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Choosing a Paris-aligned financial sector fit for the twenty first century



*Parliamentary inquiry led by [Alexandre Holroyd, Member of National Assembly](#) and submitted to **Barbara Pompili, Minister for the Environmental Transition** and **Bruno Le Maire, Minister for the Economy, Finance and Economic recovery***

Executive Summary

In December 2019, at the request of Prime Minister Édouard Philippe, this enquiry was launched to assess how different financial centres are tackling the rapid development of *Green* and *Sustainable* Finance. Over the course of six months, 150 hearings were conducted with the majority of the French financial ecosystem (NGOs, federations, financial institutions, institutional stakeholders, think tanks, etc.) in order to gain a complete overview of the different actors and their vision. As requested, the enquiry also carried out an international benchmark exercise and conducted more than seventy interviews in ten different countries. This exercise focused on two types of financial centres: major world financial centres, with New York and London in the lead, and those that have developed particular expertise in sustainable finance, such as Amsterdam or Stockholm.

This final report, submitted to the Prime Minister on the 5th of June 2020 and presented to the Economy and Finance Minister and the Minister for the Environmental Transition on the 22nd of July, formulates **twenty-four recommendations aimed at fulfilling the government's objective to make Paris the world's leading green finance centre and to rely on this expertise to finance the domestic green transition.**

This enquiry began before the Covid-19 crisis and now ends at a time when governments, companies and financial institutions are seeking to anticipate and build tomorrow's model for sustainable growth. Now more than ever we must accelerate the development of green finance in order to transform our economies. The financial sector must face the climate challenge and become considerably greener, in parts by ramping up the financing of sustainable and transition activities.

Green finance, especially climate finance, is booming. European but also international financial centres are increasingly engaging with the subject. The speed at which this market is evolving suggests that it will play a key role in the near future. It reflects the rapid engagement of stakeholders who have identified a major economic opportunity, as they anticipate both higher expectations from investors and civil society and heightened demands from asset owners, combined with a strong political will from public authorities. This commitment must be nurtured: only through collective action at all levels can we rise to the challenge we face.

Financial tools designed by public authorities and private actors to serve the ecological transition (SRI label, Greenfin label, environmental performance metrics, etc.) already exist. However, it is now urgent to develop and standardise new transition financial tools to direct investments towards sectors with the greatest potential to reduce CO₂ emissions. Successfully doing so is a precondition for large-scale financing of the ecological transition.

Non-financial data is at the heart of the challenge to develop green finance. The takeover of the crushing majority of European players operating in that sphere by international groups is worrying. The capacity to collect, standardise and analyse this data is crucial and raises important questions of competitiveness and sovereignty. The aborted European attempts in this area reflect a failure: that of converting expertise and a leading position in the field into a viable business model. To respond to this challenge, the enquiry recommends creating a free and open-access database to ensure transparency and public access to non-financial information (see recommendation 12). This database must necessarily be built at the European level in order to offer sufficient coverage and a solid alternative to other initiatives that may favour a vision less in line with a European vision of sustainable finance. The development and management of this database should be for-profit and delegated to a private actor in order to encourage competition and innovation.

While there are recognised standards for green bonds, there are currently no standards established for *transition bonds* (including debt and equity) including for instance, equity indexed to a

defined set of environmental performance. This lack of standards impedes the key issue of transition from being adequately addressed. The enquiry therefore recommends that a "*Paris Aligned*" standard for transition financial tools be developed to address the issue of financing the transition (see Recommendation 17). This standard, endorsed by the French authorities, would structure innovation in transition-related debt and equity products and ensure their legitimacy. Similarly, a "*Paris-Aligned indicator*" for investment funds should be developed and endorsed by public authorities (see recommendation 18). The enquiry believes that a so-called "temperature" indicator is crucial. It should allow for the measure of the carbon footprint of investment portfolios and for forward-looking carbon trajectories of those portfolios.

To further mobilise investments needed to rapidly decarbonise our existing businesses, infrastructure and real estate stock, France should also develop a "*transition*" label: a vessel and a tool to identify investments that contribute to transforming our production model into a low-carbon one (see recommendation 19) which will complement the two existing Greenfin and SRI labels. Funds labelled as *Transition* will need to meet two essential conditions: a standard of greenhouse gas emissions reduction and full compliance with the neutrality objective of the National Low Carbon Strategy (SNBC).

Establishing the "green" nature of a mortgage constitutes a significant challenge. This "green" characteristic is difficult to measure and the taxonomy currently under development at the European level will not be sufficient to solve the issue. The enquiry puts forward two further proposals: the creation of an open database of all Energy Performance Diagnostics (DPE) in France (see recommendation 21) and the initiation of dialogue with the French Data Protection Authority (Commission Nationale de l'Informatique et des Libertés - CNIL) to consider the development of a database compiling actual household energy consumption. This second database would be accessible to specific stakeholders under particular conditions with increased security, the terms of which need to be specified (see recommendation 22). The development of these two databases is vital to create the conditions for market financing of retail energy efficiency. Developing the DPE and the household consumption databases would also have the advantage of creating an important tool for research and public policy development. The development of a database on household consumption should be subject to the strictest standards of data protection to preserve the privacy of citizens. In order for the DPE database to be truly useful, it should cover a substantial scope of the market and be updated on a regular basis. The enquiry therefore recommends that DPE diagnostics be made compulsory following renovation work linked with a mortgage, or for any loan related to renovation work that would exceed a specific amount to be defined by secondary legislation (see recommendations 23 and 24). This duty would accelerate the development of the database but could prove costly for low-income households, adequate support measures will therefore need to be put into place.

Successful development and uptake of the new tools described above requires intensive collaboration of all the players of the Paris financial centre. The involvement of each category of stakeholders, whether they be NGOs, banks, asset managers or institutional actors, is a necessary condition for these tools to effectively enable the massive funnelling of investment flows towards the transition. The mission therefore recommends the launch of the *ChooseParis* institute (see recommendation 5). The institute would facilitate the move to a new stage in the development of sustainable finance in France with the Minister for the Economy and Finance and the Minister for the Environmental Transition as co-chairs. It will rely on the legacy of the Paris Agreement, which has given France a unique and distinctive international profile on this particular subject. *ChooseParis* would oversee three branches: *Finance for Tomorrow* would become fully independent of Paris Europlace and its role would remain to garner the support of the financial industry, French and global, in favour of the reorientation of capital towards the transition; *ThinkParis* would focus on conducting research that promotes the development of sustainable finance, it would participate in label steering functions and it would engage in the development of lifelong training on climate finance for practitioners. The last pillar,

InnovParis, would be an incubator specialising in green fintechs, which would provide a supportive framework for the development of innovative green fintechs. The enquiry recommends entrusting the *ChooseParis* institute with the management of the SRI label, Greenfin label and, ultimately, the *transition* label (see recommendations 13 and 14). To meet the demand for training specifically focused on sustainable finance and to ensure credibility, the enquiry recommends the development of a ParisAligned "sustainable finance" certification by the French Financial Markets Authority (AMF), which would recognise particular expertise in this field for market players (see recommendation 6). The certification should be supported by a training offered by *ChooseParis*, as the guardian of the commitments made at the COP 21. The long-term aim of this training offer should be to serve a global market by providing the best professional training on sustainable finance. Finally, the enquiry recommends developing an accreditation system for green fintechs under the stewardship of *ChooseParis* (see Recommendation 11). This accreditation system would allow users and financial institutions to better understand the new "green" fintech ecosystem, facilitating the search for funding by green fintechs through a "label effect" and a quality signal for investors. This system would also encourage the identification of green fintechs.

The enquiry considers that the calculation of greenhouse gas emissions has now reached sufficient maturity for a common core of indicators to be defined in a coherent and stable manner. This will allow for a minimum standard on climate to be set for any financial instrument claiming to be sustainable in one form or another (ESG, SRI, etc.). The standardisation of a common set of "climate" indicators for sustainable finance should be an immediate priority (see recommendation 8): it is essential for the credibility of green finance.

The enquiry recommends that a market-based financing framework be put in place to provide incentives to improve the energy efficiency of the building stock, especially through the securitisation of "green" mortgages (see recommendation 20). Despite the role played by securitisation during the 2008 financial crisis which calls for caution, the stability of the French housing loan market and the need for investment to finance the renovation of our housing stock suggests it is the best tool to provide massive and much-needed funding.

Financing the ecological transition requires the marshalling of private savings. The enquiry therefore recommends amending the purpose of the "Livret A" savings account to put the ecological transition at the heart of financing the economy, and modernising the "Livret de Développement Durable et Solidaire" savings account to make it a genuine tool for financing the ecological transition (see recommendation 15). Further recommendations include that trajectories of minimum shares of labelled investment be introduced in life insurance products (Unit of Account and Euro funds) as well as in the regulated savings products mentioned above (see recommendations 15 and 16). These trajectories should be reflective of the market depth of the relevant labels. The minimum shares of the labelled investments should follow a growth path offering visibility to market players and should be set by the Minister for the Economy and Finance. Its progress would be subject to regular parliamentary debates.

The challenges that we face can only be met through commitment at all levels: regional, national, European and international.

At the regional level, the enquiry recommends the creation of a financial incentive with growth potential aimed at local authorities for both their investments (DETR) and their constituents (DGF) to incentivise them to carry out energy efficiency measures (see recommendation 1). The changes suggested by the enquiry would strengthen and expand to local authorities the logic of green budgeting that the State has committed to publish in 2020.

The European Union has an indisputable role to play in green finance and has launched several initiatives in this field (Ecolabel, review of the NFRD, action plan for sustainable finance...). These should be supported but must now be taken further. The enquiry advocates for the development of a

European Recovery Fund and calls on the Commission to further extend the inclusion of environmental criteria in all European structural and investment funds (see recommendation 2). The recent European Council agreement to create a European Recovery Fund to support a sustainable recovery and European growth is warmly welcome. It is essential to ensure a green recovery in sectors and regions most affected by the crisis.

While the implementation of the Green and Transition Taxonomy will help guide the reorientation of capital flows, the enquiry also invites the Commission to study the conditions for developing a taxonomy for the classification of so-called brown activities, while providing for a good articulation with the Green and Transition Taxonomy currently under development (see Recommendation 3). A brown taxonomy would support efforts to identify, assess and manage climate and environmental risks facing financial institutions while improving the understanding of the potential risk variation between different types of assets.

With the view to favouring the *double materiality* approach, France must take a demanding stance on the review of the Non-financial Reporting Directive (NFRD) (see recommendation 7). The NFRD should be amended to a Regulation to support harmonisation of Scope 3 CO2 reporting practices. This ambitious review should take into account the recommendations made by Patrick de Cambourg in his report: "Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe". Strengthening the quality and comparability of non-financial data makes it possible to improve the robustness of all the resulting analyses and products, to better guide financial flows and provide more credibility to the commitments made by financial stakeholders. The development of ESG / SRI products (see recommendation 9) should be supervised more suitably at the European level, through the use of minimum standards, in order to preserve the credibility of these terms and in consequence the development of green finance.

If non-financial data is key, its derived services are also crucial. Therefore, the enquiry recommends establishing a regulatory framework for non-financial rating at the European level (see Recommendation 10). This regulatory framework should include requirements on data sources, methodological transparency and the approach used by rating providers. It should also include binding obligations on a limited number of key indicators, in line with the review of the NFRD, on elements that are sufficiently mature and are major political priorities (e.g. greenhouse gas emissions).

Finally, at the international level and in the run-up to COP26, France must keep its ambitions high with regards to transparency obligations for climate related financial risks. It is important that France work towards raising the targets of our partners in multilateral forums and contribute its expertise to the work carried out by the International Platform for Sustainable Finance of the European Commission (see recommendation 4). The adoption of all TCFD guidelines as minimum reporting standards are a benchmark meant to be exceeded and as such, the mission recommends that international forums favour a *double materiality* approach (environmental impact on business, plus business impact on the environment). An international "biodiversity" task force should also be created to determine relevant metrics in order to develop an extra-financial reporting framework. This will pre-empt the overlap with TCFD to achieve a unified framework.