The French authorities' response to the consultation on the European Union's renewed sustainable finance strategy

The renewal of the EU strategy on sustainable finance is a structuring step for the development of the sector, in order to reinforce the achievements of the March 2018 Action Plan and to accelerate the mobilisation of the financial sector for a just ecological transition, particularly in the context of the ongoing recovery.

Several proposals are identified as key by the French authorities – Banque de France, Autorité de contrôle prudential et de résolution, Autorité des marchés financiers, Commissariat général du développement durable and Direction Générale du Trésor – to establish the European Union's ambition in terms of sustainable finance - making it possible to ensure the quality of products identified as sustainable, while strengthening the development of new instruments to finance the ecological and energy transition:

- Improving the availability, reliability and comparability of ESG data is indispensable to redirect private capital. This implies standardising ESG data through corporate reporting and hence **revising the Non-Financial Reporting Directive (NFRD)**. Furthermore, **the creation of a single, freely accessible ESG database** represents a strong opportunity to promote the use, comparability and transparency of ESG data, thereby limiting greenwashing and encouraging the emergence of new business models and innovative approaches.

- ESG ratings is another priority. Developing a supervisory and **regulatory framework for ESG rating, scoring and controversies is necessary to bring transparency and robustness to the sector**. Among other elements, in order to ensure quality and fair competition, the regulation should involve transparency requirements for the methodology and the approach used, as well as governance principles such as management of conflicts of interest, internal controls and adequate resources. These requirements should be proportionate, and should aim to create market conditions conducive to fair competition and innovation.

- Financing the transition through the mobilisation of capital markets becomes an ever more pressing issue. It is essential to both broaden the financial tools able to facilitate access to market finance for the sustainability transition, and to focus on the transition of carbon-intensive productive models since the energy transition cannot solely be based on financing the "greenest" projects. Green securitisation and transition bonds appear very relevant in that regard. In particular, **the development of a green securitisation European capacity based on real estate loans** would allow access to a larger number of investors and would help compensate for the lack of green financial products that meet their expectations. It would free up capital on banks' balance sheets, while allowing new investments in the real economy.

- **The quick adoption of a European green bond standard** based on TEG's recommendations would contribute to the green economy recovery and accompany the growing maturity of the market. It will also reinforce the protection of investors with regard to the environmental integrity of these instruments. Given their specific features, four key criteria should be introduced: alignment with the European taxonomy, a framework document detailing the alignment of the issuer's strategy with the defined objectives and the use of proceeds raised, mandatory reporting on the allocation of funds and their environmental impact, and a certification mechanism by an external auditor whose authorisation and supervision should be placed under the aegis of the European Securities and Markets Authority. In addition, it will be important to clarify the liability regime of the future green bond framework and its articulation with the prospectus.

- **The proposal of minimum standards applicable to ESG-denominated investment funds** aims to prevent greenwashing and develop an EU approach to clarify the conditions under which a product can put a strong emphasis on ESG characteristics, thereby offering investors further guarantees and ensuring a level-playing field. Such standards could be accompanied by a European label for ESG funds in order to clarify the product offer and avoid market fragmentation and barriers to distribution.

- **The availability of climate-related data is a fundamental component for accurately understanding and integrating climate-related risks into financial decision-making, hence the need for specific datasets to be developed at EU level**. Due to limited availability of consistent, comparable and verifiable counterparty-specific data, investors lack the tools to quantify, anticipate and respond to the oncoming impacts of climate change on their portfolios. This should be seen as a major concern to the EU's financial system at large as it hampers financial actors' abilities to devise a risk management strategy. It is therefore essential that quality and comparable information is available on climate-related losses (also due to transition risk) and physical impacts of climate change. Such data would need to be combined with detailed geospatial information on EU business activities, assets and facilities – which the NFRD revision and associated standardization process will help to cover.

The high degree of ambition in the renewal of the European strategy must, however, comply with the rules implemented to preserve financial stability, in particular with regard to prudential tools. Uncertainties remain about the efficiency of the prudential adjustments proposed by industry and civil society, which also raise fears of a contradiction with the foundations of prudential rules (based on the identification and management of the risk of each individual exposure within the balance sheet). In this context, our position remains, first of all, to deepen the methodological developments underway (such as the assessment of risk differentials between "sustainable" and "brown" assets) and to ensure the strengthening of the so-called Pillar 2 and Pillar 3 requirements, in line with the current EBA mandates.

Furthermore, carbon pricing would be the best economic incentive for market participants to adapt their behaviours and make adequate changes to reach carbon neutrality at 2050 horizon. This does not prevent the full spectrum of sustainable finance tools to be used.

The European Union's approach in terms of sustainable finance should also remain pragmatic and proportionate, in order not to hamper the dynamism of this new market segment, on which European actors are at the leading edge. Smaller-sized firms should not be left behind and should have access to adapted tools, especially in terms of corporate reporting, to be able to integrate ESG risks into their own business strategies. The European Union has taken the lead in shifting towards a more sustainable economic system. We should be careful to build a regulatory framework agile and flexible enough to consolidate this position and to become a benchmark at the global level.