Factsheet — Financial Climate Risk Regulation France

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PERSPECTIVE

In 2015, France laid the groundwork for regulating climate risk disclosure with Article 173 of its Energy Transition Law. The law mandates that all publicly traded companies and asset managers with over 500M € AUM must report on the physical and transition risks from climate change on their operations and investments. The requirements of the law are broad and flexible, providing no specific mandates on how firms analyze or define their climate risks and it uses a "comply or explain" approach. This regulation helped build support for the Taskforce on Climate-related Financial Disclosures recommendations and several other European nations have shared intentions to issue similar regulation. Art. 173 prompted firms to begin disclosing climate-related risks early and set an example for other nations considering regulation on climate risk disclosure. Building on its track record as an early mover, France's financial regulators are now actively involved in national and international endeavors to frame climate risk as a financial risk and determine the most effective response.

STANCE

While French president Emmanuel Macron has been criticized domestically for not taking enough action on climate change, he remains vocal internationally on the need to realign investments toward the goals of the Paris Agreement and France remains supportive of financial sector efforts to address climate impacts. In fact, French financial regulators have been engaged on addressing financial risks from climate change and the Banque de France was a co-founder and provides the Secretariat for the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), which is focused on propelling the transition to a low-carbon and sustainable economy. By providing the Secretariat for the NGSF, the Banque de France identifies itself as a key player in international efforts to address climate risk. In addition, ACPR, the bank and insurance supervisor, (part of the Banque de France), and France's stock market regulator, AMF, have been conducting market surveys and issuing statements on how to advance the integration of climate risk considerations into financial markets.

In early July 2019, France's Ministry of Ecological and Solidary Transition, Ministry of Economics and Finance, AMF, and ACPR released the three-year review of Article 173 disclosures, finding that only about half of France's major firms thoroughly disclosed their climate risk. This report emphasizes the need for continued development of data and best practices for climate risk disclosure. France is also hosting international climate reporting awards for investors, organized by the French Environment and Energy Management Agency and the French Ministry. The awards are meant to highlight developments in climate risk disclosure, including Art. 173 reporting, the Taskforce on Climate-related Financial Disclosures (TCFD), and the EU's non-financial reporting directive.

France has also been a vocal supporter of the efforts of the European Commission Technical Expert Group. In his opening remarks at the meeting of the NGFS in April 2019, Banque de France Governor, Francois Villeroy de Galhau, emphasized the interdependencies of quality disclosures and taxonomies. He also called for three building blocks to inform scenario analysis: several severe but realistic scenarios to mid-century; information on the macroeconomic impacts of climate change; and data on the financial system's exposure to climate risks.

KEY ACTIONS

Setting an Example— Banque de France was the first central bank to release an assessment of its climate risks in line with the TCFD and Art. 173. The report includes an analysis of physical climate risk exposure in the central bank's equity, debt, and sovereign bond portfolios based on the asset-level exposure of facilities owned by companies in its portfolios. The report was intended as an example of best practice for the French financial sector, and also laid the groundwork for individual institutions to dive deeper into their own physical risk assessments building on the findings of this assessment. The report came after Banque de France released a responsible investment charter, including its commitment to support the development of best practices for assessing risks and opportunities in asset portfolios due to climate change.

Surveying the Insurance Market—In Fall 2018, 139 insurers, representing 80% of French insurers' investments, responded to an ACPR survey about their climate risk management. Based on the survey, ACPR concluded that the French insurance sector is aware of climate change as a material risk, but must improve its efforts to assess and address this risk. Only 55% of respondents have an internal definition of climate risk and 60% have a risk analysis process for some of their assets or liabilities. However, 93% of respondents mention physical risk and 60% have internal reporting processes for climate risk. Risk disclosures in Art. 173 reports varied between firms and ACPR emphasized a lack of reporting on long-term climate strategies and yearly progress. Based on its review, ACPR encourages French insurers to improve their climate risk management by defining risk management strategies more precisely; improving their governance; adopting metrics for climate risk; and using forward-looking analysis.

Surveying the Banking Sector— In the summer of 2018, ACPR surveyed nine French banks, representing 86% of the total balance sheets of French credit institutions, and followed up with interviews in the fall. Since 2016, the banking sector has made significant progress in integrating climate change into its risk management frameworks and building internal climate expertise. ACPR differentiates "advanced institutions," larger banks with ample resources that have integrated climate into risk management, and "wait-and-see" institutions, which are largely domestic, retail-oriented banks still focused on a corporate responsibility approach to climate change. While exposure to physical risks tends to be relatively low due to the sector's asset concentration in less exposed areas, banks have not thoroughly addressed the fact that insurance will not be able to cover all of their risks. ACPR emphasized the importance of ongoing research to identify the connection between climate risk and credit risk, acknowledging that without data on the location of clients' assets, this type of analysis will be very challenging. The ACPR concluded with several actions that regulators can take to help facilitate a more robust approach to climate risk in the banking sector: develop a taxonomy defining "green" and "brown" assets; explain supervisory strategy around climate risk; promote best practices; oversee the incorporation of climate risks into reporting requirements; engage with banks on climate; and develop appropriate scenarios for climate risk.

AMF Roadmap— France's stock market regulator, AMF, made sustainable finance a central part of its five-year vision, #Supervision2022. Its report on the role of the regulator asserts that climate change has been identified as a financial risk, it is still not sufficiently assessed by the market, and the regulator's role is to inform and raise awareness on the topic. It identifies a lack of expertise, data, and consensus on risk materiality as key obstacles for the integration of ESG factors, such as climate, into market practices. AMF defines five key actions that it can take to support this integration: support players; supervise; collaborate with other regulators; educate; and increase its own internal expertise and governance around sustainable finance.

STAY TUNED

France will announce the winners of its second International Climate-related Reporting Awards in September 2019.

ABOUT FOUR TWENTY SEVEN

Four Twenty Seven (427mt.com) is the leading provider of market intelligence on the impacts of climate change for financial markets. We tackle physical risk head on by identifying the locations of corporate production and retail sites around the world and their exposure to climate change hazards such as sea level rise, droughts, floods and tropical storms, which pose an immediate threat to investment portfolios.

Four Twenty Seven's ever-growing database now includes one million corporate sites and covers over 2000 publicly-traded companies. We offer subscription products and professional services to access this unique dataset. Options include data licenses, an interactive analytics platform, and company scorecards, as well as reporting services, scenario analysis, and real asset portfolio risk assessments.

Four Twenty Seven has won multiple awards for its innovative work on climate risk and resilience and our work has been featured by Bloomberg, the Financial Times and the UNFCCC. Four Twenty Seven was founded in 2012 and is headquartered in Berkeley, California with offices in Washington, DC and Paris, France.

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