BANQUE DE FRANCE

EUROSYSTÈME

BDF RESPONSIBLE INVESTMENT STRATEGY

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GREEN FINANCE AT BANQUE DE FRANCE: AN EARLY COMMITMENT

- Why?

- A clear case for action for Central Banks

- **Within their mandate** of price and financial stability

- How?

- *Network for the Greening of the Financial System (2017)* *ngfs.net*

Updated Roadmap (Glasgow Declaration, November 2021):….TCFD-aligned reporting, ….data repository,…monetary policy,…climate scenarios,….**biodiversity.**

- « ***Climate stress tests/pilot exercise*** » conducted by ACPR (banks and insurance), using NGFS scenarios
- Banque de France as an ESG Investor: ***the Greening strategy for non-policy portfolios*** (2018)

CONTEXT OF BDF’S RESPONSIBLE INVESTMENT STRATEGY

- 2018/2019: Responsible Investment **Charter** and **responsible investment strategy**

- Scope: **own portfolios** (EUR 23 bn as of end 2021).

- **Annual Responsible Investment report** (strategy, results and methodologies) Responsible Investment report 2021

- Report and strategy are in line with
  - **2015 and 2019 French laws**
  - **European disclosure requirements**: SFDR, EU taxonomy
  - **TCFD Recommendations**
  - **NGFS Recommendations**

- **Eurosystem Common Stance on the implementation of SRI strategies on Non Monetary Policy Portfolios (February 2021)**

BDF'S RESPONSIBLE INVESTMENT STRATEGY

Three Pillars and Six Objectives

- **Pillar 1: align investments with France's climate commitments (Art 2, Paris Agreement)**

  Objective 1: align equity components with a 2°C trajectory, reached in 2019 and 2021

  Objective 2: contribute to the financing of energy transition

- **Pillar 2: include environmental, social and governance (ESG) criteria**

  Objective 3: 20% of issuers excluded from the equity investment universe on the basis of ESG criteria

  Objective 4: stronger fossil fuel exclusions

- **Pillar 3: exercise voting rights in General meetings**

  Objective 5: adopt a voting policy that includes extra-financial provisions :

  Objective 6: 80% attendance rate at the general meetings

RESPONSIBLE INVESTMENT GOVERNANCE

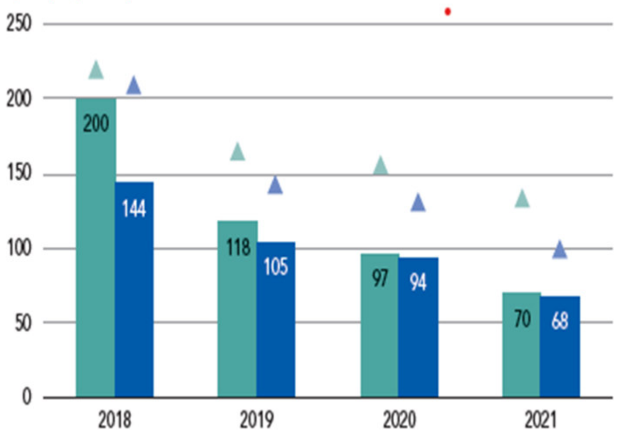
- *Strategy*:
  - Asset – Liability Committee (own funds)
  - Pension Plan Strategic Committee (pension funds)
- *Investment Process*:
  - Risk Committee (investment vehicles)
  - Investment Committee (investment decisions)
- *Execution*:
  - Finance and Management Control Directorate
  - BdF Gestion (dedicated funds) and other asset managers (open-ended funds)

RESULTS

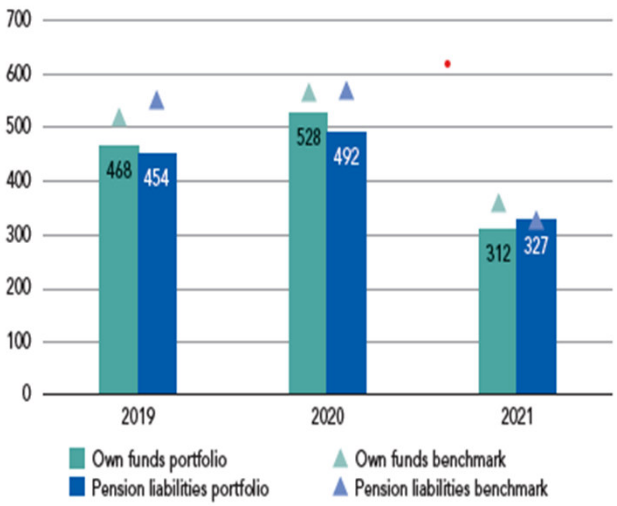
C2 Capital carbon footprint

(in tCO_2eq/EUR million invested)

a) Equity components



b) Sovereign bond components

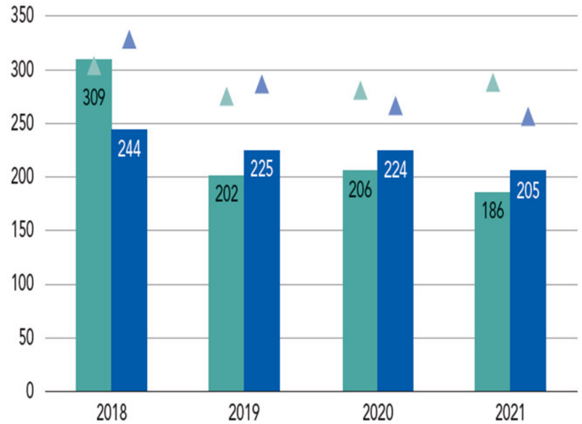


Source: S&P Trucost.
Note: tCO_2eq, tonnes of carbon dioxide equivalent.

C4 Weighted average carbon intensity

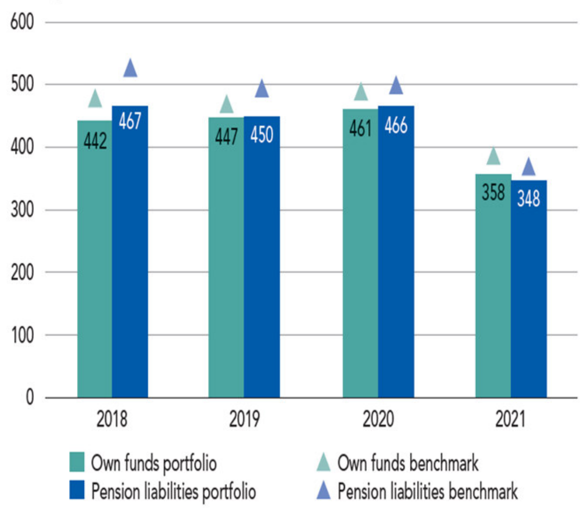
a) Equity components (per unit of revenue)

(in tCO_2eq/EUR million of revenue)



b) Sovereign bond components (per unit of GDP)

(in tCO_2eq/EUR million of GDP)

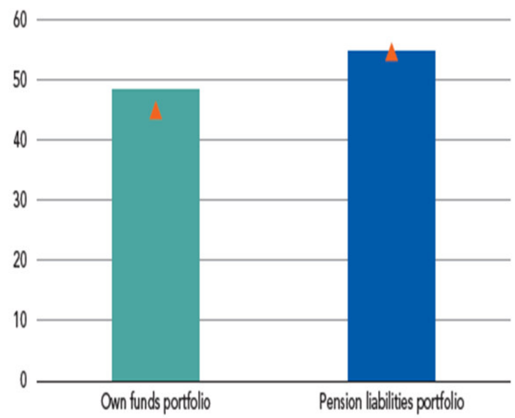


Source: S&P Trucost.
Note: tCO_2eq, tonnes of carbon dioxide equivalent.

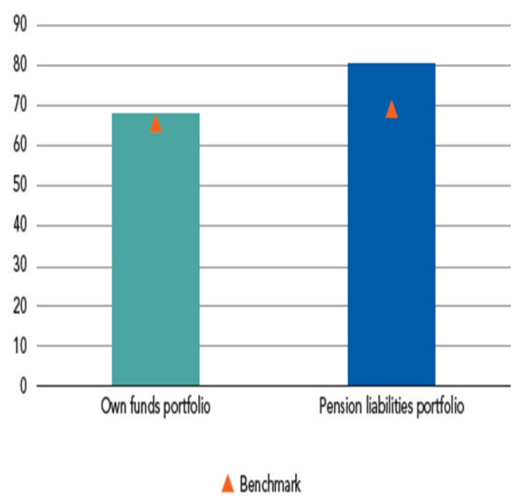
C6 Portfolio exposure to physical risks at 30/11/2021

(physical risk score)

a) Equity components



b) Sovereign bond components

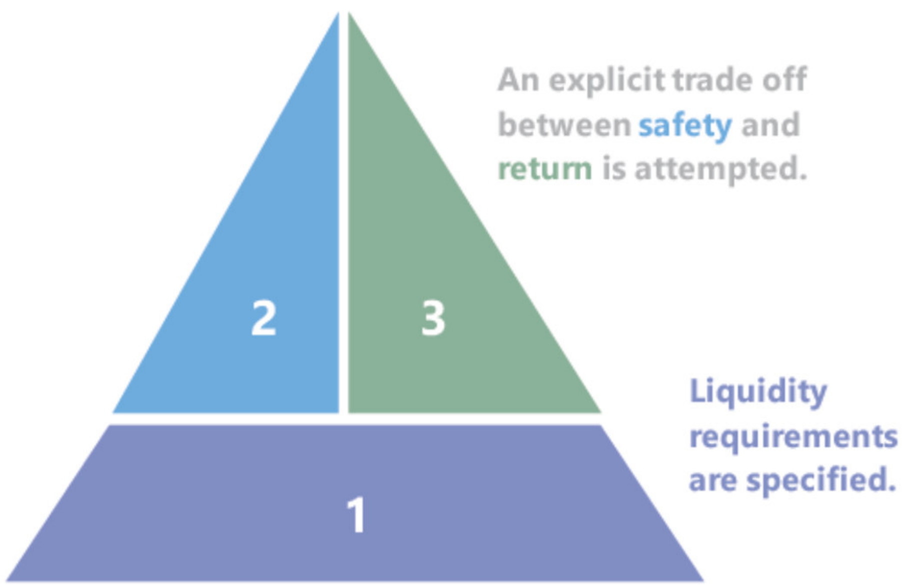


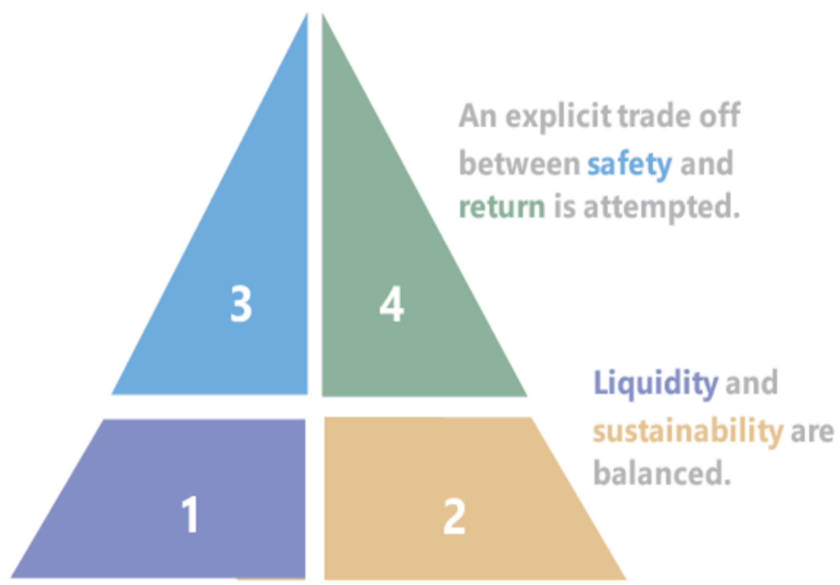
TOOLS AND SOME LESSONS LEARNT

- **Additional climate & ESG metrics**: carbon footprint & intensity, green share (EU taxonomy), exposure to fossil fuels, exposure to physical risks, biodiversity impact, social impact metrics….**methodologies still debated**
- **New data providers**: Carbon4 Finance and S&P Trucost (climate data and more specifically S&P Trucost for the 2°C alignment metric), 427 (exposure to physical risks), Vigeo Eiris/Moody's (biodiversity & ESG metrics) and Proxinvest (voting policy)….**still a young industry**
- **Double materiality:** take into account both the ESG performance of the assets/issuers in the portfolios (outward) and the climate-related risks borne by the portfolios assets (inward)
- **The combination of operational strategies is key:** 2°C alignment, thematic investment, exclusion of issuers (best-in-class and best-in-universe), ESG integration, voting & engagement…**not always correlated!**
- **ESG/SRI approach for sovereign bonds less mature than for corporate bonds and equities**: less impactful strategies (e.g. engagement or exclusions) and less mature methodologies (2°C alignment)
- **Leading by example:** Eurosystem's task force, NGFS subgroups (Portfolio Management + Climate Disclosure), Novethic (*Cercle des institutionnels*, i.e. forum of institutional investors to discuss responsible investment strategies)

INTEGRATING ESG CONSIDERATIONS IN FX RESERVES

From Here...... ..... To There





But How?

Dedicated funds? Mandates? ETFs?
Green Bonds?
Diversification away from the « traditional » Fx reserves universe?

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A « SUSTAINABLE » MONETARY POLICY?

Initial Steps (July 4, 2022):

✓ **Corporate Bond Holdings**…reinvestment to be twisted towards issuers with better climate performance (GHG emissions, carbon reduction targets, climate-related disclosure) –October 2022

✓ **Collateral Framework**:

➢ Cap on the share of assets (marketable debt instruments initially) issued by entities with a high carbon footprint – before 2025

➢ Issuers and debtors to comply with the CSRD – 2026

✓ Enhanced Eurosystem **risk management tools** and capabilities