"COAL" POLICIES OF PARIS FINANCIAL CENTRE PARTICIPANTS (BANKS, INSURERS, ASSET MANAGERS): FIRST JOINT ACPR/AMF MONITORING AND EVALUATION REPORT

An independent monitoring and evaluation framework announced in July 2019

On the 2nd of July 2019, the *Autorité de contrôle prudentiel et de résolution* (ACPR, the French Prudential Supervision and Resolution Authority) and the *Autorité des marchés financiers* (AMF, the French Financial Markets Authority) announced the implementation of a framework aimed at monitoring and evaluating the commitments made by Paris financial centre participants (banks, insurers and asset management companies) in terms of climate, the findings of which will be reported upon annually. This first joint report will be published in December 2020. It will report on the work and provide an indication of the commitments made and the conditions for their effective implementation. The report will also provide an opportunity for recommendations aimed at lending credibility to and improving the monitoring of individual commitments made by financial institutions, as well as at developing tools and a regulatory framework supporting sustainable finance.

The authorities are supported in this work by two Climate and Sustainable Finance Commissions (CCFD) bringing together the various stakeholders involved.

Conclusions on coal commitments prior to the publication of the first joint report by the authorities in late December

This report presents, ahead of this coming December's publication, the work carried out specifically on the coal policies of the Paris financial center participants.

The work was carried out by the authorities on the basis of public information and detailed questionnaires sent out to the biggest financial institutions (9 banks, 17 insurers and 20 asset management companies[1]), and supplemented by numerous bilateral discussions and exchanges between July and September. The analyses focus on several aspects:

- A **qualitative comparison of the policies** in place and published as of 31 July 2020 (selected criteria and thresholds, scope, exit strategy defined, governance, resources and processes implemented for monitoring purposes);

[1] The top 20 management companies account for 75% of total assets under management; the nine banks account for slightly more than 85% of France's total banking balance sheets and the 17 insurance groups account for 88% of assets (ias of 2019).

- An **assessment of the exposure of French banks, insurers and funds** to thermal coal as at 31 December 2019: this analysis, based on the statements of institutions and their exposure to the names identified in particular by the Global Coal Exit List ("GCEL")[2], aims at providing an initial stock-take of the aggregate exposure of the Paris financial centre and its evolution; it is accompanied, in the case of investment funds, by an analysis of the composition of that exposure broken down per issuer, and in the case of banks and insurers, by further analysis using prudential supervision or portfolio composition data;
- A line-by-line **study of some of the largest managers' exposures in order to verify implementation of policies** and to understand the underlying reasons for the presence of thermal coal issuers in a portfolio (according to the thresholds set by the *Global Coal Exit List*).
- **An analysis of thermal coal exit and withdrawal strategies** against the information provided by the sampled participants.

The main conclusions are summarised below and further broken down by sector. They are accompanied by a set of recommendations addressed to market participants.

"Coal" policies focused on energy supply from thermal coal

The coal industry's significant contribution to global greenhouse gas emissions[3] justifies such a long-standing focus on the sector. The International Energy Agency (IEA), among others, estimates that the share of coal in the global energy mix - now second only to oil and the world's largest source of electricity - needs to be reduced significantly in order to meet the targets set by the Paris Agreement. This includes a reduction in the capacity to generate electricity from coal.[4]

Financial institutions' coal policies thus focus on the value chain of providing electricity and heat from coal (the "thermal coal value chain"). They do not usually concern "coking coal" (referred to as "metallurgical" coal)[5], in part due to the lack of alternatives to the use of coking coal for the conversion of iron ore into cast iron and steel and the abatement costs involved in the shift towards steel production from steel scrap recovery. They also do not address other coal end markets in industry, whether it is used as a source of thermal energy (e.g.: cement production plants)) or not (e.g. carbon chemical sector).

The policies address two main activities within the thermal coal value chain: on the one hand, coal mining, and on the other hand, electricity generation from coal. Other related activities are also considered, depending on policies: transportation, infrastructure. This involves several types of business: mining companies, energy companies, or diversified groups.

Positive momentum at the level of the Paris financial centre but areas for improvement remain

The study highlights a strong mobilisation and general awareness among the main Paris marketplace participants of the responsibility of the financial sector in the fight against climate change.

[2] See Annex 1 for the criteria and thresholds used by the GCEL.
[3] According to International Energy Agency (IEA) data, coal combustion accounted for 39% of global CO_2 emissions in 2018 (excluding land use and land-use change and forestry), ahead of oil (31%) and gas (18%) and other industrial processes (12%).
[4] In the latest version of its "Sustainable Development" scenario, published in October 2020, the IEA estimates that the weight of coal in the global primary energy mix will decrease from 26% in 2019 to 17% in 2030, and that its weight in the global electric mix will decrease from 37% in 2019 to 15% by 2030.
[5] Coking coal production accounted for 12.5% of total coal production (tonnes) in 2018 (source: IEA).

Institutions agree on the need to implement an active policy to reduce funding and other services provided to the thermal coal sector or to develop a strategy of engagement with the issuers related to the sector. They also agree on the risk incurred (including reputational risk) by remaining exposed to the sector.

All the banks and insurers screened now have a "coal" policy and 6 out of 9 sampled banks, and 11 out of 17 sampled insurance companies announced effective dates for thermal coal exit.[6] Among the 20 main French asset management companies, 16 also have a public coal policy and only one company has indicated that it does not wish to implement such a policy because of its line of business. However, only six sampled managers (belonging to four groups) have reported their coal exit date so far.

Policies defined by the application of various relative or absolute criteria

The identification of firms linked to the thermal coal value chain and covered by coal policies depends on the criteria chosen by financial institutions, which can be either relative (weight of thermal coal in turnover or share of electricity production from coal) or absolute (production of thermal coal in millions of tonnes, electricity generation capacity from thermal coal in giga-watts). The relative criteria, depending on the selected levels, can be used to exclude players concentrated in the coal sector, regardless of their size. The absolute criteria are used to capture diversified companies, where coal is a small part of their business model, but nevertheless remain major players in the industry. Absolute criteria also make it easier to obtain information, which is often more reliable than information relating to relative criteria.

Policies implemented by French financial institutions often combine several of these criteria, but usually favour relative criteria. Other criteria may be included, in particular where firms are developing new capacities or undertaking a coal exit strategy (see below). The criteria and thresholds may change over time, and in several cases have been tightened in recent years and/or are being revised.

Exposure of the French financial sector to the thermal coal value chain is low overall, but assessment methodologies need to be further specified

The authorities' analyses attempted to assess the exposure of French banks, insurers and managers to the coal sector based on the institutions' responses to the questionnaires and by using, in particular, the list of companies published by the German NGO Urgewald in the Global Coal Exit List ("GCEL"). The assessment exercise has significant limitations and biases, which may lead to an underestimation (in particular since not all portfolios could be analysed) or an overestimation of the overall exposure (especially where the investments involve diversified groups). Subject to these approximations and methodological difficulties, the exposure in the French financial sector is very low and estimated to amount to less than 1% of total assets for each sector.

A more detailed analysis was carried out on the securities of the issuers identified by the GCEL list held in the portfolios of French funds, for an overall amount of around €5 billion (0.3% of total fund assets under management). This shows a high concentration of exposures in around ten groups, mainly in Europe, with varying degrees of exposure to coal: some issuers may therefore be relatively marginally exposed due to a diversified business model, or have initiated or announced their intention to divest from the coal value chain. On the contrary, other groups may still have development plans in the thermal

[6] In addition, three insurers have already defined an exit date which will be announced in the coming months.

coal value chain: again according to the criteria and thresholds used by the GCEL to identify these companies with development plans, they represent less than €1 billion for French funds.

Complementary analyses have also been conducted for the banking and insurance sectors, based on certain prudential statements ("large exposures") and using an analysis of the composition of their securities portfolios to assess their evolution over the past five years. These analyses show a steady decline in "coal" assets on the insurance companies' balance sheet. However, among the four most significant banks, and based on their "large exposures" statements between 2015 and 2019, only one shows a sharp drop (-36%) in coal exposure whilst the amount of exposure for the other three remains almost stable.

Levels of exposure and effort vary between financial institutions

While the overall exposure of the French financial sector is relatively low, this general observation covers different realities across groups, with some stakeholders being totally or almost out of the coal sector (or traditionally under-exposed) while others remain exposed. These differences are the result of variations in terms of policies and their implementation, past efforts to disengage from the sector, and also of the specific investment environments and credit portfolios considered. Financial institutions, especially those that are more exposed to emerging or US markets, may be more exposed to issuers linked to the thermal coal value chain, since these regions are more structurally dependent on thermal coal in their energy mix.

Exemptions in the application of policies for certain investment services, clients or strategies

The scope of thermal coal policies may differ depending on the financial institution considered . For the banking sector, policies typically cover investment and equity, as well as funding and refinancing, but may exclude other services offered such as hedging products, advice, trading, etc.

With regard to asset management, exemptions may apply to a significant proportion of the assets under management: mandates and dedicated funds, for which the investor's approach and policies are crucial, index management, for which the manager is required to replicate an index, possibly exposed to coal, or investments in index derivatives, total return swaps (TRS) or baskets that can also be exposed to coal.

The level of transparency regarding the various exemptions and their scope is not always sufficient.

Data issues

Exchanges with institutions and checks performed highlighted significant data challenges in the assessment of firms against the criteria and thresholds defined in the policies. Difficulties include occasional lack of data at issuer level, issuers possibly refusing to confirm information, year-to-year changes in the same criterion, and, in some cases, significant differences from data provider to data provider, which may lead a firm to fall below or exceed the exclusion thresholds defined in the policy of a given financial institution. Policy implementation thus depends on the quality of available data, and requires clear and transparent data quality controls and processes to avoid the risk of cherry picking.

Inclusion of transition efforts

Several financial institutions often combine quantitative assessments with a consideration of the extent to which firms' transition efforts are taken into account, with a view to supporting firms exposed to thermal coal in their energy transition, rather than opting for *a priori* exclusion. The assessment of coal exit or coal withdrawal strategies as communicated by mining or energy companies may vary from one financial institution to another and is based on more or less precise assessment criteria (for some, the announcement of an exit date, for others, the reference to an independent assessment framework such as Science Based Targets, or the reference to asset closing or conversion plans, rather than disposal). In some cases, it may incorporate other considerations, such as social impact or impact on supply chains. The procedures for deciding to keep a firm as a client or in the portfolios also vary from institution to institution and are more or less documented. Finally, when an engagement approach is considered (e.g. dialogue or vote), the framework for action is not always specified.

Exit of the thermal coal sector by the Paris financial centre participants

The often heterogeneous data provided by sampled participants on their effective withdrawal or divestment from the thermal coal sector only reveal broad patterns - a steady decline in exposure for the insurance sector, and uneven developments on the banking side. For portfolio securities, the level of exposures also varies depending not only on divestments, but also on the evolution of market valuations and investment universes considered, and is difficult to analyse.

Caution is also necessary regarding the impact of Paris financial centre participants' divestments, especially when the assets are acquired by other market participants, in particular when non regulated. The Paris marketplace's initiative, which can be seen as a precursor to other financial centres, can nevertheless have a spillover effect and contribute to a more general mobilisation of the financial industry in support of climate action and the achievement of the Objectives of the Paris Agreement.

Beyond, exit strategies, including announcements of definitive dates for coal exit, appear to be widely implemented by insurers but still require further clarification for a significant proportion of banks and investment management companies. These strategies should be associated with the monitoring of exposures in question and, where appropriate, by an engagement strategy with the companies.

Recommendations

On the basis of these findings, the authorities have set out a number of recommendations, detailed in the main body of this report, and aimed at banks and insurers as well as management companies. These recommendations address the following issues:

- Policy formulation, including the adoption of an exit date,
- Justification of the criteria and thresholds used in these policies and, where appropriate, consideration of additional criteria to be included in the policies to reach the exit target,
- Transparency of policies, in particular on applicable exemptions,
- Treatment of firms that are in transition and/or whether intend to or have already committed to a coal exit strategy,
- Improved individual monitoring of exposures and continued efforts at the Paris financial centre level in terms of harmonising methodologies,
- Data used to implement policies and monitor them.

I- BANKS’ “COAL” POLICIES

1. Existence of a coal policy

The banking groups examined[7] in this study all have a coal policy in place. This policy translates into one or more dedicated commitments, either directly - such as a nominal exclusion of some coal-related investments - or in general - one or more fossil-fuel-related commitments.

Out of the 100 or so public commitments identified as having been made by banking institutions, 18 were dedicated to coal, nearly one in six. Some institutions have one public commitment dedicated exclusively to coal (BNPP, La Banque Postale, HSBC), others have two (AFD, Crédit Agricole) or even three dedicated commitments (such as BPCE or Société Générale).

This purely quantitative census does not in any way prejudge the quality of the policies put in place, since a large number of "coal" commitments can be as much a communication strategy as a robust exclusion policy. Some of the multiple "commitments" within the same institution can therefore simply consist of the description of the institution’s policy, divided into several components.

In total, three major findings can be made in connection with the banking sector’s formal “coal” commitment:

First of all, banks have rather heterogeneous formal approaches. For example, some institutions chose to summarise their "coal" commitment into a single commitment, while others preferred to develop it and divide it into several announcements.

Second, some banking groups have long been involved in defining and implementing a coal policy. Some, such as BNP Paribas, set out a first exclusion policy in 2011, AFD in 2013, La Banque Postale or Société Générale in 2014. Crédit Mutuel Alliance Fédérale, Caisse des Dépôts or Crédit Agricole adopted specific measures in 2015, others in 2019 (such as Crédit Mutuel Arkea). Each of these policies has been regularly reviewed and amended over the years. The latest updates are often from 2020, in line with the market commitment of 2 July 2019. The criteria reported for this analysis were in many cases modified after the investigation deadline, originally set at 31 December 2019.

Finally, the governance associated with the establishment and definition of coal policy seems relatively homogeneous. The implementation of this coal policy is systematically approved at a high level, usually by the Board of Directors, at the level of senior management or even of the Executive Committee.

[7] The French Development Agency (AFD), BNP Paribas, la Banque Postale, HSBC France, Crédit Agricole SA, BPCE Natixis, Société Générale, Caisse des Dépôts, Crédit Mutuel.

2. Scope and ambition of this policy

2.1. The difficulty of measuring the actual "coal" exposure

For credit institutions and finance companies that still report a coal exposure, the measurement of the effort undertaken by each group remains difficult to establish, barring a common method of calculation of the coal exposure.

As with the case of insurers, to estimate such an effort would above all require, institutions to monitor and assess their "coal" exposure. With the exception of two institutions, most of them were not able to provide such estimates.

Questioned on this point, most institutions explained that there is currently no common approach for estimating efforts. However, a group led by the *Fédération bancaire française* (FBF, the French Banking Federation) has been working on harmonising the calculation methods for the coal exposure, a draft of which is due for autumn 2020, and which should make it possible to improve the quality of the analyses in this area.

In response to the ACPR questionnaire and in follow-up interviews, five banks submitted some figures, all indicating low exposure to coal.

However, since such indications are fragmented and not harmonised, they only form a first set of indications, without definitive conclusions at this stage.

First, as the amounts submitted do not always distinguish clearly between shares, bonds, equity interests, hedging products and loans, it is not clear whether participants take into account all "coal" lines, or only loans, and whether or not they include derivatives.

Furthermore, the sectors linked with "coal" activities considered in the measurement of this exposure vary from institution to institution: while some comprise transportation, others seem to exclude it from their approach.

Finally, in some cases, it is difficult to determine whether the amounts disclosed correspond solely to amounts held for run-off management because they exceed the "coal" exclusion thresholds decided by the institution - the exclusion thresholds differ between stakeholders, or whether these amounts correspond to all "coal" assets held without a threshold limit.

Meanwhile, the *Fédération bancaire française* (FBF)'s working group focused on a coal exit indicator calculated €2.3 billion for corporate lending (within the meaning of FINREP 18), out of a total amount of €1,277 billion, or 0.18% of the total.

2.2. An attempt to measure "coal" exposure: the "large exposures" approach

In addition, based on a study of exposures obtained from banks' "large exposures" data, the ACPR attempted to estimate this "coal" exposure using two different methods.

As a preliminary point, it is important to note that the use of large exposure reports has several limits, sometimes involving underestimation and sometimes overestimation of the amounts involved:

- **The banks' reporting threshold** for large exposures reporting sets a first limitation. As this threshold is above €300 million, it creates a bias towards underestimating exposure amounts;

- **Conversely, internal corporate transition policies are not taken into account.** For example, the transition of company A grows over time starting at 100% of its revenues from coal, but over time transitions to, say, a mix of 50% coal and 50% renewable energy, is not considered. As a result, the coal exposure is not risk-weighted and a bank's exposure to this company is therefore still labelled as financing "coal" at 100%. This bias therefore leads to an overestimation of the exposure amounts.

Under this "large exposure" approach, a first measurement technique retained, for seven banking[8] institutions, only exposures to the coal mining and coal-based electricity sectors. However, this sectoral approach does not allow for the capture of the exposures to financial holding companies of large groups that are leveraged on behalf of their subsidiaries and classified in the financial sector.

While the amounts thus identified as coal exposures in some groups appear consistent with the amounts reported, large differences are sometimes observed for other institutions, with a discrepancy ranging from 1 to 9 between the reported exposure and the ACPR estimate. These gaps are explained by methodological differences.

Another approach relies on measuring the exposure of major banks to all listed companies, for example by the NGO Urgewald, on the initiative of the Global Coal Exit List (GCEL); this list is broader than the list comprising only mining and energy companies, and shows some significant differences.

However, this method is again biased:

- A first limitation concerns the level of consolidation: the NGO Urgewald lists "individual" entities and not necessarily a group at the consolidated level, whereas the Large Exposures data used is based on the "Group of Related Clients", i.e. a consolidated level that also encompasses entities legally controlled by the head of the Group but with strong economic interdependence. Therefore, it only takes one of the subsidiaries in a group/conglomerate with potentially highly diversified activities listed in the GCEL list to classify all exposures to this group/conglomerate as "coal" exposures. This results in an overestimation of exposure amounts;
- Beyond this, the GCEL list, which relies on an "issuer" approach, does not allow for the consideration of specific projects of the undertaking which can be green with a focus on transition.

As a result of this analysis, some "coal" exposures are growing significantly compared to the results from the first approach: for some groups, exposures more than double the results of the first approach.

However, despite these differences, these two approaches highlight two main findings:

- Coal exposure compared to total outstanding amounts remains low: by weighting the results obtained by the share of coal in the production of the firms to which the institutions are

[8] As the AFD and Caisse des Dépôts are considered financial companies and not credit institutions under the applicable laws, these two institutions are not monitored under "large exposures".

exposed[9], this figure is set between 0.14% and 0.42% of the total exposure of the banks studied, which is a close estimate to that of the FBF, located in the lower end of our range.

- As evidenced by the trend observed since 2015, the coal exposure of major banks compared to their total exposure amount has since 2015 shown a significant decline in one bank's exposure (36%) but a stable trend for the others, despite the implementation of restrictive policies. As a result, it seems that for some institutions, a total exit from coal remains to be accomplished.

2.3. Commitments relating almost exclusively to thermal coal

All banks consulted for this report currently restrict their coal policy to the direct use of thermal coal and hence to its extraction or to the production of coal-based heat or electricity. Such policies almost never include "metallurgical" coal, or steel.

The main stakeholders cite four main reasons for this: thermal coal is responsible for almost three-quarters of greenhouse gas emissions from the electricity sector and should therefore be given priority treatment; other coal uses do not always have an equivalent substitute in some countries; the abattement costs are a critical impediment compared to those of thermal coal; finally, the underlying methodologies them lack uniformity.

Most NGOs confirm the need to focus on thermal coal without overlooking the importance of emissions from the rest of the sector. They also insist, however, that the exclusion policies should now cover the entire value chain of this commodity, i.e. energy production, as well as the entire infrastructure for extracting, transporting, processing and producing coal.

2.4. The state of play of exclusion policies

Four banking institutions show almost total or even total coal exit:

- La Banque Postale, which since 2014 has excluded the entire coal sector from its financing policy;
- HSBC France also has a somewhat particular profile. Although the Group publishes qualitative selection and exclusion criteria - excluding any new thermal power plant and additional due diligence on a case-by-case basis depending on the customer's existing portfolio - the French subsidiary considers that, because of its historical portfolio, and with the exception of two companies, its exposure to coal-based energy production is now negligible and nil in the coal mining sector, without however, providing further detail on its exposure to the entire coal value chain;
- The *Caisse des Dépôts*, whose financing activity does not involve coal exposure, and whose "coal" holdings have been limited by the adoption of thresholds reducing from 20% to 10% the percentage of the revenue related to the extraction or production of electricity;
- The AFD, which, by virtue of its mission, is an atypical institution. The Agency also claims that it does not have any "coal" funding or investment in its inventory, stating that its Board of Directors adopted in 2013 a resolution banning the financing of coal-fired power plant projects.

[9] Or, if the GCEL list did not provide data, by the "coal" share of turnover.

2.4.1. Two broad threshold categories

Beyond these institutions with very limited exposures, the restriction criteria reported by banks are generally based on two broad categories.

- Total exclusion: in most cases, for "new" projects such as mining research, new thermal power plants or capacity extension (Natixis, Crédit Agricole SA);
- The setting of relative thresholds (as a percentage of the firm's production and/or energy mix, or even of installed capacity in the case of thermal power plants, or turnover) and/or absolute (in millions of tonnes, most often in the case of mining companies, or installed power (in megawatts) in the case of units of electrical production).

2.4.2. Scalable exclusion policies

Exclusion policies have often tightened over time, as companies' "coal" policies have been revised. This tightening took several forms.

- For example, at Crédit Agricole, the exclusion threshold changed in 2015 from "50% of the revenue from extracting or generating electricity from coal" to 25% in 2019. The same change was made at BPCE. The Caisse des Dépôts decided in 2020 to decrease the 20% limit from electricity generation to 10%.
- Some institutions tightened their exclusion thresholds by multiplying the criteria: Crédit Mutuel AF went from one criterion in 2018-2019 ("excluding companies from which 50% or more of revenues came from coal mining") to four criteria since 2020: an annual production of coal ≥ 10 MT; installed capacity based on coal ≥ 5 GW; a share of coal in turnover ≥ 20% and a share of coal in the energy mix ≥ 20%.
- Others have changed their type of exclusion thresholds: as of 2019, Crédit Mutuel Arkea adopted a threshold of 30% of coal in an energy mix produced by an energy company as the exclusion threshold, after having chosen 30% of turnover in 2018.

2.4.3. Exclusion thresholds with variable robustness

The implementation of exclusion policies by banks is based on an economic substrate and a reality of information access that are both complex and sometimes render the implementation of those thresholds difficult.

The quality of the data made available by funded firms is an obstacle to a rigorous monitoring of these policies. Data collected by banks on their clients may not always, according to their own reports, provide reliable information and there are many cases in which firms may approach or temporarily exceed these thresholds, without this being known with certainty due to the lack of data available to institutions.

Similarly, the choice of criteria and monitoring indicators also depends on the available information. This allowed institutions to use criteria for which they had more readily available data.

As a result, such "exclusion" policies are not immediately comparable for several reasons.

On the one hand, the entire coal value chain does not fall systematically within the scope of institutions' exclusion policies. One bank will apply its policy only to thermal energy production, while another will integrate all the infrastructures related to this commodity. As a result, the exclusion thresholds may only apply to one aspect of the coal chain, in most cases electricity generation, while the other dimensions (transportation, infrastructure, etc.) are neglected.

On the other hand, the restrictions mentioned do not necessarily apply to all types of shares or services offered or carried out by a banking institution (e.g. financing, refinancing, equity investment, advice, trading, etc.). As a result, actors in the coal value chain can be provided with several services that are not mentioned in the Institution's exclusion policy, without this being considered a deviation from the policy.

Lastly, it is important to note that the exclusion thresholds are presented not only as limits but also often as opportunities for dialogue and assessment: nearing a threshold is regularly the subject of communication between the bank and the undertaking concerned, as banking institutions have repeatedly emphasised their preference for supporting emitting firms in their energy transition as opposed to excluding a client *a priori*. For example, an institution will have in place exclusion criteria excluding an undertaking with 25% of its turnover being coal-related and which has not communicated a transition plan incorporating an exit date, which allows for the institution to include in its funding policy those that declare that they have implemented such a strategy.

Beyond that, however, several remarks can be made about the robustness of the criteria and hence of the policies adopted by the institutions:

Firstly, the granularity of criteria might sometimes benefit from being refined. For example, a threshold that is said to apply to "production or turnover" without specifying what is included in this alternative, would benefit from greater details. Similarly, if an institution excludes the funding of "exclusively" coal-related projects, nothing seems to rule out the possibility of partially dedicated projects.

The choice of a limited number of criteria can also lead to significant "gaps" in the coverage of the coal chain. Thus, to use as a criterion only the installed power or a percentage of turnover, even if, as noted above, the difficulty to access information can lead to the adoption of such a threshold, does not make it possible to properly ensure the effective limitation of production.

Moreover, theoretically, the choice to use as the sole criterion a percentage of installed power may have counterintuitive effects. Depending on the size and effective production of the producing company, this may lead to a preference for financing larger emissions in small entities producing at full capacity, as opposed to others with a larger installed power but less productive during a given financial year.

In the mining sector, for example, in the past few years several mining companies have introduced extraction thresholds at around 50%, while, as a recent Financial Times[10] article points out, "none of the major mining groups even approach 50% in coal sales. For example, for Glencore, the world's largest producer of marine thermal coal, fossil fuel accounts for only 6% of its revenues." The relevance of an institution's threshold for exposures to the mining sector therefore warrants facing the reality of a group's production on a case-by-case basis. Transparent communication on the coal policy of the relevant funded entity is therefore a prerequisite for banks to establish a range of relevant indicators.

Finally, while the direct financing of "coal" companies or projects almost always falls within the scope of the aforementioned thresholds, such is not the case for financing that can be called "indirect": this may lead some banks to finance or refinance other financial institutions that are themselves directly exposed to coal.

[10] Financial Times 02.09.2020, article by Anjli Rdownstream, Owen Walker, Neil Hume and Stephen Morris.

3. Effectiveness of the exit policy

3.1 The issue of the effort agreed upon

In addition to the stated objectives, the institutions' published "coal" commitments must be weighed against their exposure, in order to measure the actual effort made or agreed upon by the institutions over the period considered (from 2015, date of the Paris Accord, to 2019).

An ambitious exclusion policy pursued by a market participant whose "assets" (investments and/or funding) are *de facto* little or not "carbonated" at all cannot be assessed in the same way as a less exclusive approach, but that will lead to a more radical transformation of the institution's portfolio over the period.

For example, the AFD states that it has not granted any "coal" loan since 2013 and considers that it has stood by that exclusion since then, as a result, the Agency had no room for divestment or disengagement between 2015 and 2019. Similarly, La Banque Postale presents as one of its 2019 commitments "zero coal within the BFI," but has not held any "coal" assets/loans since at least 2014. These two institutions therefore place their commitment first and foremost on maintaining an exclusion announced as already effective, when other institutions, which remained exposed to coal as of 31 December 2019, are engaged in a divestment process.

3.2 Dates of coal exit

While all banks currently seem to be considering only an exit from thermal coal, the timing of this exit remains uncertain for nearly half of the banks examined for this report (see the table below).

Table 1: Bank Announcement of Coal Exit Date

Institution	Type of coal concerned	Exit Date: Europe/OECD	Exit Date: Rest of the world
AFD[11]	Thermal	2013	2013
Paribas BNP	Thermal	2030	2040
Natixis BPCE	Thermal	2030[12]	2040
CA SA	Thermal	2030	2040
SG	Thermal	2030	2040
CDC	Thermal	No announced date	No announced date
CM AF	Not specified	2030	2030
CM Arkea	Not specified	No announced date	No announced date
HSBC[13]	Thermal	No announced date	No announced date
LBP	No coal exposure	Not applicable	Not applicable

Source: ACPR - Public commitments of banking groups.

[11] In 2013, the AFD executive Board adopted a resolution banning the financing of coal-fired power plants projects, except for those with an operational framework for CO2 capture and storage.
[12] Only Europe is chosen for 2030.
[13] This is the Group Policy.

3.3. The state of withdrawal compared with exclusion policies

The successive implementation of exclusion thresholds between 2015 and 2019 theoretically led institutions to hold assets - funding, investment - which, due to the adoption of a more restrictive policy, were *de facto* in contradiction with the policy in place. These assets could therefore be sold or kept under run-off management. When asked about the amounts in these two categories, which, indirectly as mentioned earlier, could also provide important insight into the financial effort made or to be made by various stakeholders, in most cases banks did not provide answers.

In addition, the amounts retained under run-off management, when disclosed, appeared to cover too many different asset classes to support any conclusions.

II-INSURERS' "COAL" POLICIES

1. Existence of a coal policy

All 17 insurers[14] surveyed now have a "coal" policy in place. In most cases this is the subject of one or more specific[15] commitments.

In total, the insurers' public commitments on coal account for nearly one in five of the identified commitments (19.7% of the total).

As with banks, the number of commitments shown does not necessarily reflect a more restrictive or ambitious coal policy. For example, Axa explains within several commitments the successive updates of its coal policy, the announcement of total coal exit in 2030 for Europe and the OECD countries and in 2040 for the rest of the world, which is also subject to an additional commitment, while other insurers have chosen to integrate these dimensions into their "coal" policy without however counting them as several commitments. SCOR develops its investment policy over two commitments and its exclusion-based insurance and reinsurance policy within two other commitments. The CNP also counts as separate commitments the various aspects of its exclusion policy and its successive revisions, while other bodies have chosen to pool their "coal" policy into one commitment.

The timing of a coal policy varies depending on the group considered: some players, such as Société Générale Assurances, made this choice in 2014. Axa, CNP or SCOR adopted specific measures in 2015, others in 2016 (Crédit Agricole Assurances, Natixis Assurances, MACIF), some later - such as Allianz France, BNP Paribas Cardif, Groupama in 2018, Covea, Aviva or MACSF in 2019.

Commitments are approved at a high level, usually by the Board of Directors, and, if not, by senior management.

[14] Assurances Crédit Mutuel, AG2R, Allianz France, Aviva, Axa, BNP Paribas Cardif, Crédit Agricole Assurances, Caisse centrale de réassurance, Covea, CNP Assurances, Generali, Groupama, Macif, MACSF, Natixis Assurances, SCOR.

[15] See Table 3.

2. Scope and ambition of this policy

2.1. The reality of the effort: measuring the “coal” exposure

The measurement of exposure remains a key issue. It makes it possible to measure the reality of potential disinvestment over the medium to long term. In other words, this exposure assessment gives both a measure of the funding of the "coal" activity and, as already emphasised for banks, of the actual effort made by insurers.

In 2019, the *Fédération française de l’assurance* (FFA, the French Insurance Federation) attempted a first analysis. Its purpose is "to assess the exposure of the financial asset portfolios of French insurers to firms considered to be coal developers (companies that have announced or planned new mining, power plants or infrastructure projects in the thermal coal sector) listed by the Global Coal Exit List 2019 developed by the NGO Urgewald", excluding: other exposures. Based on the ISIN codes and LEI codes listed in this database, the FFA estimates that "the exposure of direct investments by French insurers to coal developers (...) is €3.2 billion (or 0.1% of total investments), more than 96% of which in corporate bonds".[16]

However, this approach does not seem to have been taken up by all groups, only a few of which have started this assessment process, as market participants regularly cite, like credit institutions, the lack of a common method for clearly measuring the stock of "coal" assets. The FFA conducted an exposure measure of institutions the results of which will be published by the end of 2020 as part of the Observatory on Sustainable Finance.

Data collected on coal assets held in run-off mode provide, empirically and despite being heterogeneous, another set of indicators that seem to confirm the very low "coal"[17] exposure of French insurers: according to the data provided, this is in the range of 0.05% to 1% of total exposures.

However, these figures only provide an approximate trend, as the data remain heterogeneous, incomplete and not readily comparable.

First, they sometimes mix the amounts already disposed of, which attest to the withdrawal made, and the amounts of assets retained, which may, conversely, be an indicator of the withdrawal that has yet to be accomplished/made. Moreover, the amounts provided for the "run-off" management of coal assets generally do not clearly distinguish between assets that exceed the exclusion thresholds of the bank and those that are still in the portfolio because they fall below the thresholds. Lastly, the necessary clarifications on the methodology used in the calculations are still insufficient in the context of the replies provided to the survey.

2.2. An alternative quantification of "coal" exposures through/via the ACPR’s "securities-based" approach

In the course of this report, the ACPR has taken a different approach, drawing on data from the GCEL list (for all criteria) and the leading insurers' securities databases. This approach distinguishes between

[16] Recommendations on the definition of a coal strategy, FFA, 2019, p. 3
[17] here limited to thermal plants and industries related to direct coal mining (mines, coal transport)

before and after transparency[18]. Moreover, as for banks, the results obtained were weighted by the share of coal in the production of the firms to which the institutions are exposed.

An initial analysis looked at the top 16 insurers listed as individual entities, not at the group level, before or after disclosure, and exposure in 2019 generally remains low. While it is true that an insurer stands out from the rest, with exposure before and after transparency at around 0.52% of its total "coal" assets, meaning nearly three times the average for the sample as a whole. However, out of the 16 retained undertakings, 7 had exposures below 0.14% of their total assets before transparency, 15 with exposures below 0.28%. After transparency, the proportions do not vary much, with 6 institutions having an exposure below 0.14% and 14 with an exposure below 0.28%.

All in all, with an average of 0.15% before and 0.18% after transparency in 2019, and an average of 0.14% for all insurers (0.13% before and 0.13% after transparency) for all 16 undertakings with a balance sheet that is already largely free of "coal" assets.

A second approach involved aggregating the data of the various subsidiaries in order to obtain a "group" approach, despite the imperfections and the potential for double counting implied by this methodology. In this case, while the difference in exposure between before and after transparency is noticeable for some institutions - for which the value sometimes doubles or even triples - the differences between the results of the "group" analysis and those of the "entity" analysis are usually non-significant.

All in all, regardless of the method, the exposure to "coal" of French insurers seems low and the resulting estimates seem, as for banks, to be quite different from the one posted by the FBF, also located in the lower end of our ranges. Nevertheless, the imperfections in the different measures show that groups need to make progress in estimating their coal exposure and in communicating more about the method used for this calculation.

In the end, the ACPR's "securities-based" approaches, taken at individual or aggregate level, have shown a steady withdrawal since 2015.

2.3. Commitments almost exclusively relating to thermal coal

As with the banks, all the insurers consulted for this report have only defined, to date, a coal policy relating to the direct use of thermal coal and therefore its extraction or the production of coal-based heat or electricity. Therefore, "metallurgical" coal, steel, or coal used as fuel for any other emitting activity (paper, glass, etc.) are not included in these policies.

The reasons are the same as those cited above for banks.[19]

2.4. The criteria for the exclusion policy

In its "Recommendations on the definition of a coal strategy", the FFA proposes a set of exclusion thresholds[20].

[18] Transparency allows access to the details of the CIUs.

[19] See Section "Banks" above, Section 2.3.

[20] Recommendations on the definition of a coal strategy, *op. cit.*, pp. 6-7

These recommendations are largely incorporated in the French insurers' coal policies, whose public commitments are based on both relative thresholds (as a percentage of the company's production and/or energy mix, and even of the installed capacity in the case of thermal power plants, and turnover) and/or absolute thresholds (in millions of tonnes, most often in the case of mining companies), in megawatts (MW), for thermal power plants.

While on 31 December 2019 some insurers were limited to one criterion - more often than not a 30% threshold for either energy mix or turnover, as at Crédit Mutuel, Allianz, MACSF or Macif[21] - others had, over time, tightened their "coal" policy either by raising thresholds or by adding additional criteria: for example, in 2019 Generali adopted three criteria; the AG2R moved from one criterion in 2018 to four in 2019; and Crédit Agricole Assurances, after steadily reducing its turnover threshold (50% in 2016, 30% in 2017, 25% in 2018) adopted a second criterion (100 Mt) in 2018, before adding a third criterion in 2019 (50% of the energy mix). Crédit Mutuel also went from a single 30% of turnover threshold until 2019 to four criteria in 2020.

This exclusion may be total, most of the time when it comes to new investments for companies developing new capacities or increasing their production, in accordance with another recommendation from the *Fédération française de l'assurance*[22].

For some insurers, these criteria may also vary depending on whether the insurer is invested or underwritten: Axa lists 4 criteria for an investment in the field of electricity[23] production but only three criteria for an underwriting[24]

These thresholds are, however, regularly subject to reservation.

For many insurers, a company setting up a public, dated coal exit plan, compatible with its own horizon or making clear commitments to reduce the share of the coal-based energy mix to a certain horizon, is not excluded *a priori*, even if it exceeds the stated threshold criteria. Dialogue with coal-issuing companies is therefore still a common attitude among insurers, most of whom, like banks, view their role as a companion to the energy transition more than a censor. However, insurers claim that these cases represent only a few exceptions to the rule every year.

3. Effectiveness of the disengagement policy

3.1. Date of coal exit

As with banks, all insurers seem to be considering only the release of coal from heat. 64% have posted an exit date and 82% (14 out of 17) have already adopted or are considering to adopt a date, following the FFA's recommendation. [25]

[21] In 2019, the CCR also listed only one criterion, 10% of the revenue from coal production or exploration.

[22] See Recommendations on the definition of a coal strategy, FFA, 2019, p. 6.

[23] Less than 300 MW of new coal capacity, less than 30% of the energy mix dedicated to coal, less than 10 GW of installed power, 0% of coal in 2030 or 2040 depending on the geographical area.

[24] Less than 300 MW of new coal capacity (2021), less than 30% of the energy mix dedicated to coal (2022), 0% of coal in 2030 or 2040 depending on geographical area.

[25] "It is recommended that the coal strategy provide for a regular lowering of the exclusion thresholds to reach zero exposure of the investment portfolios for thermal coal by 2030 at the latest in the European Union and OECD countries and by 2040 in the rest of the world. ", *op. cit.*, p.6.

Table 2: Announcement by insurance undertakings of their date of exit from coal and type of coal concerned

Body	Type of coal concerned	Exit Date: Europe/OECD	Exit Date: Rest of the world
Crédit Mutuel Assurance	Thermal	2030	2030
AG2R La Mondiale	Thermal	2030	2030
Allianz France	Thermal	2040	2040
Axa	Thermal	2030	2040
BNPP Cardif	Thermal	2030	2040
CA Insurance	Thermal	2030	N/A (residual)
CCR	No precision	Projected Release Date	Projected Release Date
NPC Insurance	Thermal	2030	2040
Covea	Thermal	No horizon specified	No horizon specified
Generali	Not specified	Projected Release Date	Projected Release Date
Groupama	Not specified	No horizon specified	No horizon specified
MACIF	Thermal	2030	2030
MACSF	Thermal	2030	2030
Natixis Insurance	Not specified	No horizon specified	No horizon specified
SCOR	Thermal	2030	2040
SG Insurance	Thermal	2030	2040
AVIVA	Thermal	Considering 2030	Considering 2030

Source: ACPR questionnaire.

3.2 Status of disengagement under exclusion policies

The amounts of assets sold since 2015 and those held under run-off management are two possible indicators of the reality of the disengagement.

Eleven out of the seventeen insurers surveyed, *i.e.* slightly less than two-thirds, provided indications of the amount of assets sold and their proportion to total investments. According to undertakings, the total amount announced is between 0.0% and 0.29% of their total investments. In addition, ten insurers provided amounts and/or percentages of assets held under run-off management: these assets account for between 0.05% and 1% of total investments by these undertakings.

Despite the reservations already mentioned above (see "effort and coal exposure" above) about the homogeneity of data collected and what it really covers, this shows that the insurance sector’s residual exposure to "coal" is now very low.

Theoretically, coal exposure is expected to decline further in the coming years in view of the more restrictive policies adopted by many insurers in 2019 or 2020.

4. Key recommendations for banks and insurers

The present study highlights a general awareness among the main participants in the Paris marketplace of the financial sector's responsibility to combat climate change, the need to establish and implement an active policy to reduce funding and other services provided to the coal industry, and the risk to remain exposed to the industry, including reputational risk.

Despite the methodological difficulties encountered, the different approaches used by the ACPR show that exposure to the coal sector, for both banks and insurers, is relatively low on average.

However, this overall assessment reflects different realities for different groups, some of which are now totally or nearly unexposed to coal while others are still exposed. Furthermore, while the analyses to measure this exposure over the past five years suggest a steady decline in "coal" assets on the insurance balance sheet, the exposure of major banks based on "large exposures" reporting shows near stability between 2015 and 2019.

Coal exit strategies highlight two areas of attention:

First, for a number of banking groups and, more rarely, insurance entities, it will be important to be able to announce the final exit date.

Then, the criteria and exclusion thresholds announced by banks and insurers, which form the basis of their "coal" policy, show some heterogeneity in the policies pursued by groups. This heterogeneity is due in part to the lack of available data (and data made available by funded undertakings) and, where available, to a lack of harmonisation. This heterogeneity is also explained by a variety of approaches and criteria used by banks and insurers. Some, through the adoption of cross-thresholds combining relative and absolute limits and also including the entire coal value chain, have a broad-spectrum policy. Others, however, relying on one or two default exclusion criteria for their coal policy, which is of limited relevance; others exclude only some of the coal-related activities or (often subtle) distinctions between current and potential customers.

Based on these observations, the ACPR recommends that institutions:

1. On coal exit strategy:

1.1 Dedicated and consolidated charcoal policy presentation documents to avoid their being "spread" between several documents;
1.2 Always adopt a definitive date for the release of coal, and at least thermal coal.

2. **On measurement of exposures and identification of the scope of transactions**

2.1 To continue ongoing work to measure institutions' exposure more effectively, including through the establishment of transparent and verifiable methods. The role of federations in this process, for a coordinated and harmonised approach and also for the dissemination of best practices, is essential;
2.2 Display, in a more visible and transparent manner, the transactions, financial instruments and other services affected by the institutions' coal policies;

2.3 Always specify the databases used.

3. On criteria and thresholds for exclusion policies:

3.1 Systematically incorporate the main elements of the thermal coal value chain into these policies;
3.2 Simplify the conditions of application of the exclusion criteria in order to make them less complex and more comprehensible;
3.3 Completing the range of exclusion criteria, developing a harmonised approach to these exclusion criteria and putting in place a process to strengthen - in line with the defined exit dates - the requirement of the adopted exclusion thresholds.

III-ASSET MANAGEMENT COMPANIES' "COAL" POLICIES

1. Coal policies

An initial analysis was carried out to assess the use of coal policies in the French management industry as a whole before analysing the public commitments of the largest French managers. On the basis of replies to a questionnaire from 506 asset management companies ("**AMC**") representing 96% of the collective assets under management, 31% of AMCs managing 48% of total assets under management in France stated that they had adopted a thermal coal exit strategy, be it public or not. Where these strategies are not publicly available, they are not analysed in the course of this work but enable us to measure the momentum of the Paris marketplace, which will need to be later confirmed.

Most respondents indicated that they want to implement a thermal coal policy, which would bring the share of managed stocks covered by a policy to 93% of the exposures managed by respondents to the same questionnaire.

More in-depth reviews were conducted on 260 billion€ of assets managed by AMCs stating in their reply to the questionnaire that they did not wish to have a thermal coal policy, and in particular on a sample of the 10 main AMCs involved (56% of the outstanding assets managed by entities who do not want to have such a policy). Of these 10 companies:

- 4 are real estate asset managers. The exposure of real estate fund managers is illustrated *below*, as well as that of private equity managers.
- Six are "general" asset managers, three of whom are specialised in arbitrage strategies with substantial recourse to derivatives. The lack of a policy is not mentioned in the public information of AMCs, for example in "Article 173 reports".

As regards the 20 main French asset management companies in terms of assets under management[26], 16 AMCs had a public thermal coal exit policy in place as at 31 July 2020. Only one participant has indicated that it does not wish to have such a policy in the future because of its activity. Of the 20 main GSPs, only three have so far committed to a definitive date for the exit of thermal coal (the exit may be limited to some of their activities, *see below*). Several managers have regularly tightened their policies over the years or plan to tighten them in the future.

This dynamic in French asset management is not sufficient to assess the level of ambition of these policies. The thresholds applied, the exemptions provided and the coverage of the AMC activities concerned are thus all relevant analytical elements for understanding the scope of the commitments.

2. Ambition of thermal coal policies

In practice, the policies adopted by asset management companies may rely on (i) the application of quantitative thresholds based on extra-financial data from issuers applied on a systematic basis and/or (ii) an assessment of the issuer's intention or commitments to terminate its activities related to the thermal coal value chain.

First, as regards the quantitative thresholds applied, as noted in the introductory summary and in the case of the banking and insurance sectors, they may concern different absolute or relative criteria and apply to different types of companies involved in the value chain of electricity generation from coal.

In addition to quantitative criteria, other indicators can be developed by AMCs and are illustrated *below*. In one case of a group-wide policy, they concern other uses of coal, such as steel.

AMCs also consider the intention of firms to reduce activity related to thermal coal and, if applicable, their exit plans. Different elements can then be taken into account. For example, it may be the exclusion of entities that have submitted or declared infrastructure development projects, power generation capacity or mineral exploration projects. On the contrary, other approaches are to retain only those companies with exit plans or intending to exit from thermal coal.

This points to a high degree of heterogeneity in the ambition and the criteria for implementing exclusion-based policies, which are illustrated in the following table. This table focuses only on **quantitative criteria** applied in the different policies analysed.

[26] Amundi Asset Management, Aviva Investors France, Axa Investment Managers Paris, Axa Reim SGP, BNP Paribas Asset Management France, Covea Finance, CPR Asset Management, Credit Mutuel Asset Management, Eurotitrisation, Federal Finance Gestion,Groupama Asset Management, HSBC Global Asset Management, La Banque Postale Asset Management, Lyxor Asset Management S.A.S, Lyxor International Asset Management, Natixis Investment Managers International, OFI Asset Management, Ostrum Asset Management (Politique Natixis), Ostrum Asset Management (Politique Ostrum), Societe Generale Gestion, Swiss Life Asset Managers France.

Table 3: Criteria and thresholds in asset managers' coal policies

Type of actor	Identified criteria	Number*	Min threshold	Max threshold
All	Coal weight in turnover (%) - all types of coal combined	2	30%	50%
	Weight of **thermal** coal in turnover (%)	15	10%	50%**
	Company developing coal-related projects (energy production, mining projects, infrastructure projects). Thresholds given for electricians as examples.	6	300MW	3,000 MW
Mining companies	Production of thermal coal (million tonnes extracted)	8	10	100
Electricity Producers	Power generation capacity from coal (GW)	3	5	10
	Share of electricity from coal (% of installed capacity or production)	9	20%	30%
	Carbon intensity (gCo_2/KWh, threshold 2019)	1	491***	

**Number of asset management companies among the 16 public policies analysed using this criterion in their coal policy; of these 16 AMCs, one asset manager does not define quantitative criteria in its policy.*
*** This 50% threshold has conditions: excluded are all electricity and coal companies with a threshold of between 25 % and 50 %, which do not intend to reduce the percentage of revenues from these activities and which earn less than 25 % of their revenues from coal mining.*
**** This threshold will evolve over time according to the International Energy Agency (IEA) Sustainable Development Scenario.*
Source: AMF, based on the sampled asset managers' public policies.

Most policies thus rely on a combination of relative criteria, but few take into account absolute criteria, especially for energy producers (coal-fired electricity capacity). Depending on the institutions, and as mentioned, these criteria are complemented by an analysis of the intention to exit thermal coal or the development of new capacity by the issuer considered. The details of the policies as published are presented in **Annex 2**.

In order to assess the implementation of thermal coal exit policies by the owners, various analyses were carried out:

- An assessment of divestment and exposure of French funds as at 31 December 2019. The purpose of this analysis is to assess the aggregate exposure of the Paris financial marketplace and to monitor its evolution and composition over time;
- Analyses by companies:
  - A qualitative comparison of the policies and their operational implementation among the managers of the sample used,A line-by-line **study of some of the largest managers' exposures in order to verify implementation of policies** and to understand the underlying reasons for the presence of thermal coal issuers in a portfolio (according to the thresholds set by the *Global Coal Exit List*).

3. Global assessment of French funds' exposures and divestments

Few managers measure their total exposure (regardless of the threshold used) to the thermal coal value chain. However, and as illustrated below, if AMCs gradually tighten their coal policies as some have in the past, more and more issuers could be captured by AMCs' exclusion or engagement lists without anticipating this. This is the case, for example, for large French or Spanish energy producers, who have a small share of their activity related to thermal coal, but are largely owned by French collective investments. The figures presented below refer to French funds of all French asset management companies, regardless of whether they have a thermal coal policy in place.

3.1. Aggregate assessment of exposures of French funds

From a methodological point of view, precise calculation of an overall exposure of French funds is a difficult exercise. An initial partial estimate led to an exposure estimated at €5 billion for all French funds at end-2019 (out of a total of €1.6 trillion of assets under management[27]). This estimate is based on issuers exceeding at least one of the GCELthresholds[28]. Unlike banks and insurance companies, the results obtained were not weighted by the share of coal in the production of the companies to which the institutions are exposed. It should also be noted that, irrespective of a tightening of coal policies, this exposure could increase over time, for example if French funds' outstanding assets exposed to emerging countries more dependent on thermal coal (*see below*).

This exposure is highly variable between managers and it is not possible to establish a link between the existence of a management company's thermal coal policy and its exposure to issuers involved in the thermal coal value chain for two main reasons:

- The intrinsic variability of policies among managers that has been illustrated above with regard to quantitative thresholds and also *below* with regard to implementation;
- The investment universe in which these funds operate and, more broadly, the management companies. As such, the exposure of the manager to issuers more heavily involved in the thermal coal value chain depends on the funds' strategy and, for example, the geographical areas in which they invest (emerging markets, USA...), with some regions more structurally dependent on thermal coal in their energy mix.

The estimated exposure of the funds analysed for the 20 largest AMCs in the sample is around €3 billion, or 0.3% of total assets under management. For example, the exposure can be reconciled in terms of size with the €1.2 billion of divestments reported by 13 of France's 20 main AMCs in 2019[29] (divestment figures may include foreign funds or mandates that are not covered by the total exposure figure).

[27]Source: Banque de France, Financial Overview of CIUs, 4th quarter 2019.

[28] It should be noted that this study only covers securities with an ISIN held by collective investment units under French law. In particular, it 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 to these players or indices including these players); or (iii) assets held through mandates (around €1,650 billion at end-2019 according to data from the French Asset Management Association (AFG)) and/or foreign funds managed directly or by a delegation managed by French asset managers (approximately €5550million at end-20119) (source: AFG, 2019 Overview of the 3rd party management market).

[29] Of the 20 asset managers to which the questionnaire was sent, 4 indicated that they lacked policies as of 31 December 2019. Of the remaining 16 companies, 3 did not have to divest under their coal policy. These include either real estate asset managers, institutions that have implemented "extinctive" management of securities held, or entities that were not exposed to issuers to which their coal policy applied, possible consequences of historical investment restrictions or management strategies that did not result in exposure to issuers involved in the coal sector.

3.2. Analysis by issuer

An analysis of the main issuers in the Urgewald database, to which French funds are exposed, shows a very high concentration of around ten issuers. For example, more than **82%** of exposures are concentrated in around ten groups, mainly European groups (71% of outstanding exposures). In particular, the Italian energy group Enel SpA concentrates 46% of the exposures of French funds, the German energy company RWE AG 8%, and the Australian mining group BHP Billiton 7%. In addition, there may be a high degree of heterogeneity between the degree of exposure to thermal coal of the participants: some issuers in the portfolios may have low exposure to the sector, or even have expressed an intention to disengage from the thermal coal value chain without these parameters being taken into account in the criteria adopted by the GCEL, as stressed above; others may instead continue to develop such activities.

Analysing exposure according to the GCEL exposure criteria, 50% of the exposure of French funds is to companies that are above the absolute thresholds set by GCEL, in particular the electricity generation threshold. **This observation is consistent with the overall lack of absolute thresholds in asset managers' policies**. It should be noted, and as stated above, that exceeding these thresholds does not rule out the existence of exit plans from the thermal coal for the issuers concerned.

Besides, 19% of the exposure relates to companies considered to be *developing* activities related to the thermal coal value chain according to GCEL data[30]. It should be noted that, in some cases, the operational implementation of their policies by asset managers may lead to situations where an issuer is retained as it is considered that the issuer intends to exit thermal coal while the GCEL data indicate that it is developing new capacity.

3.3. Analysis by investment strategy

Regarding asset managers' exposures according to the types of investment strategy implemented, several observations can be made:

- Some companies are inherently little exposed because of their management type but communicate about an exit from thermal coal: a majority of the 170 private equity managers and 55 real estate managers who have completed the questionnaire say they have a thermal coal exit strategy or wish to define one, although only 3 private equity managers and one real estate manager have exposures to the lsector[31];
- Other types of market participant are structurally exposed without any future exit plans. This is notably the case for "classic" index management and index derivatives. For example, **37%** of groups identified by the GCEL (in numbers) belong to at least one of the world's leading indices[32]. Thus, in order to meet their replication objective, index management is almost never covered by management company policies. On this point, the French Asset Management Association (*Association française de la gestion financière*, AFG) recommends focusing on the use of non-coal indices where there is an equivalent offer and engaging with the providers of indices to encourage the development of such an offer. However, at this stage, index management on

[30] According to this list, these are mining projects with more than 1 million tonnes of extraction, plant development projects with more than 3 GW and infrastructure development projects related to the coal thermal value chain (see annex 1).

[31] These are mainly funds that hold shares and/or bonds without being the focus of these managers' business (direct real estate and private equity). As a result, given the typology of the main issuers involved in the thermal coal value chain, this type of managers is expected to have low exposure to the sector.

[32] The indices considered are: (i) the 45 global equity indices deemed significant within the meaning of CRR; (ii) 3 broad bond indices; (iii) 3 additional frequently used indices or identifying specific geographical areas (source: AMF).

indices excluding thermal coal and the use of derivatives on these types of underlyings are still underdeveloped; it should be noted that methodologies used by index providers to identify and exclude coal-related issuers may also vary significantly.

Finally, the preliminary analyses show that situations between collective investments may vary considerably. In this respect, the materiality of the exclusions made by the managers under their thermal coal exit strategy and the level of effort to be accomplished depend largely on **the investment universe of their funds**. For example, and all else being equal, it is less binding for a manager specialised in French equities to implement an ambitious thermal coal exit strategy than it is for an equity manager specialised in Asian securities.

4. Implementation of thermal coal policies by major asset management companies

As set out in the introduction and in the guides published by AFG and FFA, the thermal coal value chain involves many players and the policies used focus on specific quantitative indicators such that the operational implementation of a global thermal coal exclusion policy is a complex exercise. The following section sets out in detail the analyses carried out on the implementation of the thermal coal policies (presented in the Annex 2) of the sampled asset management companies.

4.1. Management implementation of thermal coal policies

Based on these different policies and on the recommendations issued by industry associations on the transparency of policies, the AMF has reviewed, in addition to the systematic quantitative criteria published in the policies, the participants' descriptions of the conditions of implementation of policies. Seven criteria for analysis were used[33]. The comparison of the information provided in the companies' policies according to this grid is shown in the **Annex 3**.

This work shows that, in addition to significant differences between the "ambition levels" of coal policies, there is also great heterogeneity in the way policies are implemented, including the various exemptions provided for in them. These arrangements are also described differently in the policies published by the managers.

To understand the different approaches used, the AMF asked the managers to explain the reason behind the presence of names identified by GCEL in their portfolios based on a sample. This sample comprises 1,114 lines held by **526** French funds and issued by **36** different groups. These lines represent **€2.6 billion** in exposures, i.**e**. **92%** of the exposure of the 18 AMCs involved, and **49% of the total exposure of French funds (assessed above at just under €5 billion):**

- For 59% of the €2.6 billion of assets examined (approximately €1.5 billion), the presence in the portfolio is due to the fact that the thresholds used by the asset manager are above the GCEL thresholds. Setting aside the key data provider discrepancies discussed *below*, **a very significant**

[33] Around 7 questions: "*Treatment of new investments on players above thresholds?; Treatment of stock of amounts outstanding on players above thresholds?; Application of the policy to steel coal? Treatment of issuers with coal release plans deemed credible or intending to reduce exposure?; Apply to a portion of managed stocks? Applies to a portion of the assets held? Treatment of subsidiaries, shareholders or sisters of excluded companies*?'

proportion of thermal exposures in managers' portfolios is the direct result of the level of requirement imposed by the exclusion thresholds set out in their policies – where such policies provide for them.

- For 16% of these assets (or approximately €400 million), **the continuing presence of the companies in the asset manager's portfolio is due to the recognition of the company's** intention **to disengage or exit from the thermal coal sector**. As detailed *below,* there are significant differences in practices among managers about what is considered a credible intention or commitment for the manager. It should be noted that when coal policies are tightened by the asset managers, the weight of this category could increase if it is considered at the same time that these issuers have a credible intent or plan to exit coal. For example, the Enel SpA energy company's greenhouse gas emission reduction targets have been approved by the *Science Based Targets* initiative. As a consequence, and as mentioned above, a forward-looking assessment of the managers' exposure to issuers below their exclusion thresholds allows to anticipate those considerations regarding the engagement to be undertaken with these issuers.
- For the remaining 25% of the assets considered (amounted to approximately €600 million), various explanations were received:
  - In more than half of the cases, these are exemptions from the policy due to the type of funds concerned (*e.g.* index management) or clients (*e.g.* dedicated funds). These exposures are structural and participants do not have any commitments to ensure that these exposures will decline over time;
  - In a number of other cases, this concerns discrepancies between the asset manager's and GCEL's data, which lead to different estimations of the same criterion defined for the company in question, which therefore allows the asset manager to keep the security in its portfolios under its coal policy.
  - It should also be noted that, for one asset manager, for an outstanding amount of €23 million, the exposures were not sold when they should have. This non-compliance with the policy was explained by a delay between the publication of policy and the deployment of supervisory and monitoring tools within the asset manager. Accordingly, for a period of up to 10 months, it was possible for the manager not to sell or even increase positions, which contradicted the published policy.

4.2. Data used for policy implementation

The above presentation of the policies illustrates that, - aside from one manager who chose to have a policy based on an individual assessment of the companies, and in particular the existence of commitments from those commitments to exit thermal coal from the issuers -, asset managers usually set quantitative thresholds above which the exposure must be sold or put under run-off management. **The implementation of policies therefore depends on the quality of data available** on issuers to assess the criteria chosen**.**

However, market participants indicated that there could be significant differences in the estimation of the different criteria by data providers, or with data reported by issuers (where such data exist), which could cause a given issuer to go above or below the exclusion thresholds. It was also pointed out that data may vary significantly from year to year for the same company.

An illustrative first example concerns the Japanese group Sumitomo Corporation, for which an asset manager had not identified revenues from thermal coal extraction or from the effective production of electricity from thermal coal. However, the 2019 annual report for the company states that the group is committed to reducing its share of electricity from coal from 50% to 30%, far beyond the threshold set by the manager. This example raise the question of the data used by the manager in applying its policy and of the controls performed by the management company on the quality of the data transmitted by its data provider.

A second illustrative example is provided by a manager using multiple data sources and shows difficulties in assessing the criteria used.

Table 4: Data comparison by issuer by source

Issuer name	Weight of thermal coal in turnover according to different dates and sources				
	GCEL Threshold	Data chosen by the AMC based on annual reports 2018	Data vendor 1	Data vendor 2	Data estimated by the AMC based on the latest available data
AES Corporation	>30%	21%	24%	43%	NA
AES Corp	>30%	21% (Group)	24%	43%	NA
Duke Power Co LLC	>30%	25% (Group)	27%	22%	NA
Origin Energy Ltd	>50%	10% (Group)	26%	55%	10%
Origin Energy Limited	>50%	10%	26%	55%	10%
RWE AG	>30%	29%	7%	37%	35%
Alabama Power Co.	>30%	21%	21%	23%	NA

Source: AMF from informationprovided by an asset management company.

These examples illustrate the existence of highly significant differences between different providers and according to the dates considered. Depending on the source chosen, they may lead the asset manager to exclude or not a security based on the criteria set out in its policy. **These examples also illustrate the need for clear and transparent processes to avoid cherry picking the most favorable data source** allowing to place a company below the defined thresholds in an opportunistic manner**.**

Practices for controlling the quality of data used are also very diverse. While some managers perform checks against data published by the issuer for their largest exposures, others mechanically rely on a single data source without any particular verification. For example, in one case, the manager relies exclusively on a list of exclusions communicated by his parent without explanatory data and without control, so that the manager is unable to explain how his own exclusion thresholds apply. Conversely, these data disparities are also problematic when several entities in the same group apply a similar policy but rely on different databases, which could give rise to different implementations or even conflicts of implementation. This is the case for a group where the insurer and the asset manager use different data sources.

4.3. Consideration of the intention or commitment of companies to exit thermal coal

The recognition that the issuer has plans to exit coal or intends to do so is regularly presented as an important criterion in order not to exclude players with credible plans to transition and who need funding to carry out their business model change without transferring production capacity to third parties.

Assessing the issuer's intent or the credibility of the action plans implemented to dispose of thermal coal is a complex exercise, potentially subjective depending on the level of requirement and the timelines expected by each manager. There is thus significant heterogeneity in the policies regarding the recognition of the "intention" or the existence of "credible" issuer exit plans.

These differences in the criteria used to consider a commitment sufficient may create cherry picking risk for choosing criteria to retain an issuer in the portfolio. In this respect, for example, although descriptions in policies are broadly comparable, management companies have reached conflicting conclusions on the credibility of the exit plans of a given company:

- Some managers consider, based on analyses, especially by NGOs, that the company is currently not aligned with a path compatible with the Paris Accord and have excluded it from their portfolios;
- Other managers consider it difficult to decide on the seriousness of the plans announced and put the company under watch;
- Other managers consider the announced exit plans to be satisfactory as the group diversifies its activities and has committed to reducing its greenhouse gas emissions.

On the contrary, other policies have a higher level of detail on the assessment criteria used, such as referring to an independent framework for the assessment such as *Science Based Target well below 2°C*. Some policies also take into account the social or supply chain impacts of the exit plans adopted by the companies.

Beyond this description, several discrepancies have been identified between the managers' communications and the implementation of their policy on this particular point. Some asset managers using a generic term to describe the recognition of the efforts of issuers do not in practice rule out companies with plans to expand the capacity of electricity from coal. For example, an asset manager considered that an issuer had a credible exit plan for thermal coal while the company was developing new capacity to generate electricity from coal. In addition, some managers who report on the possibility of retaining issuers with *credible commitments* as a derogation, also provide for the possibility of retaining issuers that have *no* commitments (e.g. no exit plan provided...) but for which the manager considers that it is likely to that its dialogue actions lead to the formalisation of commitments.

These changes in policies and their implementation are also reflected in the internal approval levels and processes for exemptions. While some managers submit validation to the executive committee or investment committee, for others, the analysts are directly responsible for the analysis, under the hierarchical control of the head of ESG.

Finally, although some managers consider the energy transition to be a major theme in their engagement policy, not all managers have a clear process to determine which dialogue and voting actions should be carried out with those most involved in the value chain of electricity generation from coal, whether below or above their exposure thresholds.

4.4. Policy exemptions and transparency

4.4.1. Exemptions related to steel coal

On the basis of the policies observed, only one player provides for a common exclusion threshold for thermal and steel coal extractors and only one other player describes in an educational manner the issue of steel coal and the reasons why it should not apply its policy to such uses. However, these uses, and especially the steel sector, are an important challenge in the fight against climate change and it is necessary that market participants' coal policies clearly state their scope.

Apart from these two institutions, the policies do not explicitly mention that they are limited to the value chain of electricity generation from coal and that they do not concern other uses of coal which are important sources of greenhouse gases. As such, there are very heterogeneous uses of the term "coal": some use the term "thermal" without specifying the term, while others use the term "coal" by default, which might suggest that these policies apply to all uses of coal (notably in relation to exclusion criteria that are not specific to electricity companies). From this point of view, these institutions use the same terms as the management company mentioned which actually applies thresholds for all uses of coal (not just thermal coal).

4.4.2. Exemptions for certain customers or strategies

Although a highly significant proportion of managers provide details of the application of their policy to the different types of management (passive, fund of external funds, closed funds) or clients (dedicated funds, mandates, etc.), the presentation can be more or less easy for a non-professional client to understand.

- a indication "by default" of the relevant scope (*e.g.* application to open active funds);
- an explicit indication of the scope that is not covered by the policy (*e.g.* the policy will not apply to index management, closed funds, dedicated funds and mandates, etc.).

A manager, by contrast, *ex post* indicates the percentage of outstanding exposures that their exclusion policies cover, thereby providing greater transparency to investors and stakeholders.

This information may be of importance since, depending on the situation, restrictions may apply to a very significant proportion of the assets under management. For example, in a case where index management accounts for a portion of its outstanding amounts, a manager did not include in his thermal coal policy the mention - already small - included in a press release setting out the policy and stating that it does not apply to such type of outstanding.

4.4.3. Exemptions for certain types of assets

Few policies currently explain the treatment of the different assets held by collective investments. For example, policies tacitly consider that their criteria apply to firms only, and none apply these considerations to governments and their public policies on the use of coal for electricity generation.

Similarly, the treatment of futures is mentioned only in one thermal coal policy. In practice, all managers prohibit themselves from investing in *single name* derivatives on an excluded issuer, but allow themselves to invest in index derivatives, total return swaps ("TRS") or baskets exposed to such excluded players.

With regard to TRS in particular, one participant communicated on the divestment of several million euros in outstanding amounts. In the course of its discussions with the AMF, this market participant indicated that more than 80% of the divestments reported consisted in securities held by index funds with TRS (so-called "synthetic" replication funds). In this scheme, the fund enters into a derivative contract or *total return swap* that exchanges the performance of assets held by the fund by a defined exposure with a counterparty (in this case: an index) and the securities held by the funds are hedged by the counterparty. Therefore, taking into account the whole scheme (funds and counterparty), there is no investment (*i.e.* no net buying flows on the securities in question) in the companies to which the funds are exposed: one party (the fund) bought the security, another (the counterparty) short or offset it with its internal interests. On the contrary, due to the counterparty's coverage, such funds may continue to fund indirectly issuers that would have been excluded under the coal policy. The asset manager's communication did not provide any detail in this regard, and instead even indicated that it did not concern index funds, before being corrected.

4.4.4. Temporary exemptions for the stock of exposures

Few groups explicitly indicate the treatment of the stock of assets that are above the defined exclusion criteria (horizon of tolerated sales, etc.). In practice and as mentioned above, the AMF observed the case of a manager selling only the "biggest lines" in his portfolio because he lacked the control tools in place at the time of the publication of the company's policy. The asset management company has indicated that it is addressing the situation.

Moreover, in another situation, the AMF found that a manager did not mention in its policy the long period (2 year) for bringing exposures in line with the Group policy and applicable to it.

5. Key recommendations for asset management companies

The work showed the progressive implementation of thermal coal policies in French management companies, with most major market participants having policies in place for several years and a significant number of AMCs indicating that they want to develop such policies. However, only 6 actors (belonging to 4 groups) among the 20 participants in the sample have announced target exit dates for coal.

The verifications carried out showed a good implementation overall of the policies as currently defined by the managers, although some differences between the policies and their implementation were noted. Areas of progress have also been identified with regard to the data used or the need to specify certain aspects of policies, including how to take account of the issuers' exit intentions.

The present study also shows that French funds as at 31 December 2019 had an overall exposure to the thermal coal sector which was relatively small compared to the amount of funds under management. Exposure nonetheless varies significantly across funds and the effort to exclude these issuers depends in particular on the investment universe of the funds concerned. The nature of the exposures also varies, in particular where the issuers in the portfolio are diversified groups for which thermal coal is a small part of the revenues, for example, or depending on whether the issuers in the portfolio have made commitments to exit thermal coal or, on the contrary, are identified as developing new capacity.

The policies mainly cover collective investment schemes, without systematically including dedicated funds and mandates for which the investor's approach and policies are crucial (even though some management companies may offer, more or less systematically, managers to apply the management company's policy) or index management, which is systematically excluded. In the case of collective investment schemes, the comparison of coal policies between asset managers is complicated by several factors:

- The heterogeneity of the combinations of thresholds and quantitative indicators used;
- The arrangements for considering the intention or commitment of companies to exit thermal coal, and differences in the implementation of these arrangements;
- The various operational restrictions on the implementation of policies: exemption from the scope for some instruments such as index derivatives or government securities, for some portfolios or customers, differences in treatment of existing stock...;
- Differences in the data used and controls performed by managers for the implementation of their policy; from this point of view, the analyses carried out again highlighted the progress needed in terms of issuer reporting and transparency of data providers' methodologies, which are the subjects of dedicated works at European level.

While some of these situations may be understandable (*e.g.* an index manager is required to replicate his or her index or a client of a dedicated fund may oppose the exclusion of issuers), the descriptions in the policies do not always enable the different stakeholders to understand the reality of these situations.

On the basis of these observations, the AMF makes the following recommendations to asset management companies:

1. **On thermal coal policies:**

1.1 For management companies that have companies exposed to thermal coal in their investing world but wish to implement an exit policy, to publish their disengagement policy by specifying a final exit date for thermal[34] coal and the means to disengage from entities developing new capacities (mines, power plants or infrastructures) related to thermal coal;
1.2 To systematically propose to clients of dedicated funds who do not have their own policy or in the case of a mandate to implement this policy;
1.3 For management companies whose investment universe may include thermal coal-exposed issuers and who do not want to implement an exit policy, state publicly the reasons for this.

2. **On the criteria and thresholds set for thermal coal policies:**

2.1 To justify the thresholds chosen, for example in terms of the type of companies that will be able to continue to be funded under the policy and to name the main ones, and to indicate the means used to cover in the policy major players in the thermal coal value chain that are not subject to the policy because of the relative thresholds used, for example by introducing absolute thresholds;
2.2 When formalising or revising the thermal coal policy, communicate the estimated impact of the commitment made, for example in terms of exposure to the sector and of the companies who can continue to be funded under the policy.

[34] This is understood as a date from which asset management companies will no longer have exposure to issuers with part of their activities related to the thermal coal value chain.

3. **On the treatment of issuers with an intention or commitment to exit thermal coal:**

3.1 To explicit the criteria for retaining an issuer exceeding the policy thresholds or allowing it to benefit from new investments if applicable;
3.2 To specify the criteria according to which the asset management company will adopt in its dialogue or shareholder engagement, the modalities for such approach and, where relevant, the maximum period of time beyond which such action can lead to exclusion in the event that no improvement is found;
3.3 To monitor, and possibly, exclude, issuers which express an intention or commitment to exit coal by relying on disposals of its assets without closure plans or if they continue, at the same time, having plans to develop new coal mining or electricity generation capacities.

4. **On the data used to identify the issuers subject to coal policy:**

4.1 To have clear procedures for the use of thermal coal exposure data and to regularly monitor such data proportionate to (i) their use and (ii) the risk of incorrectly retaining a company that would exceed the established thresholds;
4.2 To indicate in the policy the data sources used and possible revisions to these data;
4.3 In the case of the implementation of a group-wide thermal coal policy, to implement a consistent approach regarding the data used and revisions made.

5. **On monitoring thermal coal exposures:**

5.1 Measure overall and per issuer exposure to the thermal coal value chain to ensure both proper implementation of the policy and good risk management;
5.2 To provide for an estimate of the evolution of this exposure, in particular for asset management companies that have made commitments for total exit from thermal coal;
5.3 To keep the details of disinvestments made under the coal policy.

Annex: Global Coal Exit List criteria and thresholds

Criterion	Affected value chain players	Thresholds GCEL	Comment
Weight of thermal coal in sales (%)	Mining companies, electricity producers, infrastructure	30%	Relative threshold
Production of thermal coal (in Million Tons)	Mining companies	20 MT	Absolute threshold
Power generation capacity from coal (in Gatts)	Electricity Producers	10GW	Absolute threshold
Proportion of electricity produced from coal (%)	Electricity Producers	30%	Relative threshold
Development	Mining companies	+1MT	Absolute threshold
	Electricity Producers	+300 MW	Absolute threshold
	Infrastructure	no threshold	Absolute threshold

Source: GCEL. Thresholds effective on 31 August 2020.