

## What is the objective of the text?

### Context: the French Energy Transition for Green Growth Act

Article 173 of the French Energy Transition for Green Growth Act (*Loi sur la Transition Énergétique pour la Croissance Verte - LTECV*) requires asset management companies and institutional investors to disclose information on the manner in which they incorporate environmental, social and quality of governance (ESG) objectives into their investment and risk management policies.



There is a particular focus on their exposure to climate risk and the steps they have taken to play a part in achieving the objectives of the energy and ecological transition (including limiting the rise in global temperatures to 2 degrees Celsius).

France passed the Act in 2015, a year in which it played host to the COP21 climate conference, underpinning its role in spearheading the international fight against global warming and its desire for exemplariness.

The Act is just one of the initiatives taken by the French government to consolidate its national low-carbon strategy (*Stratégie Nationale Bas Carbone - SNBC*), which defines a road map for the reduction of France's greenhouse gas (GHG) emissions and the transition towards a low-carbon economy.

### Objectives of this guide

As part of its continued commitment to ESG issues, AFG has prepared a practical guide for its members to help them report on the incorporation of ESG criteria, including fight against global warming, into their investment policies and, if applicable, their risk management policies.

The guide puts a particular focus on interpreting the law, understanding the expectations of the regulator and identifying the type of information to be disclosed.

### Objectives of the law

As the French Treasury has stated, the principal objective of the decree is to “*help players to internalize environmental (particularly as relates to climate change), social and governance criteria (ESG criteria)*”.

The decree “*asks the players referred to in Article L. 533-22-1 of the French Monetary and Financial Code to describe the manner in which they account for these criteria (where applicable, to indicate that they do not or only partially account for them), without imposing a particular method. This approach seeks to promote the development of diverse approaches, based on the nature of each player's activities and investments, and contribute to the emergence of best practices.*”

Information about the integration of ESG criteria must therefore be provided according to the “*comply or explain*” principle, which means that asset management companies must provide the information specified in the decree and, if not, must clearly and freely explain the reasons for their choices. The obligation under the decree is to “report” and not to “do”, as the regulator's objective is to facilitate the development of best practices in terms of incorporating ESG – particularly climate-related – criteria into the investment policy.

The choice to “do” or “not do” is the responsibility of the asset management company; in other words, it depends on its strategy regarding the integration of ESG criteria into its investment policy and on its organisation.

### Scope of the law

The decree targets two types of actors:

- French asset management companies authorised by the AMF (and their subsidiaries and branches) that manage at least one of the following dedicated or “referenced” investment funds:
  - French or foreign UCITS
  - Some French AIFs like general-purpose investment funds, pension saving funds or private equity funds
- Some institutional investors, mainly insurance companies and *mutuelles* (mutual benefit institutions).

Asset management companies can therefore be involved directly or indirectly via their institutional investor clients.

## What information must be reported?

Two sets of ESG information must be reported:

Investor ESG Information	Investment ESG Information
<ul style="list-style-type: none"> <li>• General approach to incorporating ESG criteria into investment and, where applicable, risk management policies</li> <li>• Content, frequency and means used to inform clients (investors)</li> <li>• List of investment funds for which ESG criteria is taken into account and the proportion, as a percentage, of the assets of these investment funds of the total assets of the asset management company</li> <li>• Adherence of the entity and/or investment funds to charters, codes, initiatives and labels relating to the incorporation of ESG criteria</li> <li>• Where applicable, a description of ESG risks, the business's exposure to these risks and the internal procedures used to identify and manage them</li> </ul>	<ul style="list-style-type: none"> <li>• Description of the type of ESG criteria taken into account</li> <li>• Information used for the analysis conducted on ESG criteria</li> <li>• Methodology and results of this analysis</li> <li>• Description of the way in which the results of the analysis are integrated into the investment policy of the investment fund :               <ul style="list-style-type: none"> <li>- Changes made to the portfolios</li> <li>- Engagement strategy with issuers</li> </ul> </li> </ul>

“Investor ESG information” is not subject to a threshold and therefore applies to all asset management companies.

“Investment ESG information” is required only under certain threshold conditions:

Investment ESG Information Threshold	
Asset management companies	€500 million for each investment fund
Institutional investors	€500 million for the total consolidated / combined balance sheet

The procedures for accessing the ESG information required by institutional clients for their own “Article 173 reporting” must be defined as part of their commercial relationship with the asset management companies with which they subscribe investment funds or to which they have given a mandate.

## How is ESG information presented?

ESG information reported by asset management companies must be relevant and useful to their stakeholders (particularly their clients). Any reporting format may be used, regardless of the ESG information provided.

For example, asset management companies may rely on the *AFG-FIR-Eurosif Transparency Code*, the AFG “*Portfolio Carbon Footprint Methodology*” guide or the guidelines of the “Socially Responsible Investment” (SRI) and “Energy and Ecological Transition for the Climate” (TEEC) labels, based on their own breakdown.

## What are the ESG information reporting procedures?

There are different reporting procedures depending on the type of ESG information:

Investor ESG Information	Investment ESG Information
<ul style="list-style-type: none"> <li>• Website of the asset management company</li> </ul>	<ul style="list-style-type: none"> <li>• Annual report of each investment fund (insertion of a specific section or creation of a separate appended report)</li> <li>• Website of the asset management company</li> </ul>

## When should information about the integration of ESG criteria into the investment policy be provided?

ESG information must be reported annually.

It is first reported for the accounting period beginning on 1 January 2016 (annual reports of investment funds) by no later than 30 June 2017 (website).

## To go further:

- *AF2I - Guide d'aide à la mise en œuvre de l'article 173 (paragraphe VI) de la Loi de Transition Énergétique (LTE)* - July 2016
- *FFA - Guide du reporting relatif à l'article 173 de la loi sur la transition énergétique et à son décret d'application* - July 2016
- *FIR - Article 173-VI : Understanding the French regulation on investor climate reporting* - October 2016

**The Association Française de la Gestion financière (AFG)** represents and promotes the interests of the French asset management industry. French asset managers manage in France assets worth nearly € 3,800 billion: € 1,800 billion in the form of investment funds and € 2,000 billion in the form of discretionary mandates and funds domiciled abroad.