

Second ACPR and AMF's joint report

Sectoral policies and fossil fuel exposure of French financial market participants

Pre-report

Extract from the ACPR-AMF joint report on the assessment of the climate-related commitments of French financial institutions - Chapter 2 - dealing with sectoral policies relating to fossil fuels, exposures to these energies and proposing a series of recommendations.



Introduction

On 18 December 2020, the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the *Autorité des marchés financiers* (AMF) published a first report on the monitoring of climate commitments of French financial institutions (banks, insurers and asset management companies)¹.

It presented the initial work carried out in the context of the aforementioned monitoring exercise and made a number of recommendations aimed at credibly crediting climate commitments and enhancing transparency of public information. The report also provided a detailed analysis of the coal exit policies of financial firms and their implementation, following the Paris' Financial Place Declaration of 2 July 2019, which invited French financial institutions to adopt a coal strategy, with a global divestment timetable².

The 2021 report continues this monitoring exercise and complements the initial analyses with a first assessment of the institutions' commitments to other fossil fuels (oil and gas), with a focus on non-conventional hydrocarbons. It also provides first estimates of the exposure of French banks and insurers to fossil fuels.

The work was carried out by the Authorities on the basis of public information and detailed questionnaires sent out to the largest market participants (9 banks, 17 insurers and 20 asset management companies)³, supplemented by bilateral discussions and exchanges that took place between July and September 2021. As in 2020, a comprehensive report on the monitoring and evaluation of climate change commitments will be published in December. It may eventually supplement the results presented here.

After a brief overview of the evolution of fossil fuel consumption and its contribution to global warming (section 1), the report details the results of the work undertaken by banks (section 2), insurers (section 3) and asset managers (section 4). It also analyses the implementation of the 2020 recommendations before updating and supplementing them (Section 5).

The main findings are summarised below and further broken down by sectors.

¹ See https://acpr.banque-france.fr/sites/default/files/medias/documents/20201218_rapport_vf.pdf and https://www.amf-france.org/sites/default/files/private/2020-11/coal-policies_amf-acpr-final-report_0.pdf for the English version of the chapter related to « coal ».

² <https://financefortomorrow.com/en/actualites/declaration-of-place-a-new-step-for-green-and-sustainable-finance/>

³ See Annex 1.

Main findings

The latest reports by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) have highlighted the magnitude of economic changes that are required to meet the Paris Agreement's objectives, particularly in the energy sector. In this context, this second report by the ACPR and AMF examines developments in thermal coal policies of French financial players and extends the analysis to oil, gas and non-conventional fossil fuels policies. It also extends the initial work conducted on fossil fuel exposures and highlights the important methodological challenges encountered.

The main findings from the 2021 exercise are as follows:

- **Financial institutions updated and completed their thermal coal policy in 2020, with, in some cases, a tightening of the criteria and/or exclusion thresholds applied;** all banks and insurers, as well as most major asset managers, now have adopted a coal exit date, generally 2030 for OECD countries and 2040 for the rest of the world; in addition, an increasing number of participants are now excluding the financing of companies developing new coal projects, even though the concept of "developers" continues to be defined in a heterogeneous way by market participants;
- However, **the Authorities' 2020 recommendations to increase participants' policy transparency and comparability, as well as the monitoring of their exposures, have not been sufficiently implemented;** Similarly, exit strategies, as well as any steps to meet the stated objectives, are rarely described;
- Overall, more than two years after the 2 July 2019 commitment to exit the thermal coal sector, **although collective mobilisation is real, the approaches and levels of ambition (in terms of criteria and thresholds chosen in the policies) remain heterogeneous from one institution to the other;**
- **Furthermore, oil and gas policies, still underdeveloped by non-bank institutions, tend to focus only on certain non-conventional energies;** they are also often imprecise and tend to cover various scopes;
- **The exposure of market participants to coal-related companies remains very low,** well below 1% of assets, with disparities between institutions; however, the measurement of these exposures remains dependent on the data used and methodological constraints, both for the identification of coal-related firms and for how to account for firms with a diversified business model (weights based on the estimated share of coal-related activity); moreover, these computations do not take into account possible transition strategies of companies, which are essential and require a more accurate assessment of individual exposures to the sector;
- With regard to the determination of oil and gas exposures, estimates are still very fragile, due in part to the lack of a public list of companies such as URGEWALD's *Global Coal Exit List* (GCEL), the complex value chain of these sectors, and differences of interpretation between institutions. Based on information collected, exposure to these two fossil fuels in 2020 came to about EUR 193 billion for banks and just under EUR 30 billion for insurance companies. The forthcoming publication of the *Global Oil and Gas Exit List* (GOGEL) will allow improving these estimates. However, both for risk monitoring and for future reporting obligations under the European Sustainable Finance Disclosure Regulation (SFDR) and Article 29 of the French Energy and Climate Act and for requests for transparency, **financial institutions need to speed up work to ensure a robust and transparent reporting of their exposures to fossil fuels,** including non-conventional energy, based on common definitions and taking into account the full range of the value chain, as well as the broadest possible business scope;
- Therefore, the recommendations for coal policies issued in 2020 remain largely valid. To a large extent, they should be extended to other fossil fuels, both because of their contribution to global warming, and to address increased financial risks to the sector. **The Authorities are thus encouraging the Paris marketplace to put in**

place robust, transparent and comparable policies on all fossil fuels in a timely manner. These policies should build on the lessons and work undertaken for coal, and take into account available projections and expected developments in the level and nature of investments in the relevant sectors in order to be able to achieve the objectives of the Paris Agreement.

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Chapter 1 - Background on fossil fuel policies

Fossil energies (mainly hydrocarbon) are a source of energy obtained from the transformation of organic matter over a period of millions of years and stored underground. They are non-renewable and their combustion generates greenhouse gases whose accumulation in the atmosphere is responsible for global warming.

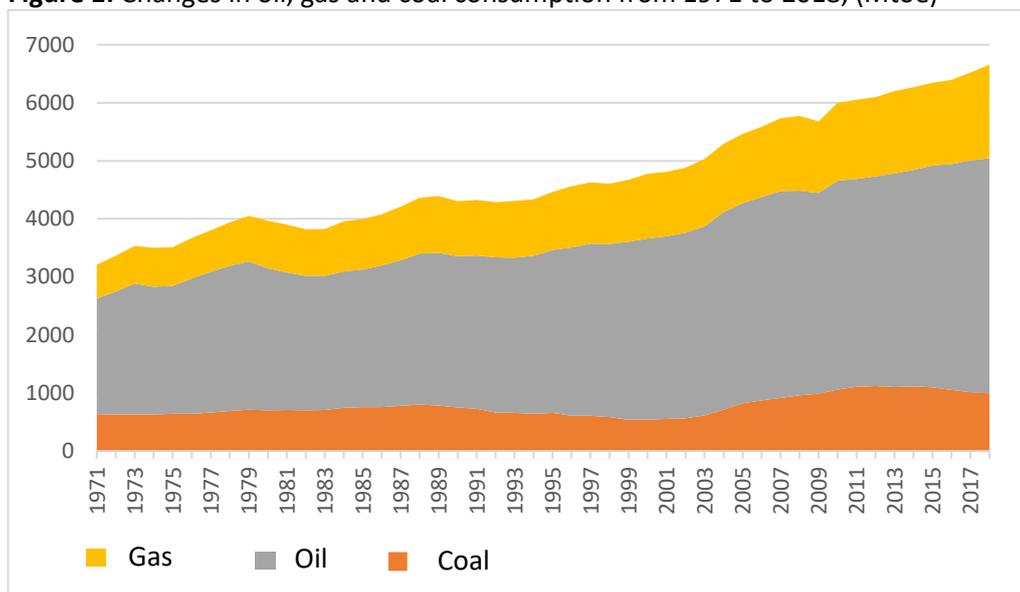
Three of them, coal, oil and gas, have gradually become the main sources of energy since the 19th century and by 2020 reached 83% of global⁴ energy consumption.

1. Uses and changes in coal, oil and gas consumption

While coal covers two main industrial uses - metallurgical coal, also known as coke or steel coal, mainly used for steel production; and thermal coal purely used as an energy source⁵, oil is used in three main sectors: transport⁶, petrochemicals (cosmetics, fertilizers, plastics, dyes...) and heating, both domestic and industrial. Gas is used primarily by the industry (petrochemicals, refining, etc.) and the electric sector - these two uses alone account for about 66% of its consumption worldwide. It is also used for household consumption (heating, cooking) - about 17% of the world's gas consumption⁷.

Global consumption of these three energies has been growing ever since the pre-industrial era. This was mainly due to strong demand from developed countries in the post-war period and from emerging countries such as China and India from the 1990s and 2000s onwards.

Figure 1: Changes in oil, gas and coal consumption from 1971 to 2018, (Mtoe)⁸



Source: International Energy Agency, Key World Energy Statistics 2020.

⁴ BP, *Statistical Review of World Energy 2021*.

⁵ The border is porous, however, as metallurgical coal can be used to produce energy. See the 2020 edition of the ACPR-AMF joint report on the climate commitments of French financial institutions.

⁶ Transport accounted for 49.3% of global oil consumption in 2018 (source: IPF New Energy).

⁷ Source: IPF New Energy (2018 figures).

⁸ Mtoe or megatons of oil equivalent. It is a unit of energy equivalent to the calorific value of one million tons of oil, about 42 Petajoules.

Global oil consumption accounted for 33.1% of global primary energy consumption in 2019, or 95.2 million barrels⁹ per day (Mb/d). Nonetheless, consumption in 2020 fell by about 9% owing to the shutdown of many transport vehicles and the sharp contraction in economic activity during the Covid-19¹⁰ pandemic.

While global consumption of natural gas equal to approximately 4,000 Giga cubic meters (Gm³) in 2019, it declined in 2020, also due to the health crisis. Although it was the largest decline in volume, it has been less pronounced than for oil, with a decline of only 1.8% in 2020 compared to 2019¹¹.

Coal consumption has declined steadily since 2018. This trend intensified in 2020, also because of the Covid-19 crisis, with a decline of around 4%, following a 2% drop in 2019, which was mainly driven by the development of renewable energy and a more attractive gas price.

The short to medium-term prospects for these three energy sources are however uncertain, as they depend on many factors.

According to the International Energy Agency (IEA)¹², oil demand is projected to increase again from 2023 onwards, not least because of slow regulatory process to mitigate climate change and rising growth, mainly from emerging countries. Consumption forecasts could reach 104.1 million barrels/day in 2026, an increase from the pre-health crisis level but below that projected in the previous IEA report in 2020.

While demand for gas is also expected to grow in 2021 by around 3.2%, i.e. above that of 2019, mainly as a result of strong Asian demand and, to a lesser extent, Middle Eastern countries, this trend remains, according to the IEA, subject to several unknown trends, such as the effectiveness of industrial growth, and more importantly, to the competitiveness of gas prices relative to other energy sources, including coal.

The IEA¹³ forecasts also suggest a likely increase in coal consumption in 2021 (around 4.5%), mainly driven by Asian countries (China, India and Southeast Asia), owing both to higher gas prices and to the return of economic growth: in 2020, China continued to operate about 30 coal-fired power plants per year on average.

2. Climate relevance

Global greenhouse-gas emissions reached 53.5 Gt CO₂ equivalent in 2017, doubling from the 1970s. In the same year, coal combustion accounted for 39% of CO₂ emissions, oil for 31%, and natural gas for 18%, excluding emissions from land use, land-use change, and forestry (LULUCF)¹⁴. The energy sector as a whole now accounts for three-quarters of greenhouse gas emissions.

According to the Intergovernmental Panel on Climate Change (IPCC) scenarios, to limit the average temperature increase relative to the pre-industrial age to 2°C with a probability greater than 66%, the remaining carbon budget¹⁵

⁹ One barrel = 159 liters.

¹⁰ See <https://www.connaissancedesenergies.org/bp-statistical-review-world-energy-2021-les-chiffres-cles-de-lenergie-dans-le-monde-210712>

¹¹ See <https://www.connaissancedesenergies.org/les-chiffres-cles-du-gaz-dans-le-monde-en-2020-presentes-par-la-filiere-210514>

¹² See *Oil 2021 report. Analysis and forecasts to 2026*; see also *Gas 2021 report*.

¹³ See *Coal Global energy review 2021*.

¹⁴The remainder 12++% is linked to industrial processes such as cement manufacturing (excluding energy combustion). See <https://www.statistiques.developpement-durable.gouv.fr/chiffres-cles-du-climat-france-europe-et-monde-edition-2020-0>

¹⁵ A carbon budget is a maximum amount of CO₂ emissions associated with a reasonable probability of avoiding average temperature increases above a certain level.

is 1,170 Gt CO₂ from 2018 and only 420 Gt CO₂ if the ambition is to limit the temperature increase to 1.5 °C. To achieve this, most fossil-fuel resources should therefore remain untapped.

In its special report published in 2018, the IPCC estimated that in order to keep global temperatures rise to 1.5°C, the share of oil in the provision of primary energy should decline between 2020 and 2050, in most of the scenarios analysed, between -39% and -77%, and the share of gas by -13% to -62%.

More recently, the International Energy Agency has developed a set of more than 400 measures to achieve carbon neutrality by 2050 and to limit global warming to a 1.5°C increase by the end of the century in line with the Paris Agreement¹⁶. Among these, the IEA advocated for a series of radical changes, in the "net zero" scenario considered, such as the immediate halt of investment in new gas, oil and coal development projects and of investments of new coal-fired power plants not equipped with CO₂ capture, use and storage technology¹⁷, together with an immediate and massive deployment of all available clean and efficient energy technologies.¹⁸ Moreover, the report recommended the end of the sale of thermal motor cars as of 2035 and called for efforts to achieve a 4% annual increase in overall energy efficiency by 2030.

¹⁶ Report published on 18 May 2021 entitled "[Net Zero by 2050: A Roadmap for the Global Energy Sector](#)".

¹⁷ "No investment in new fossil fuel supply projects, and no further final investment decisions for new unabated coal plants". The IEA calls the use of fossil fuels in sites without carbon capture, use and storage (CCUS) technologies "unabated".

¹⁸ "Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway, and no new coal mines or mine extensions are required."

Chapter 2 – Banks’ fossil policies¹⁹

1. Sectoral and exclusion policies

1.1 Monitoring coal policies

Several conclusions can be drawn from the answers provided in the new questionnaire sent to institutions in April 2021²⁰:

For the time being, banks’ commitments continue to focus exclusively on thermal coal. The reasons given by surveyed institutions are the same as in 2020: thermal coal is responsible for most of the energy sector's emissions (about 75%), and alternatives to its use in the metallurgical sector remain both too complex and costly.

Most banking institutions updated their “coal” policies: for example, BNPP (July 2020), CDC (June 2021), SOCIÉTÉ GÉNÉRALE (July 2020), CRÉDIT MUTUEL AF (February 2021), CREDIT MUTUEL ARKEA (April 2021), or HSBC Continental Europe (May 2021). These updates do not systematically lead to a change in the policy: several banks did not modify the content of their coal policy following the update. Moreover, some updates were more accurately formalised in a policy, which up until then had been subject to more general principles or charters. In 2021, for example, BANQUE POSTALE validated a document specifically dedicated to its coal policy, while adopting a set of standards that governed this policy and making it more suitable for international comparisons, since its exclusion policy had remained informal so far.

In general, the trends already observed in the previous report - a slow but seemingly steady tightening of exclusion policies as the coal policies are constantly being revised – continues. The new policies specify higher requirements in terms of thresholds or exclusion criteria previously adopted, for a third of the institutions analysed, either by lowering one or more thresholds already in place or by adding additional thresholds²¹.

Similarly, while in 2020 four banks had not reported the date of exit for coal, in 2021 all banks under consideration have fixed a date, with one institution even deciding to set their exit to 2027 although it was originally scheduled for 2030²².

¹⁹ As in the previous joint report of the ACPR and AMF, nine banking groups are examined here: AGENCE FRANÇAISE DE DÉVELOPPEMENT (AFD), BNP PARIBAS, BANQUE POSTALE, HSBC FRANCE, CRÉDIT AGRICOLE SA, BPCE NATIXIS, SOCIÉTÉ GÉNÉRALE, CAISSE DES DÉPÔTS, CRÉDIT MUTUEL (ALLIANCE FEDERALE AND ARKEA).

²⁰ https://www.amf-france.org/sites/default/files/private/2020-11/coal-policies_amf-acpr-final-report_0.pdf

²¹ For example, CM ARKEA, increased the revenue threshold for its new investment and bank financing as well as the percentage of coal in its energy mix from 30% to 10% and also reduced the installed capacity threshold (from 10 to 5 GW) at as well as the production threshold (from 20 to 10 Mts); SOCIÉTÉ GÉNÉRALE lowered its revenue threshold from 50% to 25% for existing and new customers, which is expected to increase to 0% from 1 January 2022 for companies with coal thermal assets (mining or power plants). CAISSE DES DÉPÔTS has decided to expand its revenue threshold by applying to its new investments an absolute capacity threshold of 10 Mt of mining and 10 GW of installed production.

²² Although in 2020 BANQUE POSTALE had not communicated an exit date, stating that this date was not necessary since it had excluded "coal" funding since 2015, the Bank wished to be able to post an exit date in this report after it had noticed some outstanding issues in its business portfolio.

Table 1: Bank Announcement of Coal Release Date

Institution	Type of coal concerned	Output Date: Europe/OECD	Output Date: Rest of the world
AGENCE FRANÇAISE DE DEVELOPPEMENT (AFD)²³	Thermal	2013	2013
BNP PARIBAS	Thermal	2030	2040
BPCE NATIXIS	Thermal	2030	2040
CRÉDIT AGRICOLE SA	Thermal	2030	2040
SOCIÉTÉ GÉNÉRALE	Thermal	2030	2040
CAISSE DES DÉPÔTS ²⁴	Thermal	<i>2030</i>	<i>2040</i>
CRÉDIT MUTUEL ALLIANCE FÉDÉRALE	Thermal	2030	2030
CRÉDIT MUTUEL ARKEA	Thermal	<i>2027</i>	<i>2027</i>
HSBC²⁵	Thermal	<i>2030</i>	<i>2030</i>
LA BANQUE POSTALE	Thermal	<i>2030</i>	<i>2030</i>

Source: ACPR 2021 Questionnaire - Public commitments of banking groups. Changes from 2020 are in italic.

However, the setting of a final exit date is rarely accompanied by a description of the intermediate steps needed to prepare for such an exit. Moreover, the systematic adoption of cross-criteria, such as those proposed by the *Global Coal Exit List*, and whose juxtaposition allows for wider coverage of the coal chain, is more of an exception than a rule, as many institutions prefer to use only two of them.

In addition, while all banks analysed generally do not allow themselves to finance new coal projects, the concept of “coal developer” continues to encompass different realities for banks. For example, one institution excludes from its financing the exploitation of new mines only, while the increase in capacity of a power plant with an installed capacity of more than 3 GW is subject to review.

The previous report underlined the heterogeneity of approaches, both in terms of business scope and activities, making the comparability of these policies complex. This observation can be reiterated in 2021. For example, the term “funding” may, as appropriate, cover all banking products and services, or related capital markets, as well as all other products. Similarly, commercial activities involved in coal policies may include, depending on the institution, the main segments of the coal value chain (extraction, thermal power plants) or, more broadly, the whole value chain, i.e. also encompassing transport, trade or processing.

Finally, as in 2020, it should be noted that banks’ coal policies concern only “direct” financing of the business and do not apply to funding or refinancing from other financial institutions, or *holding companies*, which may themselves be exposed to coal.

²³ In 2013, the AFD board adopted a resolution banning the funding of coal-fired power plants, except for plants that include operational arrangements for the capture and storage of CO₂.

²⁴ Beyond the announced dates, on 1 January 2022, the CDC committed to discontinue holding corporate securities exposed to thermal coal and which have not announced plans to disengage thermal coal by 2030 in OECD countries and by 2040 in the rest of the world

²⁵ This is Group Policy.

1.2 Banks' main features of "oil and gas" policies

Four main features characterise the oil and gas policies of the nine banks examined:

While all banks currently have an oil and gas policy in place, **these policies focus on so-called unconventional hydrocarbons** (the broadest definition). In most cases, conventional sectors are not subject to specific restrictions or thresholds, with the exception of new exploration and/or exploitation projects.²⁶

Box 1: Conventional and "unconventional" energy resources

There is currently no consensus on a clear definition to differentiate conventional hydrocarbons from other "non-conventional" oil and gas.

Some participants consider that only hydrocarbons trapped in low-permeable rocky formations requiring particular extraction techniques such as hydraulic or chemical fracturing fall under the category of non-conventional and, as such, include only tar sands, as well as shale oil and gas²⁷. Others include heavy and extra-heavy oil, which also use specific extraction and refining methods. Still, others state that the notion of "unconventional" oil extends to hydrocarbons exploited under specific or *de facto* sensitive conditions, such as coal gas/methane, methane hydrates, oil and gas in offshore deep water or in the Arctic. The boundaries of the Arctic zone themselves are being debated²⁸, with some institutions using those defined by the Conservation of Arctic Flora and Fauna (CAFF) working group and others using the Polar Code of the International Maritime Organization.

The definition of "conventional" or "non-conventional" energy resources can be addressed from a technical perspective or from a classification perspective. Both approaches are consistent and complementary.

The Society of Petroleum Engineers (SPE) provides the following definitions of conventional and non-conventional energy resources from a technical and operational perspective:

1. Conventional energy resources:

These are resources (oil and gas) confined to a field, its distributing resulting from the structure of the field and the actions deriving from the force of gravity. The hydrocarbon resources initially in place are framed by an underlying aquifer and cover rock, and have clearly defined water-oil and oil-gas contacts. These resources are mobile and can be transferred to production wells under the influence of a hydrodynamic gradient and competition between capillary, viscous and gravitas forces.

²⁶ According to the IFPEN, reserves are the volumes of oil recoverable from technical and economic conditions that prevail in fields that have been or will be exploited. Proven reserves are the quantities of oil established to exist and with recovery probabilities for available data, extraction technology and economic conditions of at least 90%.

²⁷ Today, this restrictive definition is the only common denominator for French banks.

²⁸ These definitions may include the latitude 66°33' north which defines the Arctic polar circle, the Köppen line which limits the 10°C isotherm for July, or the tree line which marks the southern continental boundary of the vegetation without trees typical of the polar climate or tundra, not to mention various definitions based on human criteria.

2. Non-conventional energy resources:

They are defined by (1) their topology, (2) their recovery processes.

Topology: They are accumulations that extend over a wide scope and do not have clearly defined water-oil or water-gas contacts.

Recovery process: These non-standard resources cannot be produced by traditional well patterns, because their low mobility prevents them from flowing to production wells, owing either to their high viscosity (heavy oils, tar sands) or to particularly low permeability (shale gas and oils, coal methane). Furthermore, in the case of non-conventional oil, their sale requires an additional upgrade stage (*upgrading*) to bring them to market specifications.

Consistent with these definitions, the IEA provides the following classifications:

- Unconventional liquids: tight oils, natural gas liquids (condensats), extra-heavy crude and bitumen.
- Unconventional gas: tight gas or tight gas tanks, shale gas, coal gas

Global productions in 2019 were:

World production 2019	Liquids (Mboe/d)		Gas (bcm)	
	Conventional	65.0		2998
Non-conventional	Tight oil	7.7	Tight gas	285
	NGL*	18.7	Shale gas	719
	EHOB**	3.7	Coalbed methane	82
	Other	1.0	Other	5
Total	95.4		4089	

*Natural gas liquids. **Oil and extra heavy bitumen. Source: IEA, World Energy Outlook 2020.

In September 2021, the Scientific Committee of the Observatory for Sustainable Finance published a set of recommendations on non-conventional hydrocarbons and alignment strategies. While recognising the need to proceed with caution when defining "non-conventional" hydrocarbons, as this name may be subject to change, it considers that the following hydrocarbons should be considered as "non-conventional": coal bed methane, tight oil and gas, oil shale and shale oil, shale gas, shale gas, oil sand, extra heavy oil, gas hydrates and, by extension, "ultra-deep offshore oil and gas and fossil oil and gas resources in the Arctic"²⁹. The Observatory's Scientific and Expert Committee also recommends defining the Arctic area using the broadest definition of the *Arctic Monitoring and Assessment Program (AMAP)*.

Arctic's definition	Surface	Estimated % of Arctic Oil and Gas operating assets covered**
Arctic Monitoring and Assessment Programme (AMAP)*	33.4 x 10 ⁶ km ²	100%
Conservation of Arctic Flora and Fauna (CAFF)	-	80%
Maximal sea ice extend (National Snow and Ice Data Center)	14.8 x 10 ⁶ km ² in March 2021	17%

* Definition adopted by the Scientific Council of the Observatory for Sustainable Finance ** Source: Reclaim Finance, September 2021: <https://reclaimfinance.org/site/arctic-map/> Source: AMF according to AMAP, CAFF, NSIDC and Reclaim Finance.

²⁹ Recommendations of the Scientific and Expert Committee on Unconventional Oil and Alignment Strategies, 22 September 2021, p. 10.

Taken in their broadest sense, "unconventional" hydrocarbons are subject to policies across almost all of the institutions analysed. However, these policies are extremely diverse.

Some institutions have in place a total exclusion policy (AFD, LBP). Others limit their exclusion to shale oil and gas, sometimes to "new projects in the Arctic or in the oil sands" alone. Still others follow a "specific analysis" policy on oil sands or set specific exclusion criteria, such as a maximum percentage of non-conventional turnover (CDC). Some, however, distinguish between dedicated transactions, for which an exclusion is made, and "new products and services for companies that derive the majority of their revenues from Arctic exploration" or "for which unconventional hydrocarbons represent a significant share of their turnover." Finally, depending on the banking group, the exclusions or limitations displayed refer either to the entire production chain, from research and drilling to distribution terminals and transport or to some of these segments only.

The conventional Oil and Gas sectors may be excluded from funding new projects and/or holdings of new reserves. This is the case for BANQUE POSTALE, HSBC, CAISSE DES DÉPÔTS and AFD, which completely exclude these new projects. Others are waiting to update their policy on conventional energy for the publication of the *Global Oil and Gas Exit List* announced by the NGO URGEWALD for the end of 2021. Others, such as HSBC, SOCIÉTÉ GÉNÉRALE, or BNP PARIBAS have a policy that is confined to avoiding torching, recovering emissions, or to meeting the environmental and social criteria and of methane emissions, such as the Equator Principles.

Beyond that, only CAISSE DES DÉPÔTS, AFD³⁰ and BANQUE POSTALE have, for the time being, introduced a restrictive policy on "conventional" oil and gas. The CDC thus states that it is engaging in a dialogue with the companies concerned to adopt a transition strategy in line with a scenario limiting global warming at 1.5°C by reducing associated emissions or by analysing any investment projects in production, transport or refining infrastructure. Since March 2019, the AFD has excluded from its funding projects relating to the construction, expansion or renovation of fuel- and diesel-based electricity generation plants³¹, as well as exploration or production projects, or dedicated exclusively to the transport of oil and gas, although this exclusion itself is accompanied by a limit relating to the geographical area concerned.³² Finally, BANQUE POSTALE recently announced that it will stop financing these two sources of fossil fuels by 2030.

³⁰ However, it should be noted that AFD primarily deals with dedicated funding rather than corporate funding.

³¹ Excluding hybrid power plants with emissions of less than 500 kg of CO₂/MWh.

³² The AFD points out that it "will be able to consider financing electricity generation connected to the national grid from natural gas in LDCs or countries in crisis, located in Africa, the Middle East and the Caribbean, and only if the project integrates into the country's energy transition, in particular by contributing to the integration of intermittent renewable energies".

2. Banks' exposure to fossil resources (coal, oil and gas)

2.1 Methodological approach and limits

The 2020 joint report underlined on several occasions the difficulty of measuring "coal" exposures of banking groups, as the amounts reported covered different scopes in terms of financial or commercial transactions taken into account in the calculation.

In order to overcome some of these limitations, a working group bringing together the ACPR and the main banking institutions was set up in 2021 in order to reach a consensus and, where possible, harmonise the methodologies. At the end of the exchange, participants agreed on a common approach for the calculation of "fossil" exposures:

- As regards the definition of business activities to be taken into account, banks should not rule out segments of the value chain *a priori* but, for more complex fields or for which the assessment is complex (e.g. transport, where this activity is not dedicated, or storage, etc.), assess exposure from a list (Trucost, GCEL...) as far as possible;
- For the financial scope of business, conduct an exposure assessment based on best effort, taking into account all financial instruments used for fossil fuels (loans, but also securities, credit lines, liquidity lines, hedging products), and specifying the approach chosen.

Therefore, this definition has in principle been used as the basis for calculating exposures by institutions, the results of which are set out below.

While some banks complied with the proposed approach, others felt that they could not follow it. The main reasons given are insufficient data, lack of anteriority, or tools in place that allow for insufficient distinctions, especially between different types of hydrocarbons and between conventional and non-conventional sources. For example, NACE or ICB classifications define industries that only imperfectly cover the scopes proposed in the ACPR questionnaire. Therefore, some banks do not have a sectoral classification of their securities or derivatives and calculations have only taken into account credit authorisations (excluding uses) for off-balance sheet transactions in their exposure calculations. Others did not report an amount for some items (typically off-balance sheet positions), which are "under assessment".

As a result, several of the figures provided are solely estimates. For this reason, the aggregate amounts shown below should be taken with caution and should be regarded as indicative of a trend or an order of magnitude rather than an exact calculation. This estimate represents, however, a significant improvement over the previous report and, in 2021, a major effort was made by banks to obtain a more detailed knowledge of these exposures.

In order to provide a complementary approach to the questionnaire, the ACPR conducted a parallel assessment in 2020 using the "large exposures" reporting, with the same limitations as those mentioned in the previous report³³. However, although the calculation of coal exposure could be weighted as in 2020, by the share of the turnover of the sector's firms actually devoted to "coal" using data from the *Global Coal Exit List*, the lack of an equivalent list for oil and gas at the time of writing of this report did not make it possible to use risk-weighting for the assessment

³³ Memo item: 1/The reporting threshold for banks for the reporting of large exposures leads to a first limit. As this threshold is above €300 million, it bias the underestimation of exposure amounts 2/Conversely, internal corporate transition policy is not taken into account: therefore, the transition from a company A that fluctuates over the period from 100% of its coal revenues to a mix of 50% coal and 50% renewable energy is not taken into account. As a result, the exposure of coal is not risk-weighted and a bank's exposure to this company is therefore still labelled as financing 100% "coal". While this approach, when measuring exposure amounts at time t, does not take into account by construction the transition dimension, which is a key dimension.

of exposure to hydrocarbons. The planned release in November 2021 of the *Global Oil and Gas Exit List (GOGEL)* should help to fine-tune this assessment in the future.

Lastly, it should be noted that the “coal” data provided by URGEWALD for its *Global Coal Exit List (GCEL)* changed compared with 2020, as the NGO strengthened its exclusion thresholds. As a result, this strengthening has significantly modified the list, which now includes 2,954 issuers, an increase of 30% from 2020 (2,271) (see Annex 2). In addition, around 290 issuers fell below the thresholds of GCEL 2020, due to their business model's evolution. This change in scope had to be taken into account in the re-calculation of the exposure using the large exposures reporting.

2.2 Main Results

2.2.1 An initial assessment based on reporting by institutions

Based on the amounts provided by the banks and with all the caveats mentioned above, the coal exposure of the French banks included in this study in 2020 is estimated at around EUR 5.4 billion, the conventional hydrocarbons exposure in 2020 is estimated at EUR 174.2 billion, while the reported non-conventional exposures remain stable.

Table 2: Banks' exposure to fossil fuels, in millions of euros

	Coal (at 31.12. 2020)	Conventional hydrocarbons		Non-conventional hydrocarbons	
		2015	2020	2015	2020
Bank loans	2,843.3	72,609.6	95,990	6,750	8902.8
Securities	105.5	1201.5	5,371.5	- ³⁴	99.5
Off balance sheet positions	2,495	72,836	72,854.6	11,334.6	9998
TOTAL	5,443.3	146,647.1	174,216.1	18,084.6	19,000.3

Source: ACPR, based on the bank reports in the sample.

These results call for several remarks:

- Some figures are to be considered with caution, beyond the methodological complexities, subject to the appropriateness of what is reported and the actual exposure;
- Beyond gross amounts, banks' exposure to coal remains, as already noted in 2020, very low for loans representing from 0 to 0.95% of their total credit, and, for off-balance sheet positions, 0 to 1.6% of their total off-balance sheet amounts, depending on the institution. Relative to all the loans of the institutions analysed here, the coal exposure of bank loans at the end of 2020 was 0.05%, and 0.17% based on total loans to non-financial corporations³⁵;
- Not surprisingly, banks' oil and gas exposure is larger, albeit with significant differences in the range of exposure, for example for loans, ranging from 0% to 6.9% of total lending. Total exposure to oil and gas in the sector grew by 19% between 2015 and 2020, mainly as a result of a 30% increase in the share of lending for these energy sources. Reported on all loans and advances from the institutions shown here, the oil and gas exposure of bank loans as of 31 December 2020 was 1.9%.
- Changes in the share of fossil fuel exposures relative to total outstanding credit may in some cases decline sharply while increasing in volume at the same time. For several institutions the relative value of loans

³⁴ Missing data.

³⁵ The latter figure is similar to that of the FBF, which for 2020 estimates that French banks' coal exposure was 0.16% of total corporate lending (in the FINRREP 18 sense), or EUR 2.1 billion.

relative to total outstanding amounts has stabilised or even decreased, whereas the total outstanding amount of loans increased in absolute terms (for some institutions increasing by up to 50%);

- The share of off-balance sheet exposures in the banking sector's total exposure to oil and gas is far from negligible: in 2015, the debt ratio was almost as large as in loans and in 2020 continued to account for almost 42% of total oil and gas exposure. However, these amounts mainly cover hedging or derivatives transactions and do not constitute direct financing of the relevant sectors;
- Lastly, the overall amount obtained for exposures to non-conventional energy varies considerably: for the years 2015 and 2020, one institution held 90% of the total banking exposure, probably reflecting some challenges for other institutions to clearly isolate non-conventional from traditional oil and gas exposures.

2.2.2 Exposure measurement based on the large exposures reporting

For the calculation of coal exposure, only four banks³⁶ are represented within the "large exposures" statement. The others are not listed either because they have no exposure to the *Global Coal Exit List* (GCEL) companies or because their exposures to a single counterparty stand below the EUR 300 million reporting threshold. By contrast, seven out of the nine banks in the sample³⁷ are included in the calculation of oil and gas exposure.

Beyond the limits of the method, which have already been emphasised, it should be noted that the different sectors identified by this approach, resulting from the ICB classification and from in-house research, do not currently lead to completeness. This bias creates a risk that some fossil-fuel companies may not be included. Therefore, the results obtained should be considered as orders of magnitude and rough estimates.

As in the previous report, for most institutions, the exposures resulting from the "large exposures" reporting vary significantly **for coal exposure** across institutions compared with those obtained through questionnaires. Total exposure amounts are approximately 40% higher than the exposure obtained from the questionnaires due to a larger business area. Conversely, the exposure reported by one of the institutions is twice as large as the exposure resulting from the "large exposures" statement, probably due to the EUR 300 million threshold. However, with respect to total large exposures³⁸, this exposure remains low: between 0.2% and 0.3% of total exposure of banks under review. Moreover, while the overall amounts financed appear relatively stable for coal, this percentage is down slightly from 2015 (0.4%), again with significant differences between institutions ranging from stability to a drop of almost 50%.

The "Large Exposures" approach to **the measurement of banks' exposure to oil and gas** does not allow distinguishing between conventional and non-conventional fossil fuels, in addition to the already mentioned difficulties in defining these two categories.

Two analyses were conducted, one of which was described as "restricted", taking into account the integrated companies, the production of energy from gas, the exploration and production, equipment and services, refining, transport and storage sectors, almost entirely dedicated to these two energy sources; the second, called "enlarged", encompasses in addition the more complex trading companies sector. This time, the results obtained by the ACPR are significantly lower than the reported amounts for both estimates: in the case of the first approach, by half - regardless of whether it is 2015 or 2020, and in the case of the other approach and for both dates, by 60%. Again, it is likely that the application of the EUR 300 million threshold for reporting explains in large part these differences.

³⁶ BNP PARIBAS, CRÉDIT AGRICOLE SA, BPCE and SOCIÉTÉ GÉNÉRALE.

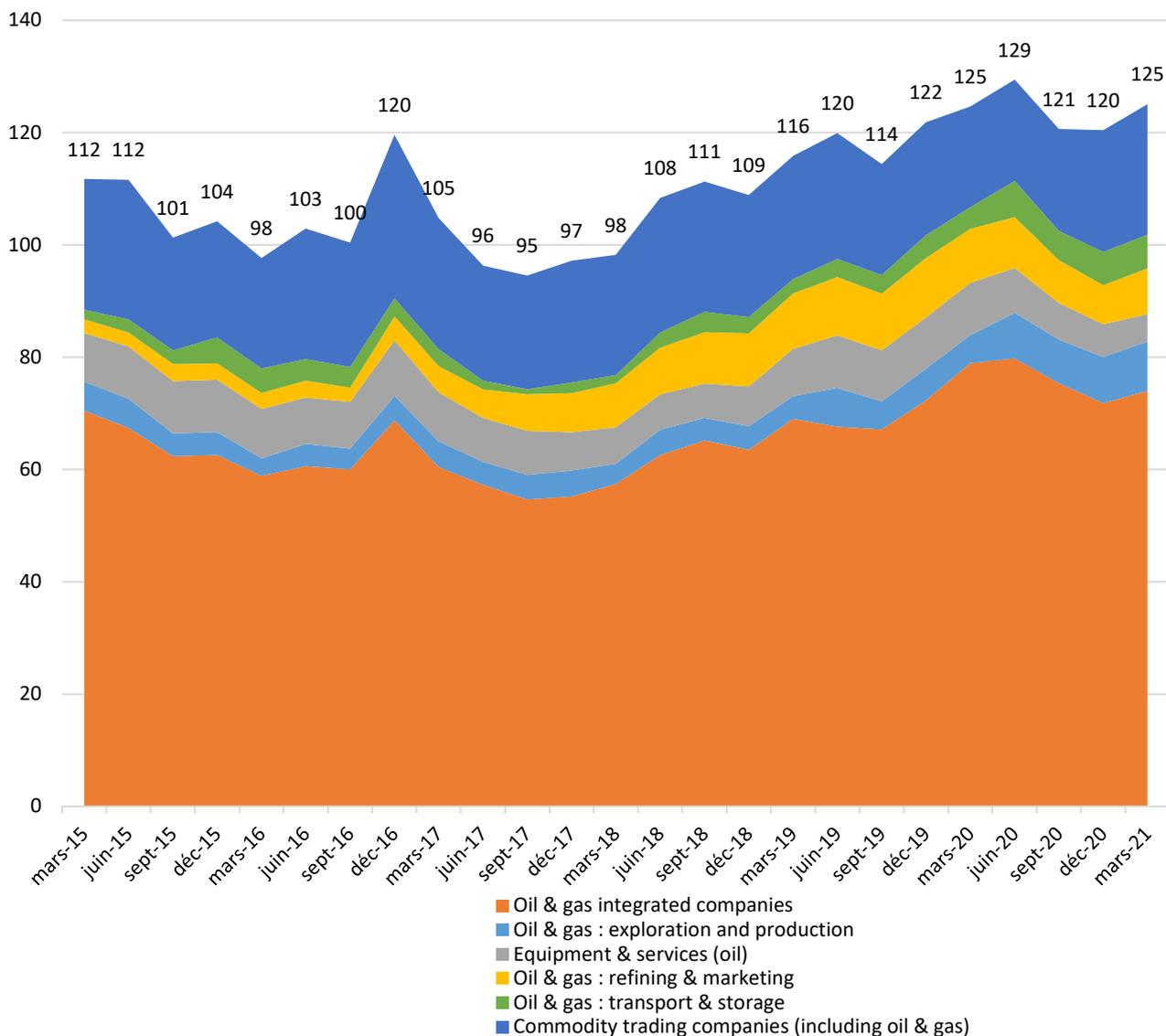
³⁷ Either BNP PARIBAS, CRÉDIT AGRICOLE SA, BPCE, BANQUE POSTALE, GROUP CRÉDIT MUTUEL, SOCIÉTÉ GÉNÉRALE, whose data were analysed over the period 2015-2020. The AFD and CAISSE DES DÉPÔTS are not monitored and the data available for HSBC could not be analysed until the fourth quarter of 2019.

³⁸ Gross exposures: loans, receivables, derivatives, liabilities, guarantees given, own K instruments. Before credit risk mitigation techniques.

Whichever approach is adopted, the growth of this exposure between 2015 and 2020, in absolute terms, was around 20%.

However, when taken relative to the overall large exposures, exposure to oil and gas, whatever the case may be, decreases significantly between 2015 and 2020, but at an irregular pace. "Enlarged" exposure grew from 4.8% to 3.6% of total exposure, while this decline was also observed for "restricted" exposures (from 3.9% to 2.9%). Whether or not the calculation takes into account sovereign and financial activities does not affect this trend.

Figure 2: Exposure of the six largest banks to oil and gas between 2015 and 2020
(Sum of gross risks, EUR billions)



Source: ACPR.

Chapter 3 - Insurance companies' fossil policies

1. Sectoral and exclusion policies

1.1 Monitoring of coal policies

- Update of previous policies

Since December 2019, all insurers had adopted exclusion policies for coal. The prospects for further improvement thus lie in the clarity, comparability and stringency of requirements of those policies. As with banks, and for the same reasons, these policies focus only on thermal coal.

The sectoral policies for the thermal coal sector have become more demanding

Insurance companies have tightened their exclusion policies compared with the last exercise, either by adding **additional exclusion criteria** or by **lowering the thresholds** at which an issuer could be excluded from a portfolio.

For example, in addition to the "relative" exclusion³⁹ criteria, there is a **generalisation of the recourse to "absolute" criteria** relating to annual coal production (expressed in millions of tons) or to the installed capacity of coal-fired power plants (expressed in gigawatts). For example, 9 out of the 17 surveyed institutions added at least one absolute criterion compared with the last exercise, bringing the number of insurers with absolute criteria for their coal policy to 16 out of 17.

Similarly, **in respect of the lowering of thresholds**, 12 out of the 17 surveyed entities lowered at least one of the exclusion thresholds⁴⁰. Some institutions are therefore setting time-smoothed targets, with a path of lowering the thresholds to reach the target of total coal exclusion by 2030/2040. All institutions now have a definitive date for exiting coal: all five institutions that did not specify a exit date from thermal coal last year have now set a deadline of 2030 for the EU/OECD area, and up to 2040 for the rest of the world.

Finally, "coal developer"⁴¹ exclusion criteria have now been adopted by the entire sample of insurance firms.

³⁹ These criteria are expressed as a percentage of a company's turnover or as a percentage of energy/electricity production by thermal coal energy professionals. They were included in almost all exclusion policies in the last exercise.

⁴⁰ For example, when a firm was excluded from 30% of the coal revenues, the same firm would now be excluded when its coal-related share was higher than 15% in 2026.

⁴¹ Companies developing or planning new infrastructure expansion plans (coal mines or thermal power plants) or installed capacity.

In terms of insurer activity – the liability on the balance sheet – seven institutions also mentioned that they adopted an underwriting exclusion policy. This count does not presume the quality of these policies, which contain various criteria and cover different scopes. An insurer (ALLIANZ) even plans to harmonise the criteria for excluding coal assets (investment) and liabilities (underwriting) in 2023. Some entities justify the absence of policies on the liabilities' side because of the lack of exposures to fossil fuels in their role as insurers, relating to the type of customers (retail or SMEs), sector specialisation (e.g. health sector) or products offered (absence of property insurance or liability insurance).

Box 2: Climate change-related financial risks and liabilities on insurers' balance sheets

Unlike banks or asset managers, climate risks affect both an insurer's assets and liabilities. Climate-related financial risks, however, differ depending on one's perspective. Liabilities, i.e. underwriting activities, are less affected by the risk of transition than the asset side of the balance sheet, i.e. investments activities.

The ACPR has already had the opportunity to stress on several occasions the financial risks posed by climate change on the liabilities side: “the risks associated with an increase in the frequency and cost of extreme weather events, including the resulting increase in mortality and tropical diseases, have direct consequences for the pricing of insurance policies and may ultimately raise the question of the insurability of certain risks, with possible policy implications”⁴². After its first climate stress test, the ACPR showed that the cost of disasters could increase five to six times in some French departments between 2020 and 2050.⁴³

This assessment, which shows the continuity of the market momentum already highlighted in the previous exercise, must be balanced, however, by the lack of harmonisation of the exclusion criteria and, in some cases, by relatively less transparent limits and, therefore, challenges to assess effective policy impacts.

- Strength of current policies

As with banks, the lack of harmonisation of the criteria for exclusion policies is still not offset by a transparent communication that makes them comparable, despite the recommendations issued by the ACPR in 2020 (see Section 5).

Last year's finding that criteria for thermal coal exclusion policies applied are heterogeneous remains valid. For example, relative exclusion criteria are between 10% and 30% of revenue for production or exploration activities and between 10% and 30% of the energy mix for electricity or energy production activities. Absolute criteria are between 10 and 100 million tons of annual production and/or 5 to 10 GW of installed power.

At the same time, certain elements concerning the scope of policies to which the exclusion criteria apply are too often not specified. For example, the distinction between applying an exclusion policy to the current portfolio and applying it to new investments is not clearly expressed in many cases. Therefore, potential investors or the public does not know whether the criteria are for new investments only or whether divestment is also achieved on existing outstandings against the same criteria. This point is to be linked to shareholder engagement and the dialogue with issuers in portfolio.

⁴² ACPR, Analyses et synthèses no. 102, *French insurers facing climate change risk*, 2019.

⁴³ Please refer to: <https://acpr.banque-france.fr/en/main-results-2020-climate-pilot-exercise>

Similarly, the clarity of information provided in the questionnaires or in public documentation regarding the different stages of value chains that insurers take into account in their exclusion policies varies considerably between institutions. This topic differs from the level of ambition within the value chain used to apply an exclusion policy, which varies equally between institutions: some institutions focus on the upstream end of the value chain (extraction, production) while other institutions apply their exclusion policy on a more ambitious scope by also including downstream (transport, storage, service activities). However, in the absence of harmonisation, clear and accurate disclosure of the scope of the value chain under consideration is essential to enable comparability between the different exclusion policies applied by institutions. The replies to the questionnaires on this point are still often unclear ("the whole value chain") or non-existent. Public documentation is rarely used to clearly establish the scope of application.

Finally, as with banks, although all institutions have agreed on an exit date from thermal coal, this commitment is all too rarely accompanied by a gradual timetable, allowing an assessment of the path towards such a transition.

Table 3: Coal release dates announced by insurance entities

Insurance Group	Output Date: Europe/OECD	Output Date: Rest of the world
ACM	2030	2030
AG2R	2030	2030
ALLIANZ	2040	2040
AVIVA	2030	2030
AXA	2030	2040
BNP CARDIF	2030	2040
CA ASSURANCES	2030	2030
CCR	<i>2030</i>	<i>2030</i>
CNP Assurances	2030	2040
COVÉA	<i>2030</i>	<i>2040</i>
GENERALI	<i>2030</i>	<i>2040</i>
GROUPAMA	<i>2030</i>	<i>2040</i>
MACIF	2030	2030
MACSF	2030	2030
NATIXIS ASSURANCES	<i>2030</i>	<i>2040</i>
SCOR	2030	2040
SOCIÉTÉ GÉNÉRALE ASSURANCES	2030	2040

Source: ACPR 2021 questionnaire - Public commitments of insurers. Changes from 2020 are in italics.

1.2 Oil and gas policies (conventional and unconventional)

1.2.1 Conventional fossil fuels

A minority of insurers have developed policies dedicated to conventional fossil fuels. Three out of 17 insurers have policies to reduce their exposures to conventional (non-coal) hydrocarbons. One insurer has a policy on the exploitation of conventional hydrocarbons at certain sites (such as the Arctic or protected areas, which the insurer considers to be conventional hydrocarbons even though other institutions classify it as unconventional).

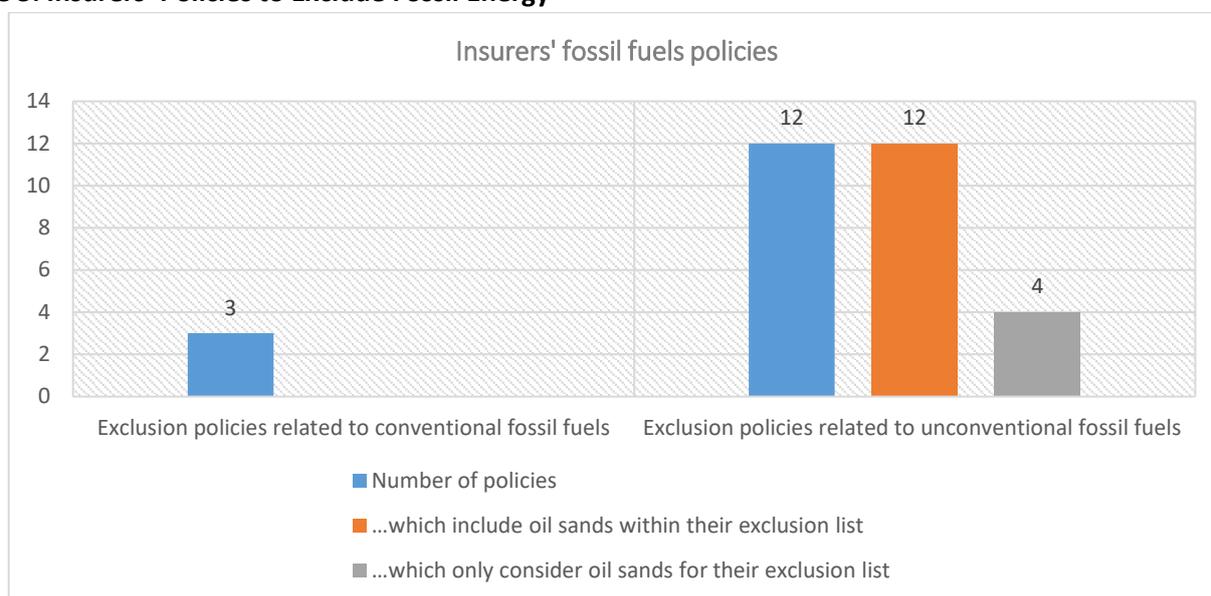
Of the three insurers that have exclusion policies on conventional fossil fuels, one excludes only investments in *greenfield* oil infrastructure. The second focused its exclusion policy on upstream oil and gas companies that did not commit to being carbon neutral in 2050⁴⁴ or did not publish a strategy to reduce their carbon intensity. Finally, a third insurer is committed to reducing its overall exposure to the oil and gas sector by at least 10% by 2025. For example, sectoral policies linked to conventional fossil fuel do not cover the entire value chain, or are linked to imprecise analytical frameworks (such as "credible" reduction strategies), or set time horizons that are distant (neutral by 2050).

1.2.2 Unconventional

The definition of "unconventional" fossil fuels varies by organism. This definition usually covers hydrocarbons that are relatively difficult to exploit by "conventional" methods, i.e. by drilling. For example, shale oil and gas, extracted using hydraulic fracturing, are recognised as "unconventional" by 12 insurers. In addition to extraction methods, non-conventional hydrocarbons may also cover hydrocarbons derived from mixtures with other materials and not recoverable in their natural state. Oil sands are categorized by 11 insurers as non-conventional hydrocarbons. Heavy or extra heavy oil or gas hydrates are also mentioned. More rarely, the definition covers conventional hydrocarbons located in sensitive geographical areas (such as the Arctic for seven insurers, or deep water for four insurers). Only four out of 17 organizations have yet to adopt a precise definition of non-conventional fossils, which are most often awaiting definitions from the *Fédération Française des Assurances* (French Insurance Federation).

Despite this variability in the definitions used to determine the perimeter of non-conventional fossil fuels, a majority of institutions have adopted exclusion policies for non-conventional fossil fuels (12 out of 17 surveyed). Oil sands are the lowest common denominator of these policies, since all policies explicitly target them, and four of them focus only on oil sands.

Figure 3: Insurers' Policies to Exclude Fossil Energy



Source: ACPR 2021 questionnaire - Public commitments of insurers.

⁴⁴ A recent report by the AMF's Climate and Sustainable Finance Committee on corporate carbon neutrality commitments details the underlying concepts and challenges, including methodological issues (see Carbon Neutrality and Corporates: first findings and challenges identified, October 2021).

Insurers have favoured the specific segment of the non-conventional fossil fuel sector for their O&G exclusion policies. However, given the heterogeneity of the definitions of "non-conventional" hydrocarbons (see Box 1 above), a common definition seems a necessary prerequisite to further developing sectoral policies in this very specific sector. Indeed, only seven institutions have been able to provide data on their non-conventional hydrocarbon exposures, while eleven institutions report having a policy on this sector.

2. Insurers' exposures to fossil fuels

2.1 Methodological approach and limits

The ACPR used two methods to measure coal insurers' exposures: the first takes into account the amounts reported by institutions in their responses to the ACPR questionnaire; the second approach uses the leading insurers' securities databases available to the ACPR, which was already used in the previous report.⁴⁵

However, while the ACPR again weighed the measurement of coal exposures by referring to its securities database, as in 2020 with updated GCEL data⁴⁶, it was not able to undertake an equivalent exercise for oil and gas in the absence of a reliable list available at the time of publication of this pre-report.⁴⁷ It was therefore decided to postpone the measurement of insurers' exposure to oil and gas until such a list is published. Regarding coal exposures, they have been weighted in order to account for the share of coal in each insurer's activity, as reported publicly by the institution, or as estimated by URGEWALD (for example, as a percentage of revenues deriving from coal).⁴⁸

⁴⁵ Sample of all insurers and the top 16 insurers, distinction before and after disclosure, weight of coal in the production of the institutions to which the institutions are exposed, scope of entities at individual and group level.

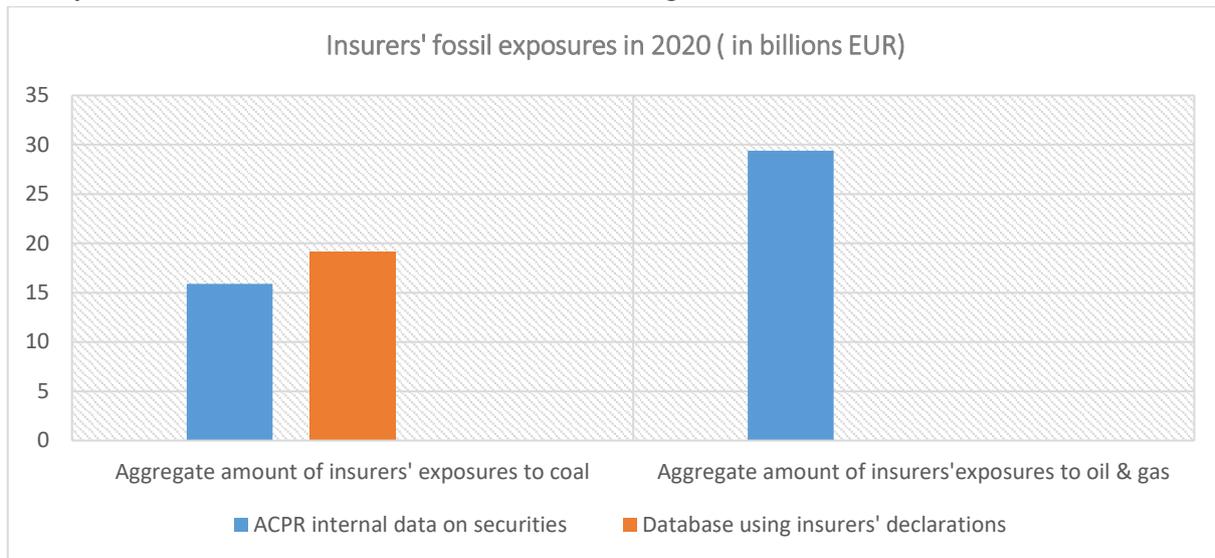
⁴⁶ The full list will be provided by the end of 2021.

⁴⁷ As already mentioned above, the updated and enhanced version of the GCEL list naturally resulted in a wider recognition of coal exposures and therefore an upward revision of previous estimates. For example, in 2019 coal exposures represented 0.47% of total investments of the 16 largest insurers according to the 2019's version of the GCEL, 0.65% with the 2020's version of the GCEL.

⁴⁸ When precise information is missing in the GCEL list, the indicated value was taken for weighing: for example, if GCEL states « revenues > 20% » or « revenues < 20% », exposures were weighted at 20%, which can bias downward and upward the real coal share.

2.2 Insurers' Exposures to Fossil Resources

Figure 4: Exposures of insurance entities to coal and oil and gas



Source: ACPR. Exposures reported by the 17 largest insurers (reporting basis) and direct and indirect exposures (after disclosure) of all insurers (129 insurers) for ACPR calculations (securities basis, from URGEWALD list).

Exposures to coal in 2020

Whatever the method, this exercise confirms not only insurers' low exposure to the coal sector, but also the downward momentum from year to year.

Insurers report exposure to the coal sector at 0.6% of total investments, i.e. around €14.9 billion. In detail, given the figures provided, coal exposure in 2020 ranged from 0% to 3.5% of total investments by entities.

On the liabilities' side, only one insurer provided its coal exposure, with other institutions reporting residual or non-existing exposures in relation to the coal sector.

These results are comparable with those obtained under the securities-based approach, where exposure to coal at the individual level of all insurers seems fairly low, both before and after fund look through⁴⁹. This is consistent with the results obtained last year. Before fund look through and at individual level, total coal exposure of all insurers in 2016-2020 ranged from 0.9 % to 0.6 %, representing outstandings of €16.5 billion in 2020. After fund look through, the exposure increases from 1 % in 2016 to 0.6 % in 2020, representing outstandings of €19.2 billion. At the group level⁵⁰, the relative exposure is even lower (0.56% of exposures in 2020).

Taking the sample of the 16 largest insurers used in the previous report, exposure to coal before fund look through solo transparency was 0.65% in 2019 and 0.59% in 2020, with outstandings of €12.5 billion and €11.8 billion respectively.

Based on questionnaires, we also noted that insurers accelerated their divestment process in 2020 in the coal sector. Indeed, in 2020, almost €725 million was divested from the coal sector based on data shared by institutions, i.e. almost half of the total amount divested over the period 2015-2020 (€1.4 billion).

⁴⁹ Fund look through shall consist, where available, in substituting the CIU shares/units in the insurers' portfolios with the securities in which the CIUs invest.

⁵⁰ Sample of 32 groups (versus 134 at individual level).

Projects related to the exploitation of new reserves

The survey also asked about the amount and percentage of investments in projects linked to the development of new fossil reserves. The following observation applies to both coal and the oil and gas parts. Most organizations are unable to differentiate between new investments in new sites and investments to improve existing sites. Investments in the financial securities of issuers (equities, bonds) would not be sufficient to determine the use of such securities, unlike loan financing. However, some institutions demonstrate based on an internal (best effort) analysis of the remaining exposures to projects related to the exploitation of new fossil reserves. However, in the case of coal, some entities rely on the list provided by URGEWALD to exclude all identified developers (see below the estimates for French funds from this list).

Oil and gas exposures in 2020

Insurers that actually provided data accounted for 60% of the total investments in the sample used for the report (12 institutions that provided oil and gas data, for a sample of 17 insurers). On this basis, exposure to the oil and gas sector was 1.2% of total investments, i.e. €29.4 billion.

Nearly all institutions were unable to provide data on disinvestment in hydrocarbons. The only entity that did so did not clarify the distinction between the conventional and non-conventional sectors. This illustrates once again the paradox of sectoral policies aimed exclusively at the non-conventional hydrocarbons' sector in the absence of methodologies to distinguish within insurance balance sheets conventional from non-conventional fossil fuels.

Chapter 4 - The fossil fuels sectoral policies of French asset managers

1. Sectoral and exclusion policies

1.1 Monitoring of coal policies

As of April 30, 2021, 17 asset management companies (AMCs) out of the 20 largest market participants had defined a thermal coal policy.

1.1.1 Coal policies updates and definition of an exit date from thermal coal

Since the publication of the previous report, two new asset management companies have adopted a thermal coal policy, reaching 17 out of the 20 AMCs considered, against 15 in 2020⁵¹. The three AMs that do not have a thermal coal policy do not publicly disclose the reasons. Only one of the three AMCs concerned indicates that it is in the process of developing a policy.

Whereas last year only 3 asset managers out of the 20 main institutions considered had committed to a final thermal coal exit date, there are, at September 1 2021, 15 to have set such a deadline. Most asset management companies have chosen an exit date of 2030 for OECD issuers, and 2040 for non-OECD countries. Three asset managers define earlier dates for all issuers: 2027 for one AMC and 2030 for the other two. This positive dynamic responds to the recommendations of the authorities and to the calls made to the marketplace at the end of 2019.

Table 4: Thermal coal exit dates announced by asset managers

Asset manager	Exit date: Europe/OCDE	Exit date: Rest of the world
AMUNDI SOCIÉTÉ GÉNÉRALE GESTION CPR ASSET MANAGEMENT	2030	2040
AVIVA INVESTORS FRANCE	No coal policy as of 1/9/2021	No coal policy as of 1/9/2021
AXA INVESTMENT MANAGEMENT AXA REAL ESTATE INVESTMENT MANAGERS AM	2030	2040
BNP PARIBAS ASSET MANAGEMENT	2030	2040
COVÉA FINANCE	2030	2040
CRÉDIT MUTUEL AM	No exit date	No exit date
EUROTITRISATION	No coal policy as of 1/9/2021	No coal policy as of 1/9/2021
FEDERAL FINANCE GESTION	2027	2027
GROUPAMA ASSET MANAGEMENT	2030	2040
HSBC GLOBAL ASSET MANAGEMENT FRANCE	2030	2040
LA BANQUE POSTALE ASSET MANAGEMENT	2030	2040
LYXOR ASSET MANAGEMENT LYXOR INTERNATIONAL ASSET MANAGEMENT	2030	2040

⁵¹ 16 by including an asset management company applying a group policy only to the mandates assigned by the group.

NATIXIS INVESTMENT MANAGEMENT INTERNATIONAL	No coal policy as of 1/9/2021*	No coal policy as of 1/9/2021*
OFI AM	2030	2030
OSTRUM	2030	2040
SWISS LIFE ASSET MANAGEMENT	No exit date	No exit date

* NIMI published its coal policy at the end of September 2021, which does not indicate an exit date from thermal coal sector.
Source: AMF, based on public policies as of September 1, 2021.

Twelve AMCs now exclude all or part of the companies developing new coal-related capacities (“coal developers”), against five in 2020. In addition, new exclusion criteria have been set, and several AMCs lowered their thresholds used for these exclusions (see below). Finally, and thus following the AMF’s recommendation most asset management companies (14) now indicate that they systematically offer their clients of dedicated funds or mandates to apply their policy. Clients may opt out of this policy, for instance, when clients have their own coal policy.

1.1.2 Exclusion criteria and thresholds used

In general, the criteria adopted for exclusion policies remain very heterogeneous. However, policies continue to toughen. As a notable common factor, more and more asset managers are using the *Global Coal Exit List* (GCEL) of the German NGO URGEWALD as a data source (exclusive or supplemented by another source) to assess issuers against the thresholds defined by their policy. As indicated above (see also Annex 2), in November 2020, this association strengthened its relative and absolute exclusion thresholds. Consequently, certain asset management companies whose exclusion policy is based on the GCEL have mechanically lowered the exclusion thresholds from their policy (see table below). Thus, several asset managers no longer invest or plan to no longer invest in companies that generate more than 20% of their turnover in activities related to thermal coal, while this threshold was mostly at 30% in July 2020. Table 5 below shows the main criteria used by AMCs, their recurrence and evolution since 2020.

Table 5: Main criteria used by asset management companies, recurrence and evolution since 2020

Criteria identified	# of AMs 2020*	Threshold min 2020	Threshold max 2020	# of AMs 2021*	Threshold min 2021	Threshold max 2021	Threshold GCEL 2021 (2020)
<i>All companies involved in the coal sector</i>							
Share of coal in turnover (in %) - all types of coal combined	2	30%	50%	2	30%	50%	
Share of thermal coal in turnover (in %)	15	10%	50%	17	10%	30%	20% (30%)
Company developing coal related projects (threshold given are examples for power generation)	6	300 MW	3 000 MW	12**	300 MW	3 000 MW	300 MW (300 MW)
<i>Mining companies (thermal coal)</i>							
Thermal coal production (Mt extracted)	8	10 Mt	100 Mt	11	10 Mt	100 Mt	10 Mt (20 Mt)
<i>Power generation</i>							
Installed coal power capacity (GW)	3	5 GW	10 GW	7	5 GW	10 GW	5 GW (10 GW)
Share of electricity from coal (% of production or installed capacity)	9	20%	30%	12	10%	30%	20% (30%)
Carbon intensity (gCO ₂ / kWh, threshold 2017)	1	491***		1	491***		N/A

Green boxes indicate an increase in the number of AMCs referring to the given criterion or a tightening of the threshold taken up in 2021 by at least one AMC compared to 2020. * Number of AMCs among the 17 policies analysed including this criterion in their coal policy; out of these 17 asset management companies, one company does not define quantitative criteria in its policy. ** For one asset manager, the policy applies from 2022. *** This threshold chosen by an AM is meant to change accordingly to the Sustainable Development Scenario ("SDS") of the IEA. Source: AMF based on the public policies of the AMCs included in the sample.

Overall coal policies of the largest asset management companies of the Paris financial marketplace are more restrictive compared to 2020. As mentioned, the majority of policies now exclude companies building new coal-fired power plants or new thermal coal mines leading to an expansion of their capacity to generate electricity from coal. They are also now more likely to define an exclusion criterion for mining companies producing thermal coal and electricity producers.

1.2 Oil and gas sectoral policies

Of the 20 main companies in terms of assets under management, only 6 have a policy relating to fossil fuels other than coal. These asset management companies represent 17% of the assets invested in collective investments schemes (CIS) under French law. Six others state that they are carrying out preparatory work to be completed in 2022, and seven state that they do not wish to develop a policy applicable to the oil and gas sectors.

The lack of a reference list to identify issuers involved in these sectors was a point flagged by many asset managers interviewed and made the work of the asset managers which have already defined a policy more complex. Several institutions have indicated that they are waiting for the release of the *Global Oil and Gas Exit List* (GOGEL) developed, like the GCEL, by the NGO URGEWALD and expected by the end of 2021.

If the efforts of the first asset managers are worthy of note, their small number illustrates that the mobilisation of the asset management industry largely remains to be done on the subject of fossil fuels other than coal. Several areas of progress have also been noted for the few existing policies.

1.2.1 Policies are generally imprecise and still limited in scope

The level of formalisation and of precision of oil and gas policies is considerably lower than that found for thermal coal policies. The complexity and variety of players in the oil and gas sector undoubtedly makes it more difficult to draft a clear and precise policy. **However, asset managers should take into account the recommendations and efforts already made with coal policies when adopting an exit strategy or a framework for their investments in other fossil fuels.** This will contribute to the disclosure of clear, accurate and non-misleading information and ensure an effective impact for these policies.

Policies mainly focus on two types of fuels commonly considered unconventional:

- Tar sands, which the six asset managers address in their policy,
- Oil and/or shale gas to a lesser extent.

Conventional fossil fuels are only dealt with by one company over a long term horizon. This institution has indicated that it is considering how to set up evaluation criteria. The other fuels - conventional or non-conventional - as listed by the Scientific and Expert Committee of the Sustainable Finance Observatory (see Box 3 above) are not listed by the policies analysed.

Table 6: Hydrocarbons covered by the oil and gas sectoral policies of the asset management companies

Hydrocarbons covered by the policy	Oil from tar sands (oil sand)	Shale gas and oil	Extra heavy oil	Ultra-deepwater and deepwater offshore O&G	Conventional oil	Tight oil and gas	Oil shale	Coal bed methane	Methane hydrates (gas hydrates)	Conventional gas
# of AMCs	6	3	2	2	1	1	1	1	1	0

Source: AMF, based on analysis of the 6 policies identified. List of hydrocarbons taken from the recommendations of the Scientific and Expert Committee of the Sustainable Finance Observatory.

Policy coverage also remains limited, which reflects, among others, the complexity of the O&G sector's value chains (see the work of the Scientific and Expert Committee of the sustainable finance observatory on the value chain). To date, policies focus on exploration, extraction and transportation. Only one asset manager covers transformation in its policy. Transport infrastructures and the types of infrastructure thereby covered vary from one policy to another

Table 7: Oil and gas value chain segments covered by asset management companies' policies

Segment of the value chain covered	Exploration / drilling	Extraction / production	Downstream Transport / Export (including storage)	Downstream Other	Other infrastructures excluding transport
# of AMCs	2	4	4	1	1

Source: AMF, based on analysis of the 6 policies identified.

Only one asset management company indicates an exit from the oil sector by 2050, and justifies a presence in the gas sector at that time. Similarly, **no policy at this stage incorporates the issue of stopping the development of new oil and gas capacity as early as 2021**, as recommended by the IEA. Three AMCs address exploration or development of new capacity for the oil sands or in the Arctic.

In addition, only three AMs clearly state a criterion and set a threshold beyond which the issuer will be excluded. These three policies are largely built around quantitative criteria, mainly the share of revenues derived from a specific activity (or reserves). These criteria are then adapted from one policy to the next, depending on the activities considered:

- Extraction : % of revenue derived from oil sands or shale oil and gas extraction;
- Pipeline company: % of revenues from oil sands transportation.

These indicators are sometimes replaced by a subjective indicator (e.g: a “significant” volume of unconventional fuels transported).

Table 8: Types of companies and criteria identified

Type of companies targeted	Criteria identified	# of AMCs	Minimum threshold	Maximum threshold
All	Share of oil sands transportation in total revenue	1	20%	
All	Share of oil sands extraction in total revenue	2	20%	
All	Share of shale oil and gas and oil sands extraction in total revenue	2	10%	« significant part »
Trading companies	“Significant part of their business”	1	« significant part »	
Exploration and production companies	Share of unconventional oil and gas exploration and production in total revenue	1	« significant part »	
Exploration and production companies	Share of unconventional oil and gas in total reserves	1	« significant part »	

Source: AMF based on the analysis of the 6 AMCs that have defined a policy on fossil fuels other than coal.

The definition of the term "Arctic" also has a very significant impact on the number of issuers targeted by the policies. As discussed above (see Box 1), it is subject to a wide range of interpretations; in some cases, asset managers refer to existing frameworks, each of which is different in the sample. Some AMCs include land areas in the Arctic; others only cover offshore. These important clarifications are made either in the body of the policy, in the appendix, or in footnotes. Far from being trivial, these details can make the surface area covered by the policy vary by up to twofold. Likewise, the offshore/onshore distinction helps determine whether projects such as the Arctic LNG 2⁵² are compliant with the policy or not. A large number of development projects occur onshore in the AMAP area (see table below), but are not necessarily covered in all definitions. This creates significant discrepancies between asset managers in the activities described as "unconventional" for the same issuer. For example, depending on the extra-financial data providers considered, Gazprom's percentage of Arctic activity varies by a factor of 2.5: 30% according to the first provider, and 75% according to the second provider. Annex 3 illustrates all these different definitions on a map.

Box 3: Asset managers' definitions of “Arctic”, “deepwater” and “heavy oil”

Definition of the “Arctic zone”

Of the four asset management companies that target the Arctic area in their policy, two define it specifically, with very different definitions. The first refers to an organization created as a result of a working group of the Arctic Council. The related definition from the Conservation of Arctic Flora and Fauna (CAFF) covers both terrestrial and marine areas. The second definition only covers the marine area covered by sea ice at its maximum extent (indicative period: February/March). This results in a significant reduction of the area concerned when compared to the definition of the Sustainable Finance Observatory or the one used by the other asset manager. In particular, under this definition, Barents and Norwegian Seas are not considered as Arctic areas. These two maritime zones total more than 20 production sites (see below). It should also be noted that this area covered by ice will significantly decrease from one year to the next due to global warming.

Definition of “deepwater oil”

Two policies use this criterion, but only one company defines it as "exploration, development and production operations on offshore oil fields that are located at depths exceeding 5,000 ft (1,500 m)", a definition consistent with that of the Scientific and Expert Committee of the Sustainable Finance Observatory.

⁵² Future project located in the Gydan Peninsula in Russia, with a maximum production capacity of 20 Mt of liquid natural gas per year.

Definition of “heavy and extra-heavy oil”

Two policies use this criterion. Only one company defines the characteristics of heavy oil ("density between 22.3° and 10° API" (American Petroleum Institute)) and extra-heavy oil ("density below 10° API"). Heavy oil is not defined by the Scientific and Expert Committee of the Sustainable Finance Observatory. However, it sets a higher density threshold for extra-heavy oil: 14° API, thus broadening the range of oils that fall into the "extra-heavy" category compared to the definition used by the asset management company.

In the end, only one AMC accurately defines the terms "conventional", "unconventional", "Arctic" and "deep" (see below). It also specifies in detail the characteristics of different unconventional hydrocarbons using industry-recognized frameworks. In other cases, current policies remain unclear, thus requiring interpretation.

1.2.2 Initial findings on implementation: policies with blunt teeth

The initial analyses conducted indicate that the wording used in the policies, often centered on the notion of "project" or dedicated financing (generally specific to the banking activities of the group to which the AMC belongs), leads to few exclusions, and in one case, to none.

The oil and gas exclusion lists of the other AMCs vary greatly in length: from less than 100 issuers (3 AMCs) to nearly 1,000 issuers (1 AMC). This shows that, as they stand, oil and gas policies still affect very few companies in the investment universe of asset managers. **This raises questions about the real impact of these policies on investment strategies.** By way of comparison, the coal policies that depend directly on the GCEL lead to exclusion lists comprising nearly 3,000 issuers. Finally, we note that only one asset management company keeps detailed records of divestments made in application of the policies, a practice that should be more widely adopted, as already highlighted in the case of thermal coal.

Box 4: Distinction made between "conventional" and "unconventional" by asset management companies

Of the six AMCs that have an oil and gas sectoral policy, five mention the difference between conventional and unconventional. The policy of the last asset manager focuses exclusively on oil sands.

Both AMCs and the Scientific and Expert Committee of the Sustainable Finance Observatory base their definition of “unconventional hydrocarbons” on the type of fuel and/or by the extraction techniques. Depending on the case, the policies defined by asset managers either list non-exhaustive examples of techniques or fuels considered to be unconventional, or adopt a more rigorous approach, and base their definition on a normative and exhaustive definition of these energies, with reference to technical criteria.

None of the definitions identified in the panel cover all the hydrocarbons identified by the Scientific and Expert Committee of the Sustainable Finance Observatory as constituting non-conventional energy:

- all the AMCs include oil sands;
- three also include shale oil and gas;
- only one AMC also includes heavy/extra heavy oil; another includes natural gas liquefaction terminals;
- none of the AMCs include coal bed methane (CBM), methane hydrates, tight oil and gas, or oil shale.

Finally, no asset manager indicates that its policy applies to all unconventional energies, but only to the fuels and extraction techniques explicitly targeted, which makes it possible to be more explicit about the fossil fuels targeted.

2. Exposure of French funds and evolution

2.1 Methodological approach and limitations

During 2020, there has been a tightening of coal policies by most asset management companies. However, measuring coal exposure remains a complex task, particularly due to data and definition issues. At this point, only one asset management company discloses its overall exposure to the coal sector. This data - and more generally, exposure to companies active in the fossil fuel sector - will however be required as of June 30, 2023 for entities "taking into account the principal adverse impacts" of their investment decisions on sustainability factors, pursuant to the "SFDR" regulation.⁵³

As it did last year, the AMF estimated the French funds' exposure using the GCEL (*Global Coal Exit List*), drawn up by the NGO URGEWALD and used by a number of asset managers (see above). The change in the GCEL thresholds in 2021 (see above and Annex 2) must therefore be taken into account when calculating the exposure of French funds, since it changes the share of the portfolio considered as "coal-related". Furthermore, in the estimates presented below, calculations are published both with and without weighting applied to issuers according to the share of coal-related activity, as made public by the company or as estimated by the URGEWALD association.

In the future, and in particular when a public list identifying the issuers concerned is available, an estimate of the exposure of French funds to the oil and gas sector may be provided.

2.2 Aggregate exposure of French funds

2.2.1 Investment dynamics of the Paris marketplace

Using the 2020 GCEL, the AMF has estimated the exposure of French mutual funds⁵⁴ in 2020 (i.e., about half of the assets managed on behalf of third parties by French asset management companies) and has studied the change between 2019 and 2020. However, this change is marked by the economic impacts of the pandemic, as well as by the new, stricter GCEL thresholds (see above), which automatically increase exposure. The change in exposure is summarised in table 8 below, in absolute terms and as a proportion of total exposure:

⁵³ Sustainable Finance Disclosures Regulation. Article 4 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019. See also *Joint ESA supervisory Statement on the application of the Sustainable Finance Disclosure Regulation*, February 2021, p. 5.

⁵⁴ This study only covers securities with an ISIN held by French collective investment schemes (French law CISs at the end of 2020: EUR 2,067 billion). It therefore does not cover: (i) securities that do not have an ISIN (e.g., receivables or loans); (ii) assets that are not securities (e.g., exposure via financial futures instruments on these companies or on indices including these companies); or (iii) assets held through mandates (approximately EUR 1,680 billion at the end of 2020 according to data from the French Asset Management Association, "AFG") and/or foreign funds managed directly or by delegation by French managers (approximately EUR 600 billion at the end of 2020). The assessment therefore concerns at most 47% of assets managed on behalf of third parties in the French market. This measure is therefore more intended to give an indication of the trend in exposure than to indicate a precise value. (source: AFG, 2020 Overview of the 3rd party management market)

Table 9: French funds' exposure to coal from the GCEL list

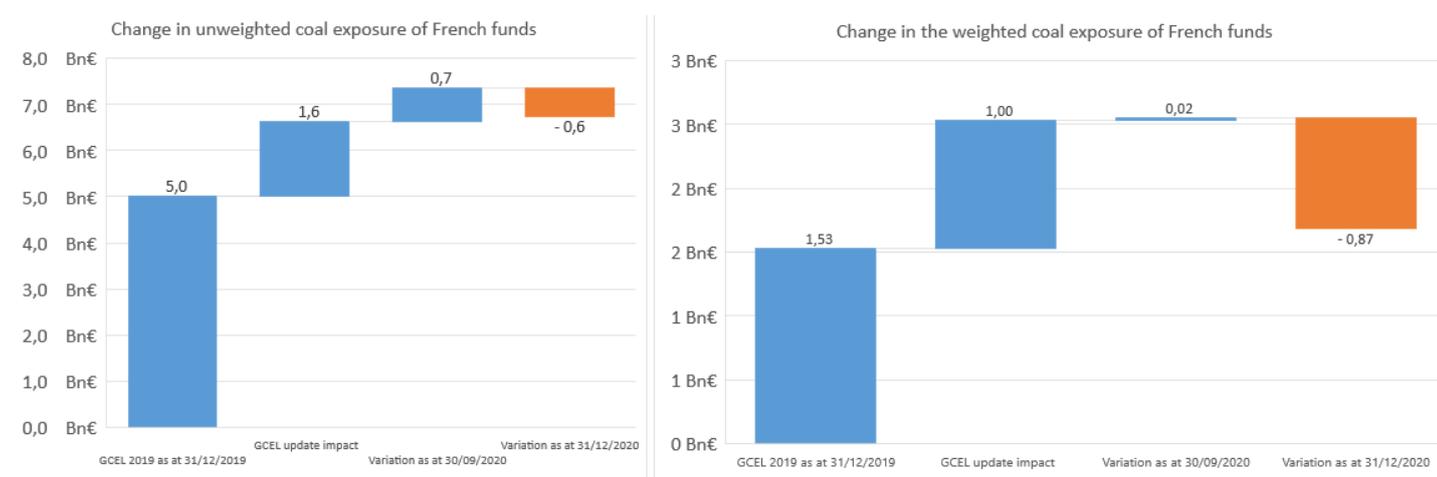
Absolute exposure (as a percentage of total outstanding)	Unweighted exposure to issuers			Exposure weighted by the issuer's coal exposure		
	31/12/2019	30/09/2020	31/12/2020	31/12/2019	30/09/2020	31/12/2020
GCEL 2019	EUR 5,01 Bn* (0,26%)	N/A	N/A	EUR 1,72 Bn (0,09%)	N/A	N/A
GCEL 2020	EUR 6,63 Bn (0,32%)	EUR 7,35 Bn (0,36%)	EUR 6,74 Bn (0,33%)	EUR 2,33 Bn (0,11%)	EUR 1,86 Bn (0,09%)	EUR 1,72 Bn (0,08%)
<i>Pro forma</i> 2019 exposure increase related to GCEL* change	+ EUR 1,62 Bn (+0,06%)	N/A	N/A	+ EUR 0,61 Bn (+0,03%)	N/A	N/A

* Figure published in the 2020 report.

Source: AMF, based on the list of issuers in the GCEL and the outstanding amounts reported to the Banque de France

Note that, in addition to changing thresholds, ISINs are also a parameter that varies between the two versions of the GCEL: the ISINs listed in the 2019 version do not include ISINs created in 2021, and the 2020 version does not include ISINs closed over 2019. The following two graphs illustrate the evolutions, even if they are only an imperfect estimate of the impact of the GCEL on these two dates.

Figure 5: Evolution of exposures between 2019 and 2020 according to different methodologies



Source: AMF, from the securities database and the GCEL lists.

All other things being equal, and as already emphasised in 2020, coal outstandings represent only a small share of the market's total outstandings. At the aggregate level, these outstandings evolve in an unpredictable manner and in small proportions: +11% from December 2019 to September 2020, then -9% from September 2020 to December 2020. At the individual level, the evolution of assets under management is also heterogeneous: the tests conducted show that in 2020, as many funds continued to invest in coal-related issuers (as defined by the GCEL) as divested, and in the same proportions.

Overall, where most asset managers had already announced plans in 2018 to exit coal by 2030 or 2040, and gradual tightening of coal policies, more than three years after these announcements, these policies seem not having led to a decrease in aggregated coal exposures in the short term, even though these policies have to be analysed in the longer timeframe of issuers' transition plans.

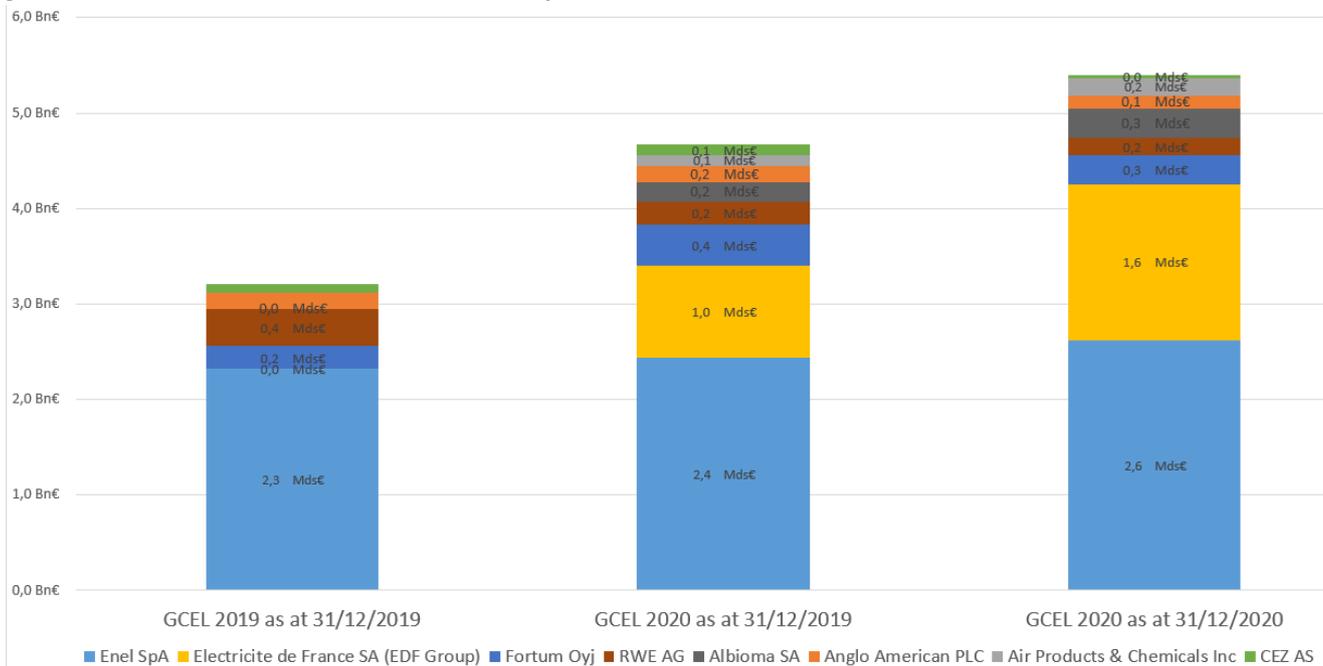
2.2.2 Analysis of the “coal” exposure of the French 20 largest asset management companies

The AMF then focused on the twenty largest AMCs, which together account for 63% of the market's coal assets (as defined by the GCEL) and 75% of the total assets of French funds. With a few exceptions, all of these companies have a coal policy. From the GCEL-based exposure calculations, it appears that 11 of the 20 largest AMCs decreased their (unweighted) coal exposure during 2020, and 17 of the largest AMCs when "weighted" exposure is taken into account (see above). Due to the limitations of the exercise, and the lack of a longer time horizon, it remains difficult to measure the impact of managers' coal policies on French players' investments or divestments in the sector.

2.2.3 Analysis by issuer

As in 2020, the calculation of French funds' exposure to issuers on the *Global Coal Exit List* shows a significant concentration of investments in a small number of issuers. The following graph illustrates the evolution of exposure to the eight main issuers identified as coal-related by the GCEL, representing 82% of the total coal exposure of French funds.

Figure 6: Main coal related issuers held in the portfolios



Source: AMF, from the securities database and GCEL lists.

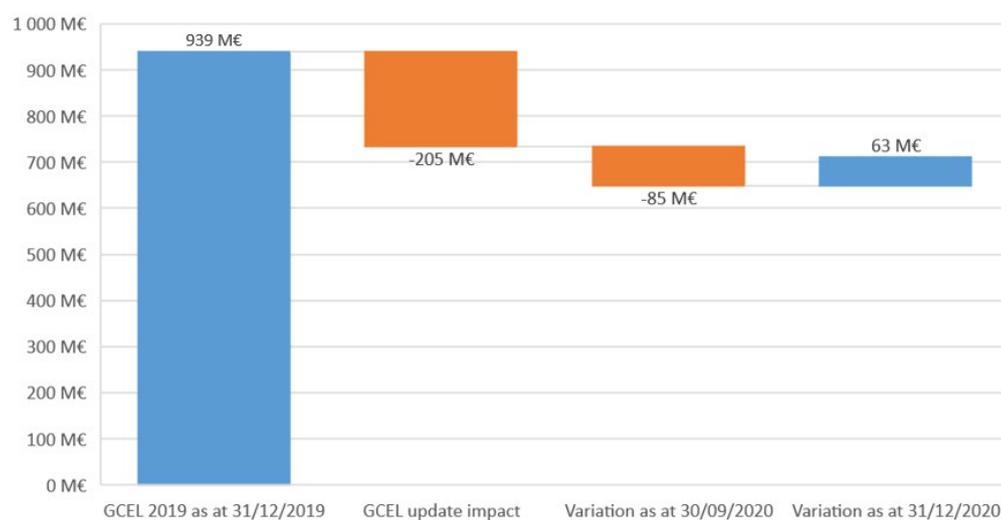
The main issuers in the portfolio remain broadly the same between 2019 and 2020: Italian energy company Enel Spa (39%), German energy company RWE (3%), and Nordic energy company Fortum Oyj (5%), although there is a decrease in exposure to both RWE (8% in 2019 based on the GCEL 2019 list) and BHP Hilton (7%). French energy company EDF has been added to the GCEL in 2020 and is now the second largest issuer (24%), behind Enel Spa. The addition of this issuer alone accounts for much of the increase in exposure between the two GCEL versions. Considering the same perimeter (i.e. comparing the exposure of issuers listed by the 2020 GCEL at the end of 2019 and 2020), the increase in positions in EDF shares contributes to the increase in total exposure by EUR 0.6 billion. Thus, investments are diluted over a broader base of issuers. In total, 135 international "coal" groups as defined by GCEL 2020 are financed by French funds.

These issuers also have significant differences in their business models and strategies: for example, some have drawn up an energy transition policy involving an exit strategy from coal, which is not taken into account in the

calculations made but which justifies the presence of these issuers in the portfolios. On the other hand, others may have plans to expand their coal capacity. These disparities are partly reflected in weighted exposures: EDF (24% of unweighted exposures) represents less than 1% of the weighted exposure of French funds to coal due to its electricity mix, but is included by the GCEL via the absolute value criterion defined (5 GW of installed capacity).

The monitoring of "coal developers" is particularly important. The following graph shows the evolution of French funds' exposure to issuers considered by GCEL as developing new capacities.

Figure 7: Exposure to “coal developers” according to the GCEL list



Source: AMF, from the BDF securities database and GCEL lists.

The decrease observed (of around EUR 205 million) is mainly the result of the change in the Nordic group Fortum Oyl (EUR 200 million of French funds' exposure), which is no longer considered a "coal developer" by the GCEL 2020 list. Apart from this issuer, exposure to this type of entity is scattered, with individual amounts of less than EUR 100 million. The main new developers identified by the GCEL 2020 list are the American group Air Products & Chemicals Inc, involved in coal gasification activities (EUR 181 million outstanding), the Anglo-Australian mining company BHP Group Ltd (EUR 101 million outstanding), as well as ITOCHU Corp., Mitsubishi Corp. and Mitsui & Co Ltd (each with more than EUR 50 million outstanding).

EUR 712 million (10% of all French funds' exposure to coal companies) were in companies identified by GCEL as “coal developers”. It should be noted that several asset managers disagree with the NGO URGEWALD's assessment of the development plans of several companies. The issue of investment in companies planning to develop new capacities remains a major point to be watched.

2.3 Portfolio exposure analysis

As in 2020, the AMF examined the implementation of asset managers' coal policies by asking them to explain the reason for the presence of GCEL-identified issuers in their portfolios on the basis of a sample. This year, the sample includes 1,365 investment lines held by 517 French funds and issued by 44 different groups. These lines represent EUR 3 billion of exposure, i.e. 94% of the exposure of the 15 asset management companies surveyed, and 44% of the total exposure of French funds (estimated above at just under EUR 7 billion).

- For 77% of the EUR 3 billion of assets under management (i.e. approximately EUR 2.3 billion), the thresholds used by the fund manager are higher than the GCEL thresholds, which explains why the issuer is kept in the portfolios.
- For 25% of these AuM (i.e. approximately EUR 750 M), the manager has indicated that it takes into account the company's strategy to exit from the thermal coal sector.

Discussions have also taken place with certain managers on other identified discrepancies. Overall, the analyses conducted show that the policies defined by the asset management companies are being applied satisfactorily.

Chapter 5 - Monitoring of coal recommendations and new fossil-fuel-related recommendations

3. Key recommendations for banks and insurers

Concerning "coal"

In its 2020 report, the ACPR took note of a general awareness of the financial sector's responsibility to combat climate change and of the particular need for an active policy to downgrade funding and other services provided to the coal industry.

Furthermore, despite numerous methodological limitations, a first measure of bank and insurer exposure to the coal activity showed a relatively low exposure on average.

This double observation remains. The new measure of coal exposure, as of 31 December 2020, confirms this trend and shows in addition a slow decline in funding to this sector since 2015.

Moreover, all the banks and insurers analyzed in this study have to date defined an exit date from the "coal" activity, which is now clearly indicated.

However, the numerous comments and associated recommendations on both transparency on exit strategies and progress in measuring coal exposure, as well as regarding the features of the policy exclusion thresholds, made last year remain valid today.

For example, the description of the "coal" strategy remains split between different documents, which do not allow for full readability and easy access to information. Furthermore, exit dates are almost never accompanied by a description of the exit strategy, mention of any milestones achieving compliance with the stated dates and objectives, or even metrics to gauge the institution's path's compliance with its objectives.

Moreover, while the exclusion criteria and thresholds announced by banks and insurers have been tightened, in particular by the adoption of more demanding thresholds or new criteria, their tightening remains highly uneven, reflecting always different approaches by institutions and *ultimately* leading to very heterogeneous ambitions.

Regarding oil and gas

In contrast to its 2020 edition only focused on coal policies, the present report sought to broaden its analysis to include all hydrocarbons.

As with coal, oil and gas show a deep heterogeneity in policies, be it in the measures adopted, the scopes used to measure the institutions' exposure to these energy sources, or already in the definitions used by institutions, particularly on the subject of non-conventional hydrocarbons.

This state of affairs therefore calls for a solid effort to clarify and harmonise the key aspects of the measurability, transparency and comparability of policies followed together with the risks incurred.

Moreover, in light of the International Energy Agency's latest reports, it would now seem essential for banks and insurers to better incorporate the International Energy Agency's recommendations into their oil and gas strategies and policies.

Based on these observations, the ACPR recommends that institutions:

➤ **On "fossil fuel" policies (coal, oil and gas)**

- To present fossil fuel policies in one dedicated document to facilitate access and monitoring;
- Systemically incorporate the main elements of the "coal", "oil" and "gas" value chain into these policies and specify the financial scope (transactions, financial instruments, services) to which the exclusion policies and criteria apply;
- To simplify the conditions of application of the exclusion criteria in order to make them less complex and more comprehensible;
- In line with what is being done by some institutions and in conjunction with the recent conclusions of the International Energy Agency, to clarify the approach adopted with regard to investments or credits in new projects to develop the supply of coal, gas, oil;
- To systematically specify whether the exclusion criteria contained in the policies apply to both new and existing investments (divestment) or only to one of these two scopes;
- Insurers must state whether the exclusion criteria are applicable to both the asset (investor's activity) and liability (insurance activity) sides of the balance sheet or only one of its two activities.

➤ **On measuring exposures and scope of operations**

- To accelerate ongoing work to enable a more robust measure of the exposure of institutions to fossil fuels, including through the implementation of transparent and verifiable methods, in line with methodological progress on the subject, and taking into account the entire value chain and the widest possible business scope (*minimum* for banks, loans, investment and off-balance sheet) ... The role of federations in this process, for a coordinated and harmonised approach but also for the dissemination of best practices, is essential;
- To systematically specify the databases used;
- To quantify the exposure to liabilities across the entire oil and gas value chain for insurance institutions. Specify the details of this exposure in the different classes of non-life insurance.

➤ **On the coal exit strategy:**

- To specify their exit strategy by describing how and steps are planned to prepare the announced exit;
- Completing the range of exclusion criteria, to develop a harmonised approach to these exclusion criteria and putting in place a process to strengthen, in line with any set exit dates, the requirement for the adopted exclusion thresholds.

➤ **On so-called "unconventional" energies**

- To adopt a common definition of these "unconventional" hydrocarbons, for example by taking the recently proposed definitions of the Scientific Committee of the Sustainable Finance Observatory. As has been said about coal, the role of federations for a coordinated and harmonised approach is fundamental;
- As already implemented by certain institutions, to adopt a clear policy on "unconventional" fossils and on this occasion, as provided for in Article 29 of the Energy and Climate Act (LEC), to present the “policies introduced with an eye to gradually phasing out use of coal and non-conventional hydrocarbons and specifying the chosen schedule for withdrawal and the proportion of total outstanding managed or held by the entity covered by these policies”.

4. Key recommendations for asset management companies and follow-up of 2020 recommendations

4.1 Regarding coal

In 2020, the AMF issued 15 recommendations, including three general recommendations for **setting a policy for exiting thermal coal**, as well as three general recommendations for enhancing **policy transparency**. The following table summarises the implementation of these recommendations by largest asset managers. While the overall trend is positive, there is still a need for transparency to explain the absence of policy for AMCs that do not wish to put them in place, as well as regarding the choice of thresholds and their impact.

Table 10: Monitoring of recommendations regarding coal policies and transparency

ADVICE	AMC implementation (% and number/total)
Characteristics of the thermal coal policy	
Do you have an exit policy that specifies a definitive date of exit of thermal coal and the means to divest from entities developing coal-related new capacity (mining, power plants or infrastructure)?	71% (12/17)
Do you systematically propose to clients of your dedicated funds or to clients who do not have their own policy to implement your policy?	82% (14/17)
If you do not want to implement a coal exit policy, do you publicly state why?	0% (0/3)
Criteria and thresholds used	
Do you publicly justify the thresholds chosen, for example in terms of the typology of the companies who can continue to be funded under the policy, citing the main ones?	0% (0/16*)
Do you publicly indicate how major companies in the thermal coal value chain not subject to existing thresholds are to be covered, for example by introducing absolute thresholds?	31% (5/16*)
Should your policy be revised, do you communicate the estimated impact of the commitment made, for example in terms of exposure to the sector and those who can continue to be funded under your policy?	6% (1/17)

* One asset manager has adopted a policy that does not rely on the application of thresholds.

Accordingly, **although policies are strengthening, AMF's recommendations on transparency have received little attention from stakeholders**. For example, no information is given on the companies that can be retained in portfolios according to the policy thresholds, and few information is provided on the impact of policy revisions (e.g. on the current exposure or the number of issuers involved) or on the absence of absolute thresholds to cover major players in the thermal coal value chain. However, as policies are increasingly emphasised by stakeholders, disclosures should be accompanied by elements to assess the impact on managers' portfolios. Additionally,

examples should notably be provided, in particular **where exemptions apply**⁵⁵ or to justify specific cases of major industry players retained in the portfolio, which no asset manager does. Several AMCs do not wish to provide this **type of information** by considering that their thresholds are already public. However, listing the main issuers that are eligible for portfolios despite the thresholds used would be a good practice to help understanding the policies adopted by the managers.

With regard to the **treatment of issuers with an intention to exit coal**, most existing policies provide for the possibility of holding such issuers in a portfolio, even if they exceed the defined thresholds (11 AMC in 2020, 13 AMC in 2021). However, while policies provide managers with significant room to judge plans to exit coal, the choices made by managers are rarely made public. Indeed, asset managers have rarely implemented the recommendation encouraging more transparency regarding criteria justifying the retention of an issuer that exceeds the policy thresholds or the possibility to make new investments in such issuers. The same goes for the recommendation concerning transparency around the arrangements in place for the monitoring of issuers.

Table 11: Follow-up of recommendations regarding the treatment of issuers with an intention to exit coal

ADVICE	AMF implementation (% "Yes" and total number)
Treatment of issuers with an intention or commitment to release coal	
Do you publicly explain the criteria for holding an issuer above the policy thresholds in fire-sale management or for new investments?	6% (1/16*)
Do you publicly specify the criteria used in your approach to dialogue or shareholder engagement, the terms of such intervention and, if applicable, the maximum period of time beyond which such action could lead to exclusion in the event of no improvement identified?	12% (2/17)
Are you committed to conducting surveillance that could lead to an exclusion on issuers that may have an intention or commitment to exit from thermal coal by relying on asset disposals without a plan to close down or by continuing to undertake plans to develop new capacity to generate electricity from coal or extraction?	6% (1/17)

* One asset manager does not provide for any exemption in the event of an issuer exceeding the thresholds.

Several AMCs respond that it is difficult to define and publicly commit to them because of the significant differences between commitments made by coal companies. They stress that a case-by-case analysis is carried out. However, several AMCs have indicated that they have in practice maximum periods beyond which the failure of the shareholder engagement efforts lead to the exclusion of the issuer. These periods range from 12 to 18 months from the date of the CSR Committee decision to exclude the relevant issuer. Policies could be supplemented by specifying these thresholds.

Moreover, in analysing issuers' coal-exit strategies, very few AMCs require that "coal assets" be **closed and not sold**. While the disposal of a coal asset has no effect on greenhouse gas (GHG) emissions overall, closing them down, yes. Only one asset manager has explicitly committed to retain companies that have plans to close down or convert assets, not their disposal, and takes into account the conditions under which such transactions are carried out (e.g. social and societal impacts).

⁵⁵ For example, one asset manager excluding entities earning more than 10 per cent of their revenues from extracting and selling coal to electricians does not exclude some companies on the grounds that they do not sell coal extracted externally but used it for their own electricity production needs.

The 2020 report also demonstrated the crucial impact of data sources and restatements on the implementation of coal policies. Due to differences between data providers, different entities in the same financial group applying the same policy may not have the same assessment on the same issuer. Therefore, the 2020 report called for greater transparency on data sources used and possible restatements made, as well as greater consistency in the application of policies within a group.

Table 12: Track recommendations on data used by managers

ADVICE	AMC implementation (% "Yes" and number/total)
Data used to identify coal-related issuers	
Do you have clear procedures for the use of thermal coal exposure data and do you regularly monitor them as proportionate (i) to their use and (ii) to the risk of mistakenly retaining an issuer that exceeds the thresholds?	61% (11/18)*
Do you specify in the policy the data sources used and any restatements to that data?	76% (13/17)
When implementing your thermal coal policy at the level of your group, do you have a coherent approach within the group on the data used and restatements performed by each entity subject to the group?	29% (4/16)

* One asset manager has established these procedures, although it has not published a public coal policy.

Analyses show progress, with **a large proportion of AMCs now reporting more transparently the data used**. However, the approaches remain heterogeneous: some AMCs simply list all of the data providers used without specifying what type of data they are used for (e.g. for assessing development plans or percentage of coal in the turnover), while others publish specific decision trees about the data sources used at different stages of the application of their coal policy.

Moreover, **controls on data quality are generally not well defined**. The procedures mainly relate to the data source and their use. For example, they do not provide minimum controls *ex ante* on the quality of underlying data for the largest issuers or those with thresholds close to exclusion thresholds. By contrast, bank managers may exclude an issuer if they consider that the issuer has been maintained in contradiction with the existing coal policy.

This lack of controls creates a risk of non-compliance with policies by wrongly holding issuers above thresholds. Moreover, by only indicating the public sources from which their data originated without internal audits, **AMCs are dependent on their data providers**, which may result in mechanical sales, without the possibility of a different analysis in application of their policies. Data quality tests based on cross-checking different data sources and in-depth review for those with significant exposure can therefore constitute good practice. It is therefore proposed to extend the AMF position applicable to the AMC's use of greenhouse gas emissions data.

Box 5: Extension of the AMF doctrine to data used in sectoral policies

At the end of 2020, the AMF set out a position on the use of greenhouse gas emissions data by asset management companies and related controls. Given the importance of data used for the implementation of sectoral policies, the AMF is extending and adapting this position.

Position applicable to asset management companies authorised in France

Monitoring data on fossil fuel policies:

(1) In order to ensure reliable data, AMCs that have established fossil fuel policies should have in place a quality and consistency control system for such data commensurate with the significance of the use of such data and the risk of continuing to incorrectly hold exposures to an issuer that should be excluded as a result of the application of the policies.

Lastly, the implementation of a policy decided at group level is not systematically consistent. Practices are also heterogeneous: in some cases, the thresholds are applied independently by each group entity; in others, the data used are the same, but restatements may be different. Finally, in the vast majority of cases, the management of exceptions to the policy is independent and each entity can independently assess the efforts of issuers to justify the maintenance of their portfolios. While efforts towards greater consistency appear to be under way in several AMCs, the current situation undermines the clarity and understanding of the implementation of financial group commitments. These inconsistencies are all the more damaging when the policies published by the Group stipulate that they should be applied to all subsidiaries, but each entity can adapt them differently and autonomously - with the risk of different findings on the same entities.

Lastly, in 2020, the AMF underlined the importance of providing for an orderly exit strategy. This includes, in particular, **monitoring the exposure of coal-related issuers in the portfolio** even if they are below the exclusion thresholds. The objective is to be able to steer the gradual reduction in the exposure and identify issuers involving divestment in order to reach the final total exit target. Three recommendations had been made to that effect.

Table 13: Monitoring of recommendations on monitoring coal exposures by coal managers

ADVICE	GSP recognition (% "Yes" and number/total)
Monitoring of exposures	
Do you measure the overall and per-actor exposure to the thermal coal value chain to ensure both the correct application of the policy and appropriate risk management?	47% (9/19)*
Do you estimate the evolution of this exposure, especially if you have made commitments to total thermal coal exit?	21% (4/19)*
Do you keep the details of the divestments made under your coal policy?	71% (12/17)

* Two AMCs have implemented these procedures, although they have not issued a public coal policy.

Today, only 9 asset management companies in the sample estimate the evolution of their total exposure to the coal sector. As an illustration, several AMCs consider this recommendation to be taken into account through the application of their exclusion policy. In terms of good practice, if some (notably signatories of the *Taskforce on climate-related financial disclosures* (TCFD)) occasionally publish - sometimes detailed - metrics on their exposures, the integration of these information into portfolio risk management is not advanced. Moreover, there are still many asset management companies (one-third of the sample) that do not keep the **details of the divestments** under the coal policy, which raises important monitoring and auditing issues.

4.2 Regarding oil and gas

At the Climate Finance Day on October 29, 2020, the French Minister of the Economy and Finance called on the financial community to strengthen its climate ambitions, including in the area of coal and non-conventional energy. For non-conventional energies, the first step is for most financial institutions to define sectoral policies, with the important challenge of rationalizing the definitions used, which is even more crucial than for coal, and important for the monitoring of market commitments.

A specific question concerns the distinction between conventional and non-conventional energy, a point generally mentioned in existing policies but which does not necessarily give an indication of the level of ambition or the scope of the policy. This is because they tend to list the specific fuels or extraction technics covered, without relying on this distinction. This question of definition is however important to monitor the exposure of the Paris financial marketplace to unconventional fossil fuels. Moreover, the implementing decree⁵⁶ of Article 29 of the Energy and Climate Act 2020 provides for the publication by management companies (among other things) "*of policies in place for a phase-out of coal and non-conventional hydrocarbons, specifying the chosen exit timetable and the share of the total outstanding amounts managed or held by the entity covered by these policies*".

4.3 Recommendations for asset management companies

On the basis of these observations, the AMF therefore reiterates the main thrust of the 2020 recommendations, updating them and extending them to the oil and gas policies. Similarly to the ACPR for banks and insurers, the AMF wishes to encourage French asset managers to put in place robust, transparent and comparable policies in a timely manner, drawing on lessons and work on coal. The AMF recommends that:

➤ On "fossil fuel" policies (coal, oil and gas)

- Where this is not done, **to adopt a policy for the coal, oil and gas sectors** and, in conjunction with the **recent findings of the International Energy Agency**, to clarify the approach adopted in particular with regard to investments involving new plans to develop the supply of coal, gas and oil, as well as those considering the opening of new coal power plants;
- **To integrate the entire "coal", "oil" and "gas" value chain into these policies, and to specify the scope of assets under management** to which they apply;
- **To present fossil fuel policies in a single document** to facilitate access and monitoring;
- To propose to clients of dedicated funds who do not have their own policy or in the case of a mandate to implement the policies of the asset management company;
- For management companies that do not want to put in place policies, **state publicly the reasons for this**;

➤ On measuring exposures

- **To accelerate ongoing work to enable a more robust measurement of exposures to fossil fuels**, including through the implementation of transparent and verifiable methods, in line with methodological advances on the subject and taking into account the entire value chain. This monitoring of exposures is essential for the proper application of the "coal", "oil" and "gas" policies as well as for the sound management of risk;
- **To specify the data used** for the application of policies and the identification of the relevant issuers; in the case of the implementation of fossil fuel policies at group level, a consistent approach to data used and retreatments performed should be put in place;

⁵⁶ <https://www.tresor.economie.gouv.fr/Articles/80af1116-2fcd-47d0-ad1d-ea24352e6295/files/273f9026-bbc4-4fc2-ba60-f86f6fe16c1f>

- To **justify the criteria and thresholds adopted by the policies**, citing the main companies who will continue to be invested, and to consider, if necessary, the gradual tightening of policies, for example by introducing absolute thresholds in line with the given exit dates;
 - To clarify the **criteria for an issuer exceeding the policy thresholds to be retained** in extinctive management or as part of a shareholder engagement process, and the conditions under which an exclusion may be decided (e.g. beyond a maximum period);
 - When formalising or revising policies, to communicate **the estimated impact of the commitment made**, for example in terms of exposure to the sector;
- **On thermal coal policies:**
- For asset management companies that have defined a coal policy, to indicate, where this is not yet the case, **a final exit date for thermal coal**⁵⁷ and specify their exit strategy by describing how and the steps to prepare for the announced exit;
 - To monitor, and possibly exclude, issuers with an intention or commitment to exit thermal coal through asset disposals without closure plans or if they continue, at the same time having plans to develop new capacities contrary to the International Energy Agency's recommendations.
- **On so-called "unconventional" fossil fuels:**
- To adopt a **common definition of these "unconventional" hydrocarbons**, for example by taking those recently proposed by the Scientific Council of the Sustainable Finance Observatory;

As already implemented by certain institutions, to establish a clear policy on "unconventional" fossils and on this occasion, as provided for in Article 29 of the Energy and Climate Act (LEC), to present the "policies introduced with an eye to gradually phasing out use of coal and non-conventional hydrocarbons and specifying the chosen schedule for withdrawal and the proportion of total outstanding managed or held by the entity covered by these policies". Lastly, **position AMF 2020 on data controls** applicable to asset management companies authorised in France, is extended as follows:

(1) In order to ensure reliable data, asset management companies that have established fossil fuel policies should have in place a quality and consistency control system for such data commensurate with the significance of the use of such data and the risk of continuing to incorrectly hold exposures to an issuer that should be excluded by the application of the policies.

⁵⁷ This is understood as a date from which AMCs will no longer have exposure to issuers with part of their activity related to the thermal coal value chain.

Annex 1 – Selected sample

BANKS

1. FRENCH DEVELOPMENT AGENCY (AFD)
2. BNP PARIBAS GROUP
3. BPCE GROUP
4. CREDIT AGRICOLE SA GROUP
5. CAISSE DES DEPÔTS GROUP
6. CREDIT MUTUEL GROUP
7. HSBC FRANCE
8. LA BANQUE POSTALE
9. SOCIETE GENERALE GROUP

INSURANCE UNDERTAKINGS

1. ALLIANZ HOLDING FRANCE
2. AVIVA FRANCE
3. AXA SA
4. BNP PARIBAS CARDIF
5. CCR
6. CNP ASSURANCES
7. COVEA
8. CREDIT AGRICOLE ASSURANCES
9. GENERALI FRANCE
10. GROUPAMA SA
11. CREDIT MUTUEL INSURANCE GROUP
12. MACSF SGAM
13. MUTUELLE ASSURANCE DES COMMERCANTS ET INDUSTRIELS DE FRANCE ET DES CADRES ET SALARIES DE L'INDUSTRIE ET DU COMMERCE
14. NATIXIS ASSURANCES
15. SCOR SE
16. SGAM AG2R LA MONDIALE
17. SOGECAP

ASSET MANAGEMENT COMPANIES

1. AMUNDI ASSET MANAGEMENT
2. AVIVA INVESTORS France
3. AXA INVESTMENT MANAGERS PARIS
4. AXA REIM SGP
5. BNP PARIBAS ASSET MANAGEMENT
6. CM-CIC ASSET MANAGEMENT
7. COVÉA FINANCE
8. CPR ASSET MANAGEMENT
9. EUROTITRISATION
10. FEDERAL FINANCE GESTION
11. GROUPAMA ASSET MANAGEMENT
12. HSBC GLOBAL AM France
13. LA BANQUE POSTALE ASSET MANAGEMENT
14. LYXOR ASSET MANAGEMENT
15. LYXOR INTERNATIONAL ASSET MANAGEMENT
16. NATIXIS INVESTMENT MANAGERS INTERNATIONAL
17. OFI ASSET MANAGEMENT
18. OSTRUM ASSET MANAGEMENT
19. SOCIÉTÉ GÉNÉRALE GESTION
20. SWISS LIFE ASSET MANAGEMENT FRANCE

Annex 2 – Changes to the thresholds in the *Global Coal Exit List (GCEL)* and impact on the number of issuers covered

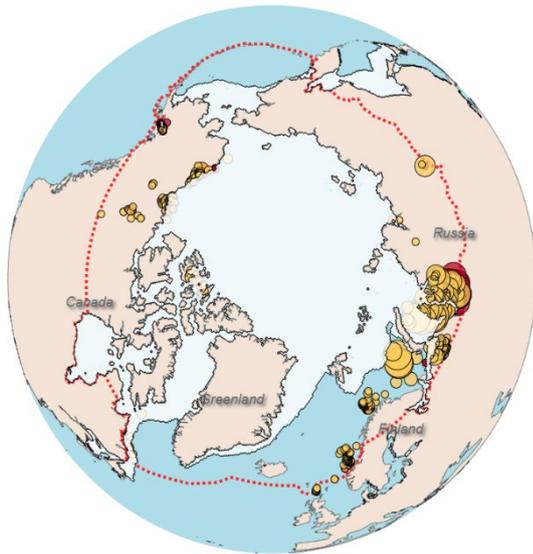
		GCEL 2019	GCEL 2020
Number of issuers		2 270	2 953 (+30%)*
Mining	Number of companies **	915	1 475 (+61%)
	Average share of coal in revenue	74%	77% (+3 pts)
	Gt of coal mined (12 months)	10	11 (+5%)
	Mining developers (% of total mining issuers)	36%	28% (-8 pts)
Power	Number of companies **	1 167	1 579 (+35%)
	Share of thermal coal in revenue	62%	66% (+4 pts)
	Average share of coal in the electric generation mix	76%	76% -
	Installed coal-fired power generation capacity (GW)	2 906	2923 -
	Developers of power capacity (% of total power producers)	39%	34% (- 5 pts)
Number of other actors: services, finance...		526	608 (+16%)
Number of infrastructure developers		63	93 (+48%)

* With 889 new issuers between 2019 and 2020 and 216 outgoing issuers.

** A significant proportion of GCEL issuers have both mining and power generation activities.

Source: AMF, based on GCEL lists.

Annex 3 - Arctic zone definition: a determining factor for the scope of a policy: Illustration with the policies of two asset management companies



Keys

Geographical limits:

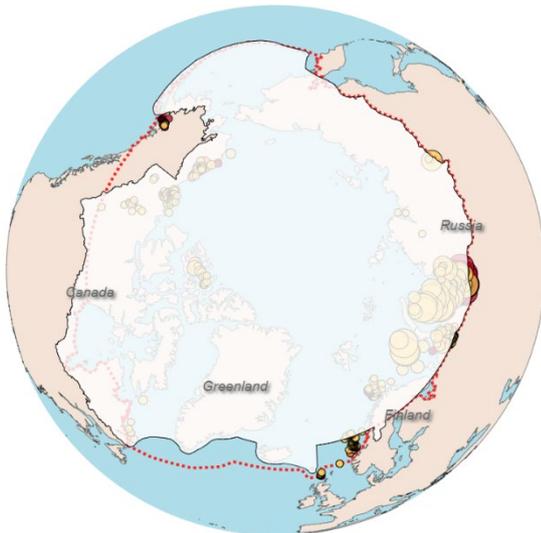
- Area covered by the policy of the selected financial actor
- ▣ Boundary of the Arctic area covered by the AMAP

Oil and gas field status:

- Discovered
- Under further evaluation
- Under development
- Producing

(i.e. definition taken by the scientific and expert committee of the Sustainable Finance Observatory)

Perimeter retained by AM #1: maximum sea ice extension over 12 months.
It covers 17% of the discovered production assets identified by Rystad Energy UCube.



Perimeter selected by AM #2: Conservation of Arctic Flora and Fauna.
It covers 80% of the discovered production assets identified by Rystad Energy UCube.

Source: Interactive appendix of "Drill, baby, drill" report, Reclaim Finance, Sept. 2021, with data from Rystad Energy UCube.

