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CARBON OFFSETTING BY COLLECTIVE INVESTMENT SCHEMES

A GUIDE FOR ASSET MANAGEMENT COMPANIES

amf-france.org

INTRODUCTION

This guide is for collective investment schemes (**CIS** hereafter) that want to provide their investors with information on offsetting, in full or in part, the greenhouse gas emissions associated with the assets held in their portfolio by cancelling carbon credits (referred to below as “carbon offsetting” of a portfolio). Its aim is to provide examples of best practice that can be implemented when designing this type of product. The appendix summarises the various best practices, sorted by scope.

This guide does not express any opinions on other carbon offsetting or neutralisation methods that either currently exist or may be developed in the future. It contributes to the AMF’s stated goal of supporting stakeholders and innovation, as set out in its roadmap [Sustainable finance: what is the role of the regulator?](#) published in November 2018.

I- CALCULATING A CARBON FOOTPRINT FOR THE PURPOSES OF CARBON OFFSETTING

Article L. 533-22-2-1 of the French Monetary and Financial Code states that: “(...) All information, including marketing literature, provided to investors by an asset management company must be accurate, clear and not misleading (...)”. Article L. 533-22-1 also stipulates that asset management companies (**AMCs**) must provide their investors with information on how criteria relating to compliance with environmental, social and governance (**ESG**) objectives are factored into their investment policies. Article D. 533-16-1 of this code sets out that, where applicable, AMCs can provide information on “past, current or future, direct or indirect, greenhouse gas emissions metrics associated with issuers in the investment portfolio”. The aim of these provisions, which build on Article 173 of the 2015 Energy Transition for Green Growth Law, is not to lay down a prescriptive method for measuring greenhouse gas emissions, but rather to promote the development of best practices.¹ In accordance with Article D. 533-16-1 IV, only CIS² with assets under management totalling more than €500 million are required to publish detailed information on how the ESG criteria set out in point 2 II of that article are factored into their investment policies.

As was highlighted in the [Report on socially responsible investment in collective investment schemes](#) published by the AMF on 7 December 2017³, the carbon footprint of portfolios is often used as a tool to measure the greenhouse gas emissions of an investment portfolio. Carbon footprint calculations can differ, particularly with regard to:

- **data sources**: different data sources can be used to calculate the carbon footprints of entities in a portfolio. Such data may come directly from issuers or be restated, for example, by AMCs or third parties;

¹ As described in the factsheet for the draft implementing decree for Article L. 533-22-1 of the French Monetary and Financial Code drawn up by the Directorate General of the Treasury.

² This requirement applies to UCITS, investment funds, private equity, funds of alternative funds, professional alternative investment funds and employee saving scheme funds.

³ See section 2.2.3, p. 25.

- emission scopes:⁴ some emission scopes are not systematically taken into account when calculating carbon footprints, particularly in cases where data are considered unreliable (primarily scope 3 emissions) or where there are issues arising from double-counting;
- methods: some methods calculate a portfolio's carbon footprint based on its position on the date the footprint is reported, rather than on how it may change over a given period. This means that if an asset with a large carbon footprint is sold the day before results are reported, the portfolio's estimated carbon footprint could be improved using such methods.

Best practice

(1) To provide holders with clear, accurate information on the effect of offsetting methods, in cases where such methods are used, it is considered best practice for AMCs to provide detailed information on such methods. The framework set out in Article D. 533-16-1 II of the French Monetary and Financial Code can be used in the same way for CIS with assets under management totalling more than €500 million, specifying the impact of the offsetting achieved.

When a carbon offsetting strategy is described to investors, particular emphasis should be placed on how the footprint to be offset is calculated. To this end, the following best practice may be implemented when drawing up marketing literature and regulatory documents. AMCs should:

- (2) provide comprehensive, accurate information on the data sources used to calculate the carbon footprints of assets;
- (3) use a method that factors in changes in portfolio assets over the calculation period in question;
- (4) set out the definitions of the different emission scopes and specify any scopes that have not been taken into account when estimating a carbon footprint, together with the reasons for this, and provide examples of carbon emissions that have not been offset.

Providing investors with information on the carbon footprint calculation of each asset held by a CIS is another example of best practice that may be implemented by AMCs.

II- THE FEATURES OF CARBON CREDITS USED IN CARBON OFFSETTING

One carbon credit corresponds to a greenhouse gas emission with a *global warming potential*⁵ equivalent to one ton of CO₂. Such credits are issued by *carbon projects*. The emission reductions and sequestrations allowed by a project correspond to the difference between emissions and absorption over the project's lifetime and those that would have resulted had the project not been put in place, based on a baseline scenario. Once they have been formally approved, carbon projects can place a value on emission reductions and absorption by issuing carbon credits, which reflect the carbon savings made by the project and can be sold on carbon markets. Further information on how carbon offsetting works is available at www.info-compensation-carbone.com.⁶

⁴ The Greenhouse Gas (GHG) Protocol sets out 3 [scopes](#) for calculating and reporting carbon emissions. To summarise, scope 1 covers direct emissions from a company's facilities; scope 2 covers indirect emissions associated with a company's energy consumption; and scope 3 covers other indirect emissions.

⁵ Global warming potential (GWP) is a measurement that can be used to compare the effect of different greenhouse gases. It is used in the Kyoto Protocol as the basis for calculating emissions sources and sinks.

⁶ The AMF does not express any opinions on the offsetting projects listed on this website.

Projects offering carbon credits include:

- those issuing certified emission reductions (**CERs**). These are carbon credits issued under the *Clean Development Mechanism*, within the framework of the rules set out in the Kyoto Protocol. The fact that a project has been approved to issue CERs does not in itself guarantee that that project is of high quality. For example, only CERs that meet certain criteria count towards reducing the greenhouse gas emissions of companies that are subject to emission quotas within the framework of the EU's emissions trading system;⁷
- those issuing "verified" or "voluntary" emission reductions (**VERs**). These are carbon credits issued by projects that have attained voluntary third-party approval, in accordance with rules specific to those third parties.

Best practice

VERs are, by their nature, governed by changeable market conventions. In cases where VERs are used to offset a portfolio's carbon footprint, the following best practices should therefore be implemented to provide holders with clear and accurate information on their effects:⁸

- (5) AMCs should opt for VERs that have been approved by a recognised body responsible for verifying, monitoring and examining the accounts of the project in question, and be able to justify their choice to the AMF. For example, these may include VERs that have been awarded the "low-carbon" label described in [Article 1 of Decree 2018-1043 of 28 November 2018](#);
- (6) in cases where VERs can be transferred or traded,⁹ AMCs should opt for VERs that are registered¹⁰ with a recognised independent registry or in accordance with a reliable procedure¹¹, and be able to justify their choices to the AMF;
- (7) AMCs should provide investors with information on the projects issuing such VERs, as well as links to the aforementioned approval bodies/labels.

III- CANCELLING CARBON CREDITS

A carbon footprint is offset by "cancelling" carbon credits, in cases where such credits can be transferred or traded. These cancellation transactions involve: (i) purchasing such credits, and; (ii) requesting that the registry described in point (6) above remove the credits from the market to prevent them from being sold again at a later date. By their nature, the purpose of such cancellation transactions is not to be exposed to fluctuations in the value of such credits¹².

⁷ The [European Commission](#) has introduced additional qualitative and quantitative restrictions to those required under the Kyoto Protocol.

⁸ In accordance with Article L. 533-22-2-1 of the French Monetary and Financial Code.

⁹ For example, in accordance with Article 4 of Decree 2018-1043 of 28 November 2018, VERs that have been awarded the "low-carbon" label cannot be traded or transferred.

¹⁰ A register is an accounting system used to monitor individual carbon credits and emission quotas. As in the banking system, stakeholders can, subject to certain conditions, open an account where all the carbon assets they purchase, sell or cancel are recorded. Such registers therefore ensure that carbon assets are traceable and can be used to check that such assets cannot be resold again and again.

¹¹ For example, those involving blockchain-type technologies.

¹² It should be noted that (i) VERs and CERs are not eligible assets for funds that are open to retail investors, and, with regard to those that are open to professional investors; (ii) VERs are not explicitly recognised in French law and their

AMCs are free to define the methods used for carbon offsetting, provided they comply with the regulations and eligibility criteria governing different CIS.

For example, AMCs can make use of carbon credit cancellation services, either directly or via a third party. In cases where carbon credits are cancelled *in line with the management* of a CIS, AMCs could provide investors with information on the impact of such offsetting on the fund's carbon footprint. In doing so, they must comply with the provisions set out in Article 321-116 of the AMF's General Regulation and Article 24 of the Commission Delegated Regulation (EU) 231/2013 of 19 December 2012¹³. In such instances, the AMF reminds that AMCs must:

- i. act in the interest of holders or shareholders when selecting and paying the beneficiaries of payments made in line with offsetting services;
- ii. inform investors, before they make an investment, of the existence, nature and amount of any costs relating to the offsetting of this footprint, as well as any payments made to intermediaries or possible connections between such intermediaries and the aforementioned AMCs.

Furthermore, in such scenarios, the offsetting services are deducted by the AMCs as financial management fees¹⁴ and within the limit of the maximum rate applicable to the CIS.

This guide does not express any opinions on whether the methods used to allow CIS to benefit from this service¹⁵ are compatible with the regulatory requirements.

ownership is not based on a registration recognized by the French law. This means that, for example, VERs are not eligible assets for professional specialised investment funds, in accordance with Article L. 214-154 of the French Monetary and Financial Code.

¹³ It should be noted that in the situation described here, the AMC would not be considered to be acting in the name of and on behalf of the fund, but rather on its own behalf, in line with the management of CIS as set out in Article 321/116 of the AMF's General Regulation and Article 24 of the Commission Delegated Regulation (EU) 231/2013 of 19 December 2012.

¹⁴ As described in Articles 319-12 and 321-117 of the AMF's General Regulation.

¹⁵ i.e. without the AMC as an intermediary, as set out in the aforementioned method.

APPENDIX: SUMMARY OF BEST PRACTICES SET OUT IN THIS GUIDE

The table below summarises the best practices described in this guide and specifies whether they relate to the design of the CIS itself or rather to providing information to holders.

#	Type	Fields	Best practice
(5)	Fund	Use of VERs	AMCs should opt for VERs that have been approved by a recognised body responsible for verifying, monitoring and examining the accounts of the project in question, and be able to justify their choice to the AMF. For example, these may include VERs that have been awarded the "low-carbon" label described in Article 1 of Decree 2018-1043 of 28 November 2018 .
(6)			In cases where VERs can be transferred or traded, AMCs should opt for VERs that are registered with a recognised independent registry or in accordance with a reliable procedure ¹⁶ , and be able to justify their choices to the AMF.
(1)	Information	Periodic non-financial information	Provide detailed information on how ESG criteria are taken into account, based on the framework set out in point II of Article D. 533-16-1 of the French Monetary and Financial Code and specifying the impact of the offsetting achieved.
(2)		Carbon footprint	Provide comprehensive, accurate information on the data sources used to calculate the carbon footprints of assets.
(3)			Use a method that factors in changes in the assets that make up a portfolio over the calculation period in question.
(4)			Set out the definitions of the different emission scopes and specify those that have not been taken into account when estimating a carbon footprint, together with the reasons for this, and provide examples of carbon emissions that have not been offset.
(7)		Use of VERs	Provide investors with information on projects issuing VERs, as well as links to the approval bodies/labels.

¹⁶ For example, those involving blockchain-type technologies.