CDP DISCLOSURE INSIGHT ACTION

CDSB Climate Disclosure Standards Board

A BRIEF INTRODUCTION TO
CLIMATE DISCLOSURE IN FRANCE

This policy briefing by CDP and the Climate Disclosure Standards Board (CDSB) is one of a series looking at climate disclosure regulations in G20 countries.

The context for climate disclosure in France

France is regarded as a global leader and pioneer in mandatory climate-related disclosures since the enactment of Article 173 of the Energy Transition and Green Growth Law in 2016, which has brought the reporting of climate-related risks into the mainstream reports of large companies and institutional investors. The transposition of the EU Non-Financial Reporting Directive (NFR) has narrowed the scope of listed companies required to disclose non-financial information, as previously all listed companies were required to report on ESG factors under Grenelle II.

These are the main legal and policy foundations that support climate disclosures in France:

- The EU Non-Financial Reporting Directive (NFR) has been implemented in Ordonnance n° 2017-1180 and its supplement Décret n° 2017-1265. Both laws have implications to the Commercial Code, the Monetary and Financial Code and Labor Law. This legislation replaced the provisions of Grenelle II.

- Article 173 of the Energy Transition for Green Growth Act – This landmark article is aimed at increasing the disclosure of climate risks by listed companies and financial institutional investors as well aligning investor portfolios with French and international climate policy, through a “comply or explain” approach.

- Article L533-22-1 & D533-16-1, Monetary and Financial Code – This has supplemented Article 173 by mandating a standard presentation of information that a host of institutional investors are required to disclose within their annual reports on how they take into account ESG issues within their investment criteria. This includes considerations such as exposure to climate risk and their contribution to the energy and ecological transition.

- Corporate Governance Code of Listed Companies – This outlines a set of recommendations that can be referenced by listed companies when they are producing their report on corporate governance, which includes some overlap to the TCFD recommendations in the same category. However, there is no explicit mention of climate risk.

- Law on the duty of vigilance of parent companies and ordering companies (2017-399) applies to large multinationals in France. Companies are required to prepare and implement a publicly available plan of vigilance, which should allow to identify and prevent human rights, environmental and corruption risks that may be caused by their activity, but also that of their subsidiaries and subcontractors and suppliers, either within or outside of French borders.

- The French government supports the implementation of the TCFD recommendations at European and G20 level. The existing French reporting regulation is not far apart from TCFD.

The value of mandatory climate disclosure in France

France will benefit on several levels from understanding how Article 173 has been implemented by listed companies and institutional investors and whether the scope of the law should be increased to include a broader scope of large private companies. The government committed to consider aligning the law with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) as well as the recommendations of the G20 Green Finance Study Group.

- Existing ESG disclosure requirements have helped companies and investors become more resilient to systemic risks and are better able to identify future opportunities;
- Main benefits of aligning and extending existing requirements with TCFD will be more detail and global comparability with regards to:
    - Governance for climate-related risks and opportunities
    - Scenario analyses
    - Structured information around 4 thematic areas, each addressing governance, strategy, risk management, metrics and targets
- Coverage that will go beyond the current scope of organizations required to disclose climate risk;
- The availability of economy-wide high-quality information on climate-related risks and opportunities will enable the reallocation of capital flows to the low-carbon economy;
- Rapid implementation of globally recognized requirements to disclose climate information will prevent financial instability during the global transition to a low-carbon economy.

Recommendations

The strength of France's existing alignment with the Task Force on Climate-related Disclosures (TCFD) recommendations means that it can be used as a model from which other states with less developed climate-related disclosure regimes may be influenced and can learn from France's experience.

Therefore, France is specifically well positioned to communicate the value of mandatory disclosures to other states and to build a coalition of countries supporting the mandatory implementation of the TCFD.

By further aligning Article 173 with the TCFD recommendations, as suggested in the report "pour une stratégie française de la finance verte" (December 2017) France can continue pioneering climate risk disclosure, especially within the context of the European Union, the G7 and G20.

Given its mature legal framework for climate risk disclosure, efforts should look towards analysis of the effectiveness of the legislation in yielding the desired change in corporate reporting practice to more efficiently allocate capital flows for the transition to a low-carbon economy.

Support can be provided to companies and investors to achieve high-quality disclosure by referring to guidance and best practice available from existing voluntary climate disclosure frameworks, especially regarding TCFD-related reporting requirements.

How CDP and CDSB can help

CDP (formerly the Carbon Disclosure Project) operates the only global climate disclosure platform for more than 6,000 companies on behalf of more than 800 institutional investors. From 2018, corporate climate disclosures made through the CDP platform will generate all the information required for a TCFD-compliant disclosure.

The Climate Disclosure Standards Board, a consortium of nine business and environmental organisations, has developed two Frameworks for reporting climate change and environmental information in mainstream filings, and is working with a wide range of stakeholders to help create a community of best practice for climate reporting.

Together, CDP and CDSB have the global reporting infrastructure, technical expertise and extensive experience to assist policymakers and regulators in evaluating existing national reporting requirements, and in drafting new rules.

Get in touch

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