

## SUSTAINABILITY TRENDS IN ASSET MANAGEMENT



### MARTIN MOLONEY

Secretary General -  
International Organization  
of Securities Commissions  
(IOSCO)

### The best should not be treated as the enemy of the good.

It was famously observed by Voltaire that the pursuit of perfection can get in the way of doing good. Considering the current juncture in building Sustainable Finance, it is a point worth recalling.

Around the world, embedding sustainability goals into the economic and fiscal policies of Governments and the strategic plans of corporations remains a work in progress.

Financial markets – as they often do – have pushed ahead of the political process. Sustainable finance has become an urgent focus in financial markets. But the data and resourcing requirements are proving challenging, as European firms seeking to comply with the Sustainable Finance Disclosure Regulations have found. The scale of greenwashing is driven by the lack of appropriate data and market structures to meet the demand. The markets are struggling to do the right thing.

IOSCO recognised in 2020 that it needed to step in. Following the vision put forward by IOSCO in June 2021, the IFRS has now put in place the ISSB to lead the development of global standards. The plan is to adopt standards on climate-related disclosure in 2022 and to move on from there with an ambitious future agenda.

But Europe has already gone ahead with its own ambitious programme of regulation on Environmental, Social and Governance-related requirements. Is there a coordination problem?

Some supporters of the EU approach have expressed concern that the global initiative will not adopt the EU ‘double materiality’ approach, but will instead just look at the impact of issues such as carbon emissions on ‘enterprise value’. What about all the ‘non-financial’ impacts of a corporation’s activity which don’t get reflected in its value?

There is also some concern that the global approach doesn’t seem fully committed, in advance, to going beyond climate to all environmental issues or going beyond the environment to the ‘S’ and the ‘G’ of the EU approach.

**The ISSB standards will  
be a foundation on which  
different sustainable  
finance approaches may  
be built in different parts  
of the world.**

Could the global initiative slow Europe down or create barriers between EU capital markets and others? The IOSCO answer is a definite: ‘No!’

Our ambition in IOSCO is to put in place a global baseline that different jurisdictions can build on and vary from, depending on the local perspective. Not only that, but global success for our initiative will actually help achieve many of the goals of the EU agenda.

All stakeholders will find the globally consistent and audited cross-sector metrics the ISSB will recommend particularly useful. With regard to emissions, for example, companies will disclose Scope 3 GHG Emissions, which can span the entire value chain. With

regard to social issues, companies that purport to have responsible or certified production and sourcing programmes will need to make appropriate disclosures on those.

Furthermore, at least with regard to climate, as economic and fiscal policies (and corporate investment programmes) focused on carbon neutral targets do become firmer commitments and get implemented by Governments (and corporations), a ‘scissors effect’ will emerge, increasingly narrowing the gap between non-financial double materiality disclosures and enterprise value disclosures. ‘Transition risk’ and the risk of ‘stranded assets’ will become more substantive and more material to enterprise value.

We see this ‘scissors effect’ already at work: In the quite recent past, carbon emissions were mainly monitored to assess global warming. They have now become increasingly relevant for investors to assess how net zero transitional plans affect the companies’ assets, financial prospects and ultimately, its pricing.

Some argue that convergence in materiality perspectives only applies to a subset of the topics. This is true, at least for now. But the situation will not remain static. The ISSB standards will not seem perfect to the many passionate advocates for ever-broader impact disclosures. But that is no reason to devalue the process.

The ISSB standards will be a foundation on which different sustainable finance approaches may be built in different parts of the world. The EU will be able to proceed with its full ESG agenda while aligning with the ISSB standards. Advocates all over the world for additional disclosures in relation to a broad range of stakeholder impacts and concerns will be able to advocate for their preferred disclosure without anyone being able to tell them that what they want is incompatible with the global standards. At the same time, by conforming to ISSB standards European disclosures will exist within a data architecture that allows for comparison and analysis by investors across the globe. ISSB standards will not constrain, they will enable.

This will be a very substantial achievement and one that pushes the sustainable finance agenda decisively forward.



## NATASHA CAZENAVE

Executive Director -  
European Securities  
and Markets Authority  
(ESMA)

### Completing regulatory framework for ESG investments will take time

Sustainability embodies one of the most prominent opportunities for the financial industry as sustainability considerations, and, in particular, the fight against climate change, are reshaping investor preferences. ESMA's market monitoring indicators show that only during the second half of 2021, the sustainable bond market grew by 19% and the size of the ESG fund market by 9%. Currently ESG funds represent roughly 19% of the assets under management of EU equity, bond, mixed and money market funds publicly marketed in the EU.

While this dynamic can play a positive role in Europe's green transition, it also raises numerous questions: How can investors who wish to invest in sustainable or ESG products be assured that their money is being directed into projects aligned with their investment objectives? How can product labels and their ESG investment strategies be made clear, comprehensible, and comparable? How can we ensure

meaningful disclosures? How can we tackle the risk of greenwashing, i.e. the risk that investment products present themselves as greener than they really are?

In order to respond to these significant challenges, and in particular to ensure comparability across a growing variety of financial products, the EU has embarked on the development of a transparency framework based on the disclosure of relevant information by financial market participants at the entity and product level, and ESMA has been contributing extensively to this initiative in recent years.

Accordingly, the EU Sustainable Finance Disclosure Regulation (SFDR), and the European Supervisory Authorities' implementation measures are designed to help institutional and individual investors understand, compare, and monitor the sustainability characteristics of investment products.

**ESMA continues to be committed to contribute to facilitate the transition to a more sustainable economy, notably by aiming to curb greenwashing and enhancing the reliability of the ESG information that is disclosed to the market.**

Importantly, the SFDR will be supplemented by the recently proposed Corporate Sustainability Reporting Directive (CSRD), which will support the publication of relevant disclosures by corporates that is currently lacking. This proposal expands the requirement to publish sustainability information to a larger group of companies and establishes more detailed mandatory disclosure rules on various sustainability topics, including on transition plans. The legislative process appears to be moving swiftly towards achievement of this additional measure which should help mitigate some of the issues around data availability and reliability.

The CSRD will result in the better provision of ESG data by corporates, which will then help regulated entities meet their disclosure obligations for their investment products under the SFDR using that ESG data. Today, reliance on ESG ratings and ESG data

providers remains high and illustrates how important it is not to ignore this sector and the need for harmonised standards and oversight here too. It is essential to match the growth in demand for these products with appropriate regulatory requirements to ensure their quality and reliability. Against that background, ESMA is working with National Competent Authorities to try and reach common interpretations and foster convergence in the supervision of ESG products.

The proposed establishment of a European 'Green bond standard' is also welcome in the context of increasing green bond issuances. Here, the Commission proposal foresees that ESMA would oversee external reviewers of EU green bonds, with a view to strengthen the credibility and reliability of the overall regime.

Looking ahead, I would expect some further pieces moving towards our common objective of facilitating financial flows in sustainable investments and avoiding greenwashing. With the establishment of International Sustainability Standards Board (ISSB), we hope to see progress towards further alignment in relation to disclosures globally. ESMA will stand ready to contribute to this work given its importance and the overall need for international consistency of standards. Also, the IOSCO Sustainable Finance Task Force is expected to carry on follow-up work on regulation of ESG ratings and ESG data providers, after publishing its first report in November last year. In the EU, with the establishment of European Single Access Point (ESAP) in some years, ESMA hopes to further facilitate investors' access to sustainability-related data in an easier and machine-readable way, which would be paramount to helping them make better investment decisions.

Overall, ESMA continues to be committed to contribute to facilitate the transition to a more sustainable economy, notably by aiming to curb greenwashing and enhancing the reliability of the ESG information that is disclosed to the market. However, while the necessary regulatory framework continues to be developed, the desired level of transparency and comparability of financial products will take time to be achieved. We are still at the beginning of a transition phase, and with all parties involved on a fairly steep learning curve, given how big challenges ahead of us are.



## PAUL TANG

MEP, Committee on Economic and Monetary Affairs - European Parliament

### A booming and targeted European green bond market

The green bond market is booming. Over the past six years, its global market size has grown by 50% each year. And the pace keeps picking up. Sized €230bn in 2020, it's predicted to reach one trillion dollars next year.

With the European Investment Bank, Europe has pioneered the green bond market. And you can see it clearly still. Half of all green bonds are issued in Euros. In the market of sustainable finance, Europe has taken the global lead.

Yet despite this great momentum, our challenges are greater still. The European Commission calculated that Europe needs some €350 billion in additional investment per year to meet its 2030 emissions-reduction target in energy systems alone, alongside the €130 billion needed for other environmental goals.

The green bond market is as of yet too small to sufficiently contribute to our transition. This because many green bonds simply re-finance already existing green assets, not providing 'additionality'. And also because green bonds frequently finance projects

which are either not essential to our transition or simply go against it, i.e. constitute greenwashing.

This 'greenwashing' is a significant problem. Nationale Nederlanden calculated that 15% of the existing green bond market shouldn't carry the label. This might be for social reasons. Think of companies exploiting forced Uyghur labour. Or it may be for climate reasons. Saudi Arabia, for example, issued green debt without weaning itself off fossil fuels. We thus not only need a bigger green bond market, but also a green bond market that better targets truly sustainable projects.

Fortunately growth is still possible. Green Bonds represent just 3% of bond issuances. A main tool to stimulate targeted growth is the European Green Bond Standard (EuGBS). This standard can address information asymmetries in the green bond market, where investors are willing to accept lower returns on green bonds, but cannot sufficiently – or cost-efficiently – ensure investments are spent correctly.

Being tied to the EU's Taxonomy, the EuGBS has a detailed prescription where proceeds should go, and by obliging the use of well-supervised external reviewers, the trustworthiness of issuers can be guaranteed. In these ways the EuGBS is stricter than existing standards such as the market-leading ICMA standard.

---

**The EuGBS should be the undisputed market standard, both usable and free from fears of greenwashing.**

---

And this strictness is necessary. Green bonds can best stimulate new investments, and thus generate additionality, if the issuer has a clear expectation of the financing discount he gets, i.e. the greenium, on green bonds. For a greenium to be established, a liquid and harmonized green bond market is key. For investors are only willing to apply a discount regardless of the issuer if they trust the standard is well-applied,

The Commission proposal is a great starting point, yet should be strengthened in a few important ways. Firstly, investors may fear reputational risks from exposure to companies who, although spending bond proceeds on green projects, continue polluting

activities. The EuGBS is a great tool for all companies, green or brown, to transition. However, they should be serious about doing so. By obliging issuers to adopt a transition plan with regular steps to reach net-0 by 2050, the benefits of the EuGBS reach the right place. This avoids the need for additional requirements by sustainably-minded investors.

Secondly, the current debate about the inclusion of fossil gas and nuclear may fatally undermine the EuGBS. Current issuers – from Energy de France to the Polish government – explicitly exclude fossil gas and nuclear energy from their green bonds. By including them, the EuGBS would fail to be the 'gold standard' the market so urgently needs. It would also fragment the market into four segments, with different pricing depending on whether the issuer allocates the proceeds to gas and/or nuclear.

Third, sustainability is a broad concept and relates both to environmental and social concerns. That is why the Disclosure Regulation obliges financial market participants to look at possible negative effects of their sustainable investments. Falling outside the scope of that Regulation, however, the Commission doesn't require this of issuers of EuGBs. Integrating the approach of the Disclosure Regulation allows for social effects to be closely monitored and protects investors against greenwashing.

Lastly, differences between EuGBs and other sustainable bonds should be easily monitored so they can be priced in. That is why it would be sensible to extend the reporting requirements of the EuGBS to other sustainable bonds. Allowing for example, the percentage of taxonomy-compliance to be compared.

Green bonds are a powerful tool to stimulate green investments. However, for this potential to be achieved, an EuGBS needs to be developed that can truly become the undisputed market standard, being both usable and free from fears of greenwashing. Developing this standard can cement European leadership in the market, and pave the way to a more sustainable future.



## ROBERT OPHÈLE

Chair - Autorité des Marchés  
Financiers (AMF)

### Climate change and the financial sector: accountability for promises

On the bumpy road to net zero, we are at a tricky juncture when commitment has been made but the ways and means are not yet fully clarified. The 26th Conference of Parties (COP) has demonstrated yet again that the private sector, and, in particular, the financial sector, has a key role to play to keep the 1.5-degree objective alive. In his closing statement for the COP26, António Guterres, UN Secretary General, called for the development of “clear standards to measure and analyse net zero commitments from non-state actors”. As recently reviewed by the AMF’s Climate and sustainable finance experts committee, several broadly convergent frameworks are already available for non-financial companies.

These frameworks are useful to clarify the underlying concepts of net zero and define targets. However, these frameworks offer little or no help on verification and monitoring.

Methodological challenges are even more daunting for financial institutions. The credibility of the Glasgow Financial Alliance for Net Zero (GFANZ) will thus very much depend on this alliance’s ability to deliver robust frame-

works, providing transparency and comparability to the market on the decarbonisation and future alignment of individual and consolidated portfolios.

Absolute reduction in greenhouse gas (GHG) emissions should remain the prime and undisputable objective, with progress that is demonstrable over time.

Several related priorities come to mind, based on our work on financial institutions’ climate-related commitments, jointly conducted with the French prudential authority.

Firstly, we need better data on individual and aggregated exposures to fossil fuel sectors. Such information will be requested by SFDR, but this would imply consensus on how to measure such exposures. Other sectoral information will also be necessary, as the focus widens from the most obvious sources of GHG emission reductions to other carbon-intensive sectors.

Secondly, work on transition plans should be a priority (as initiated by the EFRAG Climate Cluster), so that the relevant information is promptly available to investors and other financial institutions. Such transition plans should include measurable intermediate targets, as well as information on financial implications for the companies.

---

**The market needs a  
harmonised framework  
rapidly on portfolio  
decarbonisation and  
alignment.**

---

Thirdly, investors should be transparent on how they intend to engage with companies, so that claiming to finance transition does not mean status quo, but rather actually financing the structural changes and the investments that are needed, in line with science-based scenarios.

Fourthly, there is a need for more clarity on green financing. Reporting on taxonomy-related KPIs will help, nevertheless the EU taxonomy needs to be completed as soon as possible to cover more activities and other environmental objectives. Then there are other outstanding important questions, such as the treatment of small and medium-sized enterprises, or the articulation of taxonomies at international level, not to mention

the numerous queries from corporates regarding the implementation of the rules, such as eligibility of the entire value chain or specific eligible operational expenditures.

Fifthly, the Corporate Sustainability Reporting Directive (CSRD) has rightly focused attention on the external review of the information published, an issue to be considered broadly, including in relation to transition.

Will this reduce the risk of green washing and remove doubts about the rapidly growing sustainable investment market? One avenue is market discipline in the implementation of product categorisation under SFDR and of the upcoming requirements on sustainability preferences under MiFID 2 and IDD. Key questions stand around the definition of sustainable investments and the consideration of investments’ principal adverse impacts (PAI).

The long overdue adoption of SFDR technical standards and the publication of the first product periodic reports containing sustainability information may well help. However, more realistically, the European Commission should take stock of the first months of implementation of SFDR and act to reduce the current confusion in the market. Minimum standards and a better account of the actual and evolving product offerings in the sustainable investment market will be needed.

Finally, the sharp growth in ESG products have offered ESG rating agencies and data providers a major role to play. It is urgent that the Commission make proposals regarding the regulation and supervision of those entities, addressing matters such as transparency, conflicts of interest, processes and organisation.

Here, standardisation is not the objective, since market participants value diversity in the approaches and methodologies proposed. However, the market will eventually need robust data and more convergent assessments of a company’s decarbonisation trajectory.



## NATALIE WESTERBARKEY

Director & Head of EU Public Policy - Fidelity International

### Point de bascule : y sommes-nous déjà arrivés?

It is uncertain, from a scientific point of view, whether we have already crossed a tipping point with regards to climate change. The definition of a tipping point differs depending on whether it relates to climate science, sociology or physics. But one aspect in common, regardless of sector, is that once a tipping point is reached, there is an irreversible point of no return after which accelerated change takes place.

As long as the climate tipping point is uncertain, we must keep trying everything within our power to change human behaviour and prevent the worst outcomes.

Public policy aims to achieve this by directing human and corporate behaviour. It uses carrot-and-stick tools to steer consumers, corporates, non-governmental and state actors and channel our collective actions.

Substantial progress in public policy and the asset management industry has been made since the signing of the Paris Agreement in 2016 which addresses climate change mitigation, adaptation, and finance.

Asset managers are now integrating ESG factors in an almost mainstream

way into their investment and distribution process and engage actively with investee companies to accelerate their transition based on their disclosure. Policy initiatives such as the EU taxonomy have helped define and pave the way for a common global understanding of E, S and G factors. Additional important taxonomies are in progress for social factors and the other four environmental goals, comprised of marine protection, transition to a circular economy, pollution prevention and restoration of biodiversity and ecosystems.

A policy tipping point to accelerate our path towards a better, sustainable economy has been reached and hopefully launched an irreversible societal journey towards a more responsible way of living.

The question is which policies increase the impact on the sustainability transition of the economy and what in particular is the role of asset managers in incentivizing a household transition. Asset managers play a key role here by highlighting the correlation between individual health, financial wellbeing, and the need to invest in line with sustainable and ethical goals. As such, industry players raise awareness that households can align their savings with ESG investment objectives and therefore make a significant difference in the transition towards a greener and more responsible global economy.

---

**Point de bascule :  
consumer choice is the  
true tipping point.**

---

Investor education and financial literacy are fundamental building blocks to achieve this. Asset managers undertake extensive efforts in the area of investor education at both corporate and industry level. The European asset management association EFAMA will publish its second report on Investor Education in Q1 2022. It includes case studies of asset managers such as Fidelity, where we provide insights on promoting financial holistic wellness among EU and global citizens.

Local asset management associations also play a vital role. For example, the French AFG highlighted the importance of reconciling *“economic performance with social and environmental impact by funding companies and public institutions that contribute to sustainable development regardless of their business sector,”* in its recent publication *“12 Principles for Savings & Investing”*.

The asset management sector works closely with key public sector actors, such as IOSCO, the ESAs, the European Commission and local regulators on the topic of investor education to incentivise household savings to a more sustainable economy.

EFAMA for example participated at the recent ESA consumer conference in financial services. It highlighted that also advisors will play a key role in educating consumers on sustainable finance at the point of sale. MiFID II and IDD will require advisors to identify consumers' sustainability preferences. Eco-labels are also important to guide consumers.

Asset managers furthermore hosted an EFAMA financial literacy session during IOSCO's World Investor Week launching a recent publication on *“Investing in a better future : 5 tips”*. It was translated into 20 languages and incentivises individuals to assess - as a starting point - if an investment matches ones financial and sustainable/ethical investment goals.

A key policy in this context is the CMU Action Plan #7, which provides the European Commission with a mandate to conduct a feasibility assessment for the development of a European financial competence framework. The coordination role at EU level is aimed to support progress at member state level. According to the CMU Action Plan, the framework will assess the possible introduction of promoting local learning measures with a focus on responsible and long-term investing.

It has never been more important for households to plan their personal finances, given the current environment of low interest rates, and inflation, ie rising costs of living. Point de bascule: consumer choice is the true tipping point to reach a sustainable economy and enable a better future for all.



## STÉPHANE LAPIQUONNE

Managing Director  
BlackRock

### Managing the transition towards net zero

The net zero transition is more than abstract ideas or scientific targets. It is a transformation of the entire economy at a deliberate pace. European Governments are leading the way in setting out how this transition to a net zero world will take shape; showing ambition in presenting concrete goals and putting transformative proposals on the table like the European Green Deal and the Fit for 55 Package. The world needs all governments to provide clear pathways and consistent sustainability policy, regulation, and disclosure across markets. Governments and companies must ensure that people continue to have access to reliable and affordable energy sources. This is the only way we will create a green economy that is fair and just and avoid societal discord. Government must also support communities affected by the transition, help catalyze capital for the emerging markets, and invest in the innovation and technology that will be essential to decarbonizing the global economy.

To successfully achieve the goals set by governments, every company and every sector will need to evolve, though some industries will have an easier time than others. It is up to all companies to set a course to adapt their businesses in line with concrete goals and with that turn

to financial markets for funding. The financial sector has a tremendous role to play in supporting these companies that plan and act on achieving net zero goals. This includes both companies that provide exposure to the new technologies and business models of a net zero world and carbon-intensive companies that are transforming their businesses.

To provide investments, we need to understand how those companies are adjusting their businesses for the massive changes the economy is undergoing. As part of that focus, we are asking companies to set short-, medium-, and long-term targets for greenhouse gas reductions and asking companies to demonstrate that their plans are resilient under likely decarbonisation pathways and the global aspiration to limit global warming to 1.5°C. We are also asking them to issue reports consistent with Task Force on Climate-Related Financial Disclosures (TCFD) in anticipation of EU and Global sustainability reporting standards.

---

**For investors to navigate  
the net zero transition,  
they need to be able to  
measure and forecast it.**

---

For investors to navigate the net zero transition, they need to be able to measure and forecast it. They need data, models, analytics and tools that provide them with the ability to understand physical risk, transition risk and temperature alignment at the security, issuer and portfolio levels. Standardised sustainability reporting will help investors and other stakeholders better understand the implications of the transition to a net zero world and reduce reporting burden on companies.

We are very supportive of the initiative of the IFRS Foundation and the International Sustainability Standards Board to develop a new global set of baseline sustainability reporting standards, on which different jurisdictions could build to meet their regulatory requirements and public policy objectives. And to enable a market-wide understanding of sustainability risks and opportunities, we believe that large private companies should also provide sustainability reporting similar to public companies. There is no doubt that the quality and availability of data has significantly increased in the last decade, but

global convergence is needed to further improve the quality of information available to investors and other stakeholders.

Asset managers have a responsibility to help end investors better understand the investment opportunities and risks linked to the transition. The vast majority of European clients are on this journey of making sustainability their standard. Asset managers are working closely with clients to achieve this goal.

Asset managers are enhancing tools, analytics and portfolio advice to help their clients invest amidst high uncertainty about the pace of change in policy and the real economy. Asset managers are expanding our set of investment vehicles to help clients invest in the transition, working across both public and private markets. This ranges from strategies that help clients tilt their broad market exposures to be more climate-aware and to strategies that help them capture investments opportunities in net-zero technologies and business models.

Only if governments set clear pathways, companies take leadership in transforming their businesses and the financial sector together with the public sector provide the capital needed, we will achieve a net zero for all.



## ELIZABETH GILLAM

Head of European Government Relations and Public Policy - Invesco

### Making ESG as simple as 1, 2, 3

Two of the EU's top priorities are its Sustainable Finance Strategy and the Capital Markets Union. A key vector linking the two is how to encourage retail investors to engage in capital markets and finance sustainable investments.

We know that retail investors are increasingly interested in using their money for good. For example, consumer research undertaken by Invesco last year showed that sustainability and sustainable investing is increasingly important to retail investors: 79% of respondents considered sustainability to be important regarding how their money is invested and 85% were interested in sustainable investing, with 45% already invested in sustainable investments or in discussions with their financial advisers about making such investments.

Of those already investing sustainably, 46% plan to increase their allocation to sustainable investments over the coming 12 months.

However, while there is a strong desire by retail investors to invest sustainably, our research also showed that this appetite is being held back by a number of key barriers that are all too common

when trying to engage retail investors in sustainable investments:

1. A lack of knowledge and confusion about the language used to describe sustainable investing
2. Uncertainty as to the impact of sustainable investing on financial performance and risk
3. A lack of transparency and trust that sustainable investment products will deliver as promised
4. A lack of support from financial advisers in helping them navigate the sustainable investing universe

The EU's actions to date have gone some way to address some of these barriers. The introduction of the Sustainable Finance Disclosures Regulation and EU Taxonomy will ensure that investors have access to more information about the products on offer and the introduction of the new rules on sustainability preferences will encourage advisors to engage clients on a discussion on these topics. However, the regulatory regime that has been put in place today still has some way to go in order to address the needs of retail investors. We need joined up thinking between the Sustainable Finance Strategy and Retail Investment Strategy to ensure that the two can become mutually reinforcing: many of the challenges set out above, regarding complexity of language, lack of trust, need for better advice and guidance, are not unique to sustainable investing but hinder retail investors participation in capital markets more generally while interest in sustainable investing can provide a new avenue to get retail investors interested in investing.

---

**We need joined up thinking between the Sustainable Finance Strategy and Retail Investment Strategy.**

---

Firstly, we need to ensure that the information we provide to investors is understandable and accessible. When we consider that only 14% of those we surveyed understood the term "ESG", it is clear that referring to products as "Article 8" or "Article 9", let alone terms like "Taxonomy-aligned" or "sustainable investments", is unlikely to resonate with retail investors. As we look to deliver better and more accessible information to investors, we should seek to ensure that sustainability is included and subject to extensive consumer testing to ensure that the

information provided is concise, simple and jargon-free and lays out clearly the different options and choices available to retail investors.

But we know that disclosures can only get us so far. Retail investors therefore need help to engage in sustainable finance, both through embedding sustainability in financial literacy initiatives but also through their discussions with their advisors. Our research underscored the critical role that financial advisers could play in helping retail investors understand the different options available to them.

The implementation of the new sustainability preferences regime, therefore, represents a huge opportunity to facilitate these client conversations and we must avoid the regime becoming another "tick-box" exercise. Joining the dots between disclosures and sustainability preferences, it is clear that a legalistic approach to implementing the new sustainability preferences is likely to disengage investors or lead to misleading results. Therefore, we need to ensure that advisors can engage in a meaningful conversation with their clients about what is important to them and how their preferences can be reflected in the products in which they invest.

To conclude, the EU has a huge opportunity to deliver for people and planet by putting retail investors at the heart of its policy agenda. But to rise to this opportunity, we need to get out of our regulatory ivory tower and put ourselves in a retail investor's shoes.



## ELODIE LAUGEL

Chief Responsible  
Investment Officer - Amundi

### Race to Net Zero: reflections on the Glasgow Financial Alliance for net zero

*Walking a thin line between long-term collective ambition and pragmatic individual first steps*

The current emission reduction targets taken by countries under the framework of the Paris Agreement still fall short of the 1.5°C target. Even though the commitments taken and the pledges made at COP26 will significantly reduce greenhouse gas emissions, they are still not sufficient to meet the 1.5°C target and associated global neutrality by 2050. Few private companies and organization have embraced 1.5°C compatible decarbonisation targets and the policies issued by the public sector do not yet manage to set the scene for such scenario either. Moreover, the Climate Policy Initiative estimates additional \$1.6 to \$3.8 trillion per annum are needed to finance the energy transition. Public capital has a significant role to play, but it will not be sufficient on its own: the challenge lies in the gap between the financing needs on the one hand, and the financing available on the other.

There are, therefore, at least three gaps in the road to net zero: a climate ambition gap, a climate policy gap,

and a climate-financing gap. My conviction is that even though the financial sector cannot be a substitute for policy makers, we are in a unique position to have a significant impact in helping to close ambition and financing gaps of the energy transition. COP 26 was the first COP at which financial institutions have taken official collective engagement.

The Glasgow Financial Alliance for Net Zero (GFANZ), which represents 130 trillion of dollars in capital across 450 financial institutions, announced that it committed to transforming the economy and achieving net zero by 2050. Within the GFANZ, investors are in a unique position to play a key role in the energy transition, as they can finance energy transition projects, helping to close the climate financing gap, and engage with the companies they invest in, influencing them towards the energy transition, closing the ambition gap.

**By nature a net zero objective is ultimately a long term collective and global target.**

For these reasons, in July, Amundi joined the Net Zero Asset Managers Initiative, committing to reach carbon neutrality by 2050 or sooner. To support the goal of global carbon neutrality by 2050, we are currently working on expanding our climate-related policy, supporting net-zero aligned investment across sectors and regions, and ensuring that investors are equipped with efficient and ambitious climate investment strategies. In December, we launched our 2025 ESG Ambitions plan, setting ten concrete objectives to accelerate Amundi's ESG transformation and pave the way towards carbon neutrality in 2050. For example, we will engage with 1000 additional companies to define credible strategies for reducing their GHG emissions, to vote at their AGM and for management remuneration packages to be linked to these strategies. Moreover, we aim at increasing our allocation towards impact funds, reaching €20 billion to invest in companies that seek positive environmental and social performance.

We will also introduce a new energy transition rating that assesses companies' efforts in decarbonizing their operations and developing sustainable activities, covering €400 billion of actively managed funds.

Even though I believe the 2025 ESG Ambitions plan launched by Amundi is an ambitious one standing out within the asset management industry, other financial actors are also taking similar commitments to transform their companies and get closer to the ultimate net zero target in 2050. Together with the announcements made by the GFANZ in the wake of COP26, ESG ambitions from the financial industry should be praised, engaged with, and supported in view of the road to net zero. While it is critical to recognize that by nature a net zero objective is ultimately a long term collective and global target, it is equally important to set clear and tangible contribution targets at individual level in the short and medium term as transition to low carbon economy is path dependent.

At Amundi we recognize that we have been on a remarkable sustainability journey, but we also acknowledge we still have a long way to go in the race to net zero, and that calls for both humility in leadership and pragmatism. I believe that to align with the Paris Agreement, which to a large extent a long term forward looking process ("global neutrality in 2050"), urgent action from the financial industry is required so that the significant changes we need materialize on time. The coming ten years are key if we want to avoid huge financial and social costs related to climate change. We have to address numerous challenges that the green transition is bringing: acceleration of technological innovation, adjustments of human skills and engagement.

To address this collective challenge, actors that used to work in silos will need to collaborate, with clients, between peers, with regulators and with civil society as a whole. No actor will be able to do this running solo.