and 2017 in market volume), it remains limited in comparison with the global bond market (0,25% of the outstanding amounts of the investment fund of the European market).

The company saving plans have become, at the instigation of the Unions, the primary source of responsible fund holding by individual investors; however, green funds are rarely included in the company saving plans.

Regarding the complementary pension, even if several schemes have committed to a socially responsible policy, significant progress remains to be achieved, especially in the idea of an active contribution to the ecological transition. For instance, Ircantec, the French civil servant complementary pension scheme, has already crossed the line by deciding to divest from fossil energies. Nevertheless, the joint management of those schemes enables the contributors to express their expectations.

ASSESSING SOLUTIONS

To avoid “greenwashing”, it is important to assess the engagement of financial intermediaries and the transparency of the provided information.

Tools exist to enable an individual investor to evaluate the reality of his asset manager’s commitment. He can, for instance, scrutinize the quality of its responsible investment strategy, the actions led in terms of shareholder’s engagement with invested companies or the content of the French “report 173”, which details ESG-climate policy¹. The French code of transparency FIR-AFG-Eurosif equally enables to enhance transparency of the SRI funds’ approach for institutional and individual investors.

In order to guarantee the transparency of information provided on the financial products, the Financial Market Authority has asked to the referenced Undertaking for Collective Investment in Transferable Securities (UCITS) to provide more elements regarding the ESG approach implemented.

¹ ESG: acronym used to designate the Environmental, Social and Governance criteria used as part of the extra-financial analysis

Several labels allow retail investors to be more comfortable with information's reliability

Labels help individual investors in their decisions.

The robustness of a label can be assessed according to its criteria of requirement, verification and durability.

Energy and Ecology Transition for Climate Label (TEEC) is an ambitious and demanding pioneer impact label on environmental matters.

Less demanding on environmental aspects, SRI, Finansol and CIES labels, also consider environmental issues in their fund's assessments.



TEEC: ensuring the orientation of investments towards the financing of the Energy and Ecological Transition

Public label audited twice a year by an independent accredited third party




Finansol: distinguishing the solidarity-based saving products

Private label, independent audit



SRI: validating the different approaches of the SRI

Public label audited yearly by an independent accredited third party




CIES: orienting employees savings towards socially responsible products

Private label, independent audit

Label 100% dedicated to environmental issues

Environmental issues can be integrated through the ESG approach

Everyone has a role to play!



“A bear in Paris”: EXIGEZ L'ISR

Last October 2018, the FIR organized a first campaign for the general public called “**un Ours à Paris**” (a Bear in Paris), which focused on the message: demand SRI. By placing a starving polar bear in front of Paris Stock Exchange, this campaign aims at raising awareness among individual investors.

By using a shocking imagery that reminds the devastating consequences of climate change, the FIR sends a strong message: **Demand SRI!** In parallel, a website has been launched to explain what SRI is and to highlight 6 key topics, which are, among others, scrutinised by responsible investors.

The Green Finance Handbook is available on the FIR-French SIF website: www.frenchsif.org

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